in a changing world

Europe

order: economic & political architectures

future
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Encouraging Transnational Dialogue on Europe

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In its tenth year of existence, the Allianz Summer Academy has made a great qualitative leap forward, which will shape its future direction. Together with their English language colleagues from Oxford and Princeton, students of the Central European University in Budapest, the Graduate Institute of International and Development Studies in Geneva and the Ludwig-Maximilians-Universität in Munich, presented the results of their policy reports, which they had prepared throughout the previous university year. For four days in the summer of 2013, their heads were spinning as the multinational teams sat together in working groups and plenary meetings to draft policy recommendations regarding the subject ‘Europe in a Changing World Order—Future Economic and Political Architectures’. With this focus, the spectrum of eleven represented nationalities whose expertise covered a wide range of studies such as Economics and International Law, European Studies and Transatlantic Relations, collectively, brought a varied and valuable range of research approaches, findings and experiences. Their questions and answers relating to energy security and sustainable use of energy resources, reformed economic and financial architectures, a fairer world trade system and a generally more efficient crisis management are reflected in the papers presented here.

The Allianz Cultural Foundation functions as a link between the academic and artistic communities in Europe. Its work has encouraged European integration, offering a great level of support and valuable networking to those who want to play an active part in this process regardless of their background, ethnicity or religious belonging.

The Allianz Summer Academy (ASA) is one of our ‘lighthouse projects’, brought to life in the context of the 2004 Eastern enlargement of the EU, which radically affected the European integration process. From its inception, the ASA aimed at establishing a framework for in-depth dialogue and convivial encounter between young European students from Eastern and Western Europe. In further editions, the geographical scope of the higher education institutions involved in the Academy has been enlarged to increasingly engage non-European members.

In order to achieve concrete results, the ASA asks the participants to prepare for their plenary summer meeting by creating local interdisciplinary working groups throughout the academic year. The thematic framework of each year’s Summer Academy is identified in cooperation with the participating Universities and the Allianz Cultural Foundation. Furthermore, the students develop some aspect of the annual main topic in their ‘national reports’ prepared during the academic year.

European students’ ability and readiness to meet the challenges of political, economic and social change demand new ways to create and transfer knowledge at a transnational level. Therefore, one of the main
goals of the ASA is to provide a multinational forum in which students can exchange ideas, develop social skills and gain experience within the field of international teamwork. By taking part in exercises similar to debates and negotiations in supranational organisations, students confront many challenges, not least the challenge of working with strict time constraints. During the plenary session, the students discuss the conclusions from their preparatory work and develop political recommendations. Within the context of the Academy, individual perspectives are accommodated with selected macro-issues with regard to the aims and validity of the European integration process, the multiple dimensions of European history and identities as well as future developments of European politics and policies.

External perspectives on Europe are also gaining importance. It soon became obvious that the EU and Europe in the context of global competition and the intended European Foreign Affairs and Security Policy have to be seen as closely interconnected. This has led in our Academy’s history to topics such as ‘Which Europe in a Globalised World’ (2006) or ‘Europe in the Global Arena—Ready to Compete?’ (2011). As a consequence of this thematic opening, in 2013 the Woodrow Wilson School of Princeton University became the fifteenth partner University of our Summer Academy.

With this publication, we want to go one step forward and open up the—often closed—academic circles of elite Universities to civil society. For the first time, we want to discuss the ASA results with outstanding representatives of civil society and initiate a mutual learning process through this dialogue. Since the beginning of the banking crisis, which had spread to a global government debt and economic crisis, the political and economic elites have been criticised in public. This loss of trust in professional expertise has led to numerous appeals and declarations, new founded citizens‘ initiatives and NGOs focused with Europe in mind.

The discussion around the future of Europe (and of the world) not only has become more passionate, but also more comprehensive and more valuable by involving actors from various political fields and sectors of civil society. Together with ‘Citizens For Europe’ and its network, we developed this publication in order to introduce practical approaches into the academic debate and to promote the cooperation between civil society stakeholders and Universities. In this way, we are creating mutually beneficial outcomes for dealing with complex challenges for today’s and future Europe.

Our Alumni network, the ‘invisible college’ of our foundation, receives with the participants of the Allianz Summer Academy 2013 new input from still underrepresented fields of expertise. Whilst Alumni of the
first ‘generations’ are numerously represented—occasionally even in top positions—in European institutions (European Parliament, Commission, ECB, European Court of Justice, etc.), students of the later years are aiming at positions in economy and trade, culture and civil society. We hope that our Alumni Academy held every two years provides an excellent job and information exchange platform as well as interesting opportunities for further education and networking. Bringing together all the various voices, tones and instruments in this concert will be an important challenge for our foundation in the future to strengthen the sense of community, which has developed throughout the previous Summer Academies. This is the only way to harmonise the different components of the continually growing orchestra without sounding dissonant.

Each Summer Academy creates its own atmosphere and dynamics. We do not only focus on concrete results, but above all, on the process involved in the multi-perspective shaping and formulating of public policy options, its cultural translation(s) and the development of an own (European) culture of discussion. In order to be able to meet and debate on equal terms from the first day, the participants prepare themselves carefully in advance throughout the previous months. For this professional guidance, I want to thank all the coordinators from the five participating Universities as well as Professor Harold James and Stefan Kornelius for their brilliant presentations and analyses of the contemporary global political situation. Further thanks go to the editorial team from Citizens For Europe for their patience with the copywriting and their constructive comments, and last but not least, my colleagues in the foundation for their amazing commitment in organising the last ASA and all the previous Allianz Summer Academies.
Why Europe?

Professor Harold James
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What is the point of Europe? The threat of an explosive disintegration of the European monetary union—and with it of the European Union—is beginning to recede, and soon it may become just part of the general memory of the long saga of Europe’s quest for a place in the world. But the fact that Europeans were that near the precipice focused attention on a different debate, in which Europeans peer gloomily into the future. They see only prolonged recession and austerity. More and more Europeans interpret the likely outcome as sacrifice: north Europeans paying for southern Europe through large transfers, or south Europeans repaying onerous and maybe impossible levels of debt. Europeans find it hard to find a positive way of describing the exercise in which they are engaged.

One common interpretation is that integration is a way of making people better off. Togetherness is supposed to be a foundation of prosperity. The Common Market was presented at the beginning in terms of an argument about the gains that would follow from increased trade. This case was a repetition of some powerful arguments that were made in the nineteenth century about national integration and unification. In particular the two countries whose problems drove much of the need for twentieth century European integration—Germany and Italy—were culturally and politically highly diverse. In the early nineteenth century, both countries had had a romantic and idealistic nationalism—but that gave way after the failures of the revolutions of 1848 to a new hard-headed sobriety and an obsession with economic forces.

The influential German journalist August Ludwig Rochau, the inventor of the term Realpolitik, gave a very nice definition of the new German mood on the eve of Bismarck’s last war of unification. German unity was not a question of a desire of the heart, he said. Rather it was “a mundane business transaction, in which no one should lose, but everyone should grab as much as they could for themselves.” Italians shared the same belief after the disillusionment of the failed revolutions of 1848. Patriotism could generate business opportunities. The great Florentine liberal statesman, Bettino Ricasoli, came to the conclusion that Tuscany was simply financially unviable on its own.

This sort of economic nationalism briefly produced in Germany and Italy coalitions of interests that supported the drive to national unification under Bismarck and Cavour. The problem arose that when growth faltered, the credibility of the national project seemed to crumble. Instead, movements emerged that championed a much more aggressive and confrontational nationalism that was based on the principle of a violent assertion of principles of cultural identity.

Mario Monti, former Prime Minister of Italy, can be considered as the twenty-first century descendant of those nineteenth century
patriots who made the arguments about the economic necessity of national unity. His vision of Europe was not idealist, but concerned with how Europeanisation and the economic reform associated with it can bring benefits to Italians. It failed spectacularly when he tried to apply this vision to Italian politics. We are now worried about the violence of the backlash against the apparently over-technocratic European project.

Most industrial economies have been successful in avoiding anything like the collapse of incomes and growth that occurred in the twentieth century Great Depression. But despite big fiscal and monetary stimulus programs, they are not seeing any dramatic economic rebound. Will depressed growth be a permanent feature of economic activity in the future? Just as worrying is the development of income and wealth inequalities. Before the financial crisis, inequality was rising. After the crisis, and in a remarkable contrast to the Great Depression, in the aftermath of which inequality declined, the pre-crisis trend is continuing. The explanation of the post-crisis malaise lies in the combination of economic uncertainty with a development of radically new forms of social interaction. Long term structural shifts are fundamentally changing the nature of work, and thus of the way that we think of economic exchange. In the early twentieth century, even advanced economies had a large share of the population still employed in agriculture. That proportion declined rapidly over the last hundred years. In a later development, the same decline can be seen in industrial employment. The late twentieth century and millennial growth areas have been in services, and above all in personalised services. That development looks like a reversal of a previous historical trend.

Today’s new service economy is driven by uncertainty over identity. We need advice on every aspect of life, provided in a complex world by people who we think to be experts in some ever smaller aspect of the business of living. We can easily monitor that advice, subject it to statistical testing: are our children doing better in tests? Are we fitter? Are we dating more people who are a better match to our perceived interests?

The new technological possibilities are also eliminating privacy. We are moving back to a Louis XIV court world, where everything personal is known, or rumoured, or whispered. The combination of electronic surveillance and personalisation are developing into forms of personal dependence more extreme even than ancient regime Europe, more humiliating, and more depressing. That makes modern growth feel problematic, even wrong.

What is the alternative tradition to thinking about Europe as a way of generating wealth and prosperity? An increasingly common metaphor suggests that European integration is like a marriage.
European Commission President Jacques Delors in the late 1980s raised the prospect of a two speed Europe, in which one or two countries might need a “different kind of marriage contract”. Now the tone has become more worried. Martin Wolf thinks of Europe as a marriage kept together only by the high cost of divorce. Others see it as a sham marriage.

The marriage analogy was used initially as a way of trying to explain that the European relationship was an exclusive one. Europeans had a unique relationship that should not be interfered with by the rest of the world: in particular by the United States. As France’s Finance Minister Dominique Strauss-Kahn put it in 1997, rather ironically in the light of the scandal that engulfed him later in May 2011, “People who are married do not want others in the bedroom.”

Traditional marriage vows involve a commitment that binds through changing circumstances: for richer, for poorer, in sickness and in health. So even if the marriage does not make the partners better off, they still need to stick with it. The problem was that the Europeans did not understand what marriage was really about, because they had exaggerated expectations of romantic marital bliss, and because they believed too much the wealth creation story. There is another possibility. Europeans may also have thought they got married for the wrong reason: neighbours who have a quarrelsome or violent past are not always well advised to reconcile themselves by marrying. The unhappy marriage analogy for Europe’s current malaise is helpful but depressing. At least it tells Europeans that they are not just stuck together for material reasons—but until that lesson is really learnt, Europe needs to be braced for more setbacks and backlashes.

When students from five universities—four in Europe and one American—met in the idyllic circumstances of the shore of the Starnberg lake outside Munich, not far from the site of the tragic watery death of King Ludwig II, a kind of iconic site for the failures of the old Europe—they came from very different backgrounds. The Oxford and Princeton students sometimes appeared as outside observers, the Central European University students were from outside the Eurozone, and the Swiss from outside the EU. But they still all felt deeply concerned with the impact of Europe’s fate not only on Europe itself, but also—as the CEU and the Munich contributions make particularly clear on the rest of the world. The European continent is something of a laboratory for globalisation: if cultural diversity and political and economic connections do not work in Europe, they probably will not work anywhere. This is why the attempts of young Europeans—of future leaders—to fix the broken European marriage of their parents’ and grandparents’ generations are so important, and their implications so significant.
Impressions of ASA 2013
How to Secure Energy Supply in the EU? An Analysis Reveals Largely Untapped Potential

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Energy supply and resources are central preconditions for economic independence and stability. Being able to control critical resources enhances an actor’s power and thus her or his position in the international system. This article draws upon an actor-centred approach to discuss the interplay of relevant actors in the field of European energy policy, both within the EU and in its relations with foreign partners. Inside the Union, diverging economic interests and traditional energy lobbies prevent an effective exploitation of renewable energies. In addition, the EU’s external energy policy suffers from incoherence, inefficiency and neglect. However, the key argument made in this paper is that there is huge potential for the EU to secure its energy supply, both internally and externally.

To understand internal factors for energy policy, the national energy policies of Poland, France and Germany are analysed. Examination of the external dimension focuses on the EU’s energy-related policies with the Caucasus.

**Untapped potential for a secure energy supply within the EU**

Europe, as a continent of limited resources, is extremely dependent on external actors for a secure supply of energy. By securing its energy position, Europe could maintain and promote prosperity, growth and its political influence. Failing to do so may negatively impact Europe’s position in the global world order.

The European Union—founded to control post-war Germany’s coal and steel industries and thus to prevent that country’s re-emergence as a dominant regional power—today is crucially dependent on a secure energy supply to maintain its economic position in the global world order. Yet the EU’s institutional architecture regarding energy policy is not powerful or coherent in several central aspects and therefore unable to secure Europe’s long-term energy supply.

This article thus focuses on actor-based approaches to securing energy as well as the obstacles to furthering the agenda on Renewable Energy Sources (RES) in both the external and internal dimensions of EU policy. The following section considers the main internal obstacles in the national markets in Germany, France and Poland. After that, we examine policy efforts to supply the EU with natural gas in order to stabilise the volatile production of RES and actions that EU officials and institutions ought to take to diversify supply and tap new markets such as the Caucasus.
Within the EU, the use of RES appears to be the most promising approach to secure energy supply in the future.\(^1\) An integral part of European Energy Policy (EEP), RES are currently promoted under the framework of the 2009 Renewable Energy Directive, which sets a legally binding target for 2020 for each member state.\(^2\)

In light of falling prices for RES technologies and the infinite capacity of the energy source itself, the economic viability of renewable energy is no longer just the vision of the environmental lobby. Volatility in the production of wind and solar power do not need to remain an obstacle, as the commercial availability of storage technologies—such as by converting wind power into gas—is only a matter of time (Fraunhofer IWES 2011). Additional backup capacities are, at least to some extent, already available, e.g. in the form of gas-fired power plants. An integrated trans-European RES market and transmission infrastructure could even out load curves by taking advantage of complementary production. There is general agreement, not only among scientists, that a coordinated EU-wide transition to renewables would drastically lower the cost and enhance the economic feasibility of such a regime.\(^3\) Unfortunately, energy policy is governed only to a very limited extent by rational considerations, as it constitutes a highly politicised arena dominated by powerful economic stakeholders. Thus, Europeanisation in the energy sector is strongly influenced by economic interests, which vary among member states. This internal divergence, and in particular domestic resistance in several member states, inhibits the exploitation of RES.

**Internal energy policy in Germany, France and Poland**

The extent of the differences between EU member states’ economic interests and government positions related to the promotion of RES and the implementation of respective EU directives can be illustrated when looking at

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\(^1\) In addition to RES, energy efficiency and savings could be regarded as resources, as their potential is still largely untapped. A comprehensive analysis would require inclusion of the demand side and design of energy markets, an approach that unfortunately goes beyond the scope of this work.

\(^2\) The EU’s overall 2020 target is for 20% of energy consumption needs to be met by renewable resources.

\(^3\) It is generally recognised that effectiveness and functionality of green energy systems increase with the size of the supply area (Fischer & Westphal 2012: 8).
three big energy players within the Union: Germany, Poland and France. As a result of relatively stable policy support based on a feed-in tariff system, Germany has already achieved a share of 23% RES contributing to the electricity generation and created a new economic sector. The country’s RES industry has a viable technological, scientific and political base and gained real economic significance over the last decade. In 2012 it provided some 370,000 jobs, which is more than half the number of employees in the German automobile industry. Thus, renewables can compete with traditional energy companies struggling to adapt to the government’s energy transition (Die Welt 2013).

On the contrary, the governments of France and Poland are much more reluctant to reorganise their energy regimes in favour of renewables. Considering the market structure and associated interests in both countries, this is hardly surprising. In Poland, the coal lobby—representing energy suppliers and distribution companies as well as the mining sector—traditionally exerts a strong influence on policy-makers, who, across party lines, tend to adopt a protectionist stance toward the industry (Karaczun 2011; Olszewski 2013). The centralised coal-based energy sector accounts for around 87% of electricity production and makes use of its dominant position to prevent the development of a competing industry.

The French government’s position on RES policy is more ambivalent. Similar to Poland, France continues to support its national champion firms in the sector, mainly relying on nuclear energy. Due to the direct competition with the national nuclear flagship project, market integration of RES has progressed rather slowly (Fischer 2011: 71). At the same time, policy-makers (and parts of the industry) want to participate in the global RES boom. Recently, positive expectations for the economy and the labour market have led France’s Energy Minister to improve the support scheme for photovoltaic modules (Erneuerbare Energien 2013). Although France promotes renewable electricity through a feed-in tariff and tax benefits, it is uncertain whether the government will pursue an ambitious trajectory after 2020 (Fischer & Westphal 2012: 28).

The great divergence in the energy sector impedes not only the implementation of the current RES directive but also the development of a coherent internal energy policy at the EU level. This is a severe obstacle to establishment of a cost-effective, RES-based supply structure, which

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4 France’s nuclear program derives from a national energy strategy aimed at reducing external vulnerability and providing the economy with cheap (subsidised) energy. With a share of 76% in electricity production, France is by far Europe’s largest producer of nuclear power. 5 The mandatory RES target for France is 23% of final energy demand by 2020.
requires a coordinated approach between member states. Nevertheless, the German case and recent developments in Poland demonstrate that power shifts toward the renewable energy sector are possible.

Though Poland is still dominated by its coal lobby, the country’s RES sector has gained ground as it organises its interests and attracts investors. Despite a deficient legal support system, the RES share has been constantly growing: it seems that the country will meet its mandatory 15% target for 2020.

**German RES producers have flooded the grids of neighbouring countries rather than import conventional energy from abroad.**

At the same time, a new actor constellation in the energy market in one country can directly affect the market in other member states. German RES producers have flooded the grids of neighbouring countries rather than import conventional energy from abroad; prices at the EEX Phelix spot market fell due to rising RES output (Spiegel 2012). It remains to be seen whether this dynamic in Germany will help to mitigate resistance against RES or exacerbate conflict between member states.

While the goal of energy security is a common one, ways of achieving it differ between countries. The dynamics in question may force member states to adopt RES-friendly policies consistent with current EU directives.

**EU internal energy policy: a field lacking coordination and integration**

As discussed in preceding sections, energy policy within the EU remains mainly the domain of member states, which creates a patchwork of different strategies, goals and policies. The renewable option seems to be the most suitable one when it comes to security of supply and sustainability. However, questions related to technological feasibility and market design remain to be answered before a common energy market emerges.

The production of energy from RES is highly volatile, which threatens grid stability. National and EU-wide investment in research and development regarding storage technologies and robust infrastructure is crucial. The EU can provide appropriate incentives for both research institutions and companies. Technologies already proven to be effective should be integrated into the market; integration efforts ought to be more coordinated on the EU level, both technologically and politically.
Decentralisation of production would also serve to increase stability, as large amounts of energy would not have to be transported across the whole continent. The loose federal structure of the EU grants the best preconditions for a successful decentralisation of RES production where adequate and feasible. To that end, municipalities and small suppliers ought to be strengthened by more coordination of national strategies, goals and policies on the EU level.

**EU external energy policy: a bridge to a renewable future?**

In addition to energy safety and environmental issues, the external EEP focuses on the secure and affordable supply of resources. As most EU countries have little developed infrastructure to exploit the abundance of available renewable sources and resources within the continent remain scarce, Europe is and will remain dependent on imports of fossil and nuclear energy and raw materials. In order to safeguard grid stability and achieve renewable autonomy in the long-term, flexible natural gas power plants are most suitable. Thus, a secure supply of natural gas is of central importance for Europe’s energy future.

Due to uncertainties and instability in regions of origin and transit—namely Russia and Eastern Europe—diversification of supply is crucial (European Parliament 2009). To that end, numerous bi- and multilateral Cooperation Agreements have been or are being concluded. Yet, efforts to promote a coherent foreign energy policy have not proceeded sufficiently (Grewlich 2011: 55). Hence, relevant actors necessary to increase policy coherence and their competencies must be considered.

The EU Council is the main intergovernmental actor and still occupies an “Energy Policies Unit, including International Aspects and Atomic Questions” (van Vooren 2012: 34). The rotating Presidency is in charge of determining general EU Energy Policy, while the EU Commissioner for Energy coordinates activities related to the external EEP (van Vooren 2012: 34). However, when external relations are affected, the High Representative for Foreign and Security Policy and Vice President of the European Commission (HR/VP) is also involved, although the incumbent Catherine Ashton has given little attention to this issue (van Vooren 2012: 44–45). As most external agreements regarding EEP are not legally binding, the European Parliament’s competencies are restricted, while executive organs are powerful (van Vooren 2012: 38). Yet, in order to conclude legally binding treaties and agreements to ensure the EU’s long-term energy supply, the Parliament must approve executive-driven decisions, which guarantees that European values will be promoted (van
Uncoordinated national initiatives often contradict one another or try to alter supranational priorities, resulting in incoherence and duplication of efforts (van Vooren 2012: 28f). Thus, deeper integration and better coordination are necessary to increase effectiveness and the problem-solving capacity of external EEP.

An example: EU relations with the Caucasus

To decrease dependency on oil and gas supply from quasi-monopolistic suppliers like the Russian Gazprom, it is critical to increase diversification of supply sources and transit routes. Strengthening the EU’s ties with resource-rich neighbours like the Caucasus region could decrease vulnerability. However, serious obstacles arise from political instability and economic uncertainty for investors. The Caucasus has been an unstable environment since the meltdown of the Soviet Union. Intensifying the dialogue with these countries and resolving disputes like the Nagorno-Karabakh conflict are thus of crucial importance in order to stabilise the region (Grewlich 2011: 60).

The EU Commission initiated talks in 2004 within the Baku Initiative to strengthen common energy ties (Grewlich 2011: 63). A joint agreement regarding a Trans-Caspian Natural Gas Pipeline system was signed in 2011 (van Vooren 2012: 44). Yet recent developments show mixed results and little coordination among the EU’s activities. The most severe setback was the decision of the Shah Deniz II consortium to prefer the delivery of Azerbaijani gas via the Trans-Adriatic Pipeline, rather than the EU-supported Nabucco Pipeline. This raised fundamental questions about the motivations and intentions of Azerbaijani decision-makers and the consequences for EU investors. For instance, the Austrian oil and gas company OMV—a leader of the Nabucco consortium—invested at least €50 million in a project that will not be realised and have caused severe losses (Frankfurter Allgemeine Zeitung 2013). To that end, the EU’s foremost duty is to create an attractive environment for investment in the energy sector. Although the EU Commission pushed for the Nabucco pipeline (European Commission 2009), it was not able to assert its interests, leaving Europe dependent on outside actors from Norway and Switzerland and a route leading through the non-member state Albania. The creation of mutual trust and political stability in the Caucasus are key for the development of an attractive environment for

6 However, OMV’s chief executive officer does not consider previous investment completely lost, as most plans can be used for further projects.
potential investors. Resolving current conflicts and promoting democratic principles like human rights, good governance and the rule of law, in order to stabilise the region politically, will serve to establish long-term relations, including energy cooperation and trade (Grewlich 2011: 60). Successful consultations will then lead to peace, security and a safer environment for potential investors, which might serve to secure the EU’s energy supply and facilitate trade relations.

**EU external energy policy: lacking attention and certainty**

EU external energy policy should contribute to stabilise and secure supply networks, particularly with natural gas. However, strategies, goals and policies considering these objectives need to be granted a more prominent position in EU external policy.

To that end, the relevant supranational and intergovernmental actors in EU external policy—namely the Commission and particularly the HRSP as well as the Council—should consider external energy policy a more central topic in their day-to-day work. They should clearly delineate their competencies, elaborate action plans and consider targets regarding energy policy more in-depth in their actions than they do at the moment. A permanent office to develop EEP strategies and coordinate policy efforts of the EU and member states could be created within the European External Action Service. Potential strategies might consider possible transit countries and identify cooperation demands with target states. In addition, a permanent office could enhance the EU’s dialogue mechanisms with current and potential suppliers and transit countries.

Furthermore, a central coordination point at the EU Commissioner for Energy could be implemented to elaborate on objects and targets to diversify supply and investment sources. The coordination point could identify potential investors within the EU and work towards securing necessary investment. Security assurances for high-risk investments could be granted. These measures may serve both as a stabilising factor in insecure regions as a goal set out in the Common Foreign and Security Policy in the European Security Strategy (European Council 2003: 7) and as a trigger for the EU’s foreign trade and investment to tap new markets.

**Conclusion: Europe’s energy future**

A secure and stable European energy supply should lie at the heart of the EU’s interests. First founded to control and enhance energy production, both from fossil fuels and nuclear raw materials, the EU now lacks
competencies and policy coherence in its actions and neglects this central policy field. A patchwork of national initiatives highlights the disorder and overlapping competencies of EU institutions. For the EU to be able to speak with one voice, member states should thus shift national competencies to the EU. Coordination and harmonisation of national initiatives and policies on the EU level could provide a reliable legal environment for investors and policy-makers within and outside the EU. Foreign and security policy as a classical domain of nation-states needs to focus also on energy issues and be strongly coordinated on the EU level. The EU, on the other hand, should be more aware that a secure energy supply is the central precondition for economic growth and sustainable wealth. To that end, the EU must accept a leading role, particularly regarding the development of energy from renewable sources. Only when energy policy is an integral part in the EU’s actions will Europe develop towards an energetic and prosperous future.

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An Insecure Supply of Energy

Matthias Futterlieb
INER

The Institute for Sustainable Energy and Resource Use (INER) is an independent research institute based in Berlin. The institute’s aim is to pave the way towards a sustainable use of energy by providing research input on environmental and social compatibility, economic feasibility and spatial planning aspects. INER addresses cross-sector topics with an interdisciplinary approach.
The paper by the team of Ludwig-Maximilians-Universität argues that the future energy supply for the EU should be secured by a combination of internal (renewable energy sources, RES) and external policy measures (diversification of natural gas supply). Regarding the shift to RES, the paper concludes that “traditional energy lobbies” prevent a consistent European strategy for more renewables. From a civil society perspective, it appears more sensible to withstand the energy lobbies’ attacks on RES within Europe, rather than to increase the whole continent’s dependence on gas imports from unstable regimes. However, this line of argument is cut off with the remark that “energy policy is only to a very limited extent governed by rational considerations”. Unfortunately, the paper does not recognise alternative developments and leaves complete dependence on fossil fuel technology as the primary option.

The marginal costs of a gas power plant are way too high to have them run as permanent capacity.

This leads to the paper’s notion that many EU countries do not possess the appropriate grid infrastructure for renewable electricity, which is used as an argument against renewables. Yet in terms of gas infrastructure it finds new pipelines that span thousands of kilometres unproblematic. Here the paper envisions “security assurances for high-risk investments”, courtesy of the European Union. This expectation culminates, in our opinion, in a rather unrealistic belief that external energy policy, i.e. the construction of pipelines, will help to “promote European values”. One has also to take into account that increasing global demand will render fossil fuels relatively more expensive than renewables in the long-term. Using “secure and affordable” as an argument for natural gas and against RES mirrors the attitude of the traditional energy industry.

Unfortunately, rising European demand for natural gas is not further scrutinised, which leads to the problematic conclusion that more gas pipelines will be needed. While the paper rightly states that natural gas is the best complement for an energy system based in large parts on fluctuating renewable electricity, it misrepresents its role in the future energy mix: natural gas power plants should only cover the residual load, which is the difference between electricity provided by renewables and the demand at any given moment. The marginal costs of a gas power plant are way too high to have them run as permanent capacity. The point is: there may be a rising demand in gas power plant capacity, but these plants will run just a few hundred hours per year. There is thus no direct link between
greater installed capacity and higher natural gas consumption and the paper does not provide figures to support its claims. A look into the IEA World Energy Outlook reveals that in 2010, 32% of the EU natural gas consumption was used for electricity generation. This number is expected to grow to 36% in 2035, but may be easily balanced out by efficiency gains or fuel substitutions, e.g. in the heating sector. The installed gas power plant capacity in turn is expected to increase from 216 GW to 340 GW. This rather conservative projection challenges the notion of constant growth in natural gas demand. Even from the perspective of “supply diversification”, the fact remains that all newly built infrastructure for fossil fuels locks in its further use for decades to come, which impedes a transition to renewable energy.

The paper closes with some proposals, amongst them the repeated request for more competencies, more action plans and more European institutionalisation on the subject. Yet while the European Commission is determined to establish a Europe-wide quota system for renewables, the success of individual feed-in tariffs proves that lacking EU competencies is not necessarily a bad thing, a point neglected in the paper. Its proposal for security assurances for gas infrastructure investments, which amounts more or less to state aid for fossil fuels, is very much in line with the argumentation brought forward by Commissioner for Energy Günther Oettinger, who however never fails to point out that renewable energy sources need to prove their marketability. This is anything but a level playing field for renewable energy. The paper could have adopted a more critical approach to this view.
The authors of the paper welcome the commentary from INER and will respond to some of its more salient points.

The paper aimed to describe fossil fuels, especially natural gas, as the most promising transitional technology. As the commentary rightly suggests, this increases the dependence on this resource. The paper also acknowledges this problem, so takes the approach to diversify gas supply and combine this effort with a political agenda—namely, to strengthen regions and nations which the commentary labels as unstable regimes. But this is just the central argument: if the EU can manage to secure and stabilise unstable regimes, it might—in the authors’ view—be able to diversify its trade partners and supply sources, as well as pacify nearby conflict regions.

Furthermore, the authors disagree with the commentary’s argument that the paper causally links the building of intercontinental pipelines with the promotion of European values. The authors firmly believe that the complex process of trying to secure resource trading partners, as previously described, will promote an intercultural exchange;
consequently, European values will be promoted abroad. The promotion of European values outside Europe is not a new strategy as it is already executed within the European Neighbourhood Policy. The paper draws upon these initiatives and claims that the EU should consider its energy targets in combination with its further efforts on promoting European values abroad as the authors consider them mutually reinforcing.

The authors dispute the claim that only the traditional energy industry is promoting natural gas; being a bridge technology to outweigh the initial base-load variations of RES, it is promoted by the RES industry as well. Because of its potential as temporary solution to RES output variations, the authors believe the promotion of natural gas in the short-term to be the most realistic course for the long-term development of renewables. In the long-term, the authors envisioned an autarkic Europe supplied by renewable sources within its boundaries, and hoped to approximate that in the paper. Assuming that this argument went unnoticed, the authors most certainly agree with almost all of the commentary.

The authors remain optimistic regarding the question of RES viability in the long-run, with natural gas as a bridging technology. This is, as the commentary correctly states, not necessarily a widely accepted scenario and it is because of this that the authors believe the paper reflects a critical approach.
Waning Europe? The EU, Developing Countries and Agriculture in the WTO

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Throughout the 21st century, the EU has remained one of the most important actors in the World Trade Organisation (WTO) but has lost some of its influence to developing countries. Negotiating behaviour has played a major role in this development; developing countries have represented their interests more assertively by forming blocs and coalitions. Within the WTO, the EU remains a veto power, but is not able to unilaterally advance its agenda, due to the countervailing pressures created by a combined “Southern bloc”. This article presents and evaluates several possible scenarios for their effects on future trade negotiations.

Introduction

The recent global and European financial crisis has reaffirmed the increased importance of developing countries in the international economy and the continuing relative decline of the Western powers. In addition, the recent food crisis has reinforced the importance of agriculture for the world economy. The World Trade Organisation (WTO) has as its official goal the promotion of free trade and trade liberalisation. Emerging from the earlier General Agreement of Tariffs and Trade (GATT) framework, a central topic of the various WTO negotiation rounds has been global agricultural policy. As agriculture is relatively labour-intensive but capital-sparse, developing countries have a comparative advantage in the production of most agricultural products and therefore push for liberalisation. Of the currently 159 member countries roughly two-thirds can be classified as developing countries. As opposed to the International Monetary Fund (IMF), which operates under a quota system, the WTO follows the principle “One country—One vote”, which means that developing countries can potentially carry much weight in negotiations. Well into the 1990s however, the GATT/WTO was dominated by Western countries, namely the US, the EU and other European countries. Based on this overview, we present and evaluate several possible scenarios for their effects on further trade negotiations.

The EU is the largest single market world-wide and can be seen as the largest member of the WTO. As opposed to other global governance organisations, the EU has a single seat in the WTO; individual countries are not represented officially. In the WTO, both the sheer number of developing countries and the fast economic growth of certain countries like China can be seen to represent possible paradigm-shifting events, putting into question the future dominance of the EU in WTO decision-making. This article seeks to evaluate whether the EU has been able to preserve its influence in the face of a rising presence of developing countries.

To this end, we will first present the main actors and cleavages
concerning global agricultural politics in the WTO and provide a detailed overview of the 2001 Doha negotiations, where the overall framework for a global agricultural policy was introduced. We will then discuss each subsequent negotiation round in turn: the 2003 Cancun negotiations, the 2005 Hong Kong negotiations and the 2009 and 2011 Geneva negotiations.

Within the WTO, the EU remains a veto power, but is not able to unilaterally advance its agenda, due to the countervailing power created by a combined “Southern bloc”.

We argue that throughout the 21st century the EU has remained one of the most important actors but has lost some of its influence to developing countries. The economic rise of developing countries can be seen as part of the reason for this. We argue, however, that negotiating behaviour has played a much larger role: developing countries have been able to form blocs and coalitions and thereby represent their interests more effectively. We further argue that within the WTO, the EU remains a veto power, but is not able to unilaterally advance its agenda, due to the countervailing power created by a combined “Southern bloc”.

**Doha Round 2001**

The Doha Round of trade negotiations represented a major shift in the balance of power, based largely on the Southern reaction to outcomes in the previous Uruguay round of negotiations (1986-1995). In that round, the EU and US unilaterally pushed through a first Agreement on Agriculture (AoA) despite developing countries’ resistance. This agreement did not actually solve the main problem in agricultural subsidies, which limited the market access of their agricultural products to developed countries. As a consequence, developing countries joined forces and were able to delay the opening of a new round of trade negotiations in Seattle. This showed their increased importance and was key in making the Doha Round a development-centred round that sought to explicitly take into account the distributional effects of free trade, as well as fairness between developed and developing countries.

The Fourth Ministerial Conference of the WTO was held in Doha, Qatar from November 9th to 13th, 2001. Here the Doha Development Agenda (DDA) was launched, which included negotiations about opening agricultural and manufacturing markets, as well as trade in services...
The core of the negotiations had a tripartite organisation: export subsidies, domestic support and market access. Because all countries have market access barriers, the number of stakeholders is higher in this than the first two other issue areas, making it an especially difficult issue to negotiate (Huan-Niemi 2008: 1).

Further liberalisation of agricultural trade would mainly benefit developing countries whose economies depend on agricultural products (WTO 2004). Because of this, developing countries made increased liberalisation of agricultural trade their top priority, which resulted in mounting pressure on the EU to reform its Common Agricultural Policy (CAP) (Halderman & Nelson 2004: 53).

The conference’s final declaration confirmed the goal of opening the agricultural sector, clarified the general framework for negotiations and established a new timeline (Doha WTO Ministerial 2001). The members committed themselves to comprehensive negotiations aimed at “substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support” (Doha WTO Ministerial 2001). Specific mention was made of the importance of a special and differential treatment for developing countries, with new concessions and commitments from both developed and developing countries (Doha WTO Ministerial 2001).

Despite the good intentions and the commitments agreed upon in the Ministerial Declaration, implementation inside the EU was more complicated than expected. The differences between various countries and responses to pressure from domestic farmers were too intense to be effectively reconciled (Halderman & Nelson 2004: 41). By 2003 it became clear that if the EU did not effectively reform its CAP, it would be in an extremely weak bargaining position at the next Ministerial Conference of Cancun in 2003 and would be unlikely to get concessions in other issue areas like intellectual property rights and industrial tariffs. As a result of the intense pressure resulting from the Doha Round, the Council of the European Union finally agreed on the CAP reform in June 25th, 2003 (Halderman & Nelson 2004: 41).

This reform addressed only the third pillar of the Doha negotiations—domestic agricultural support—leading to criticism of inadequacy (Halderman & Nelson 2004: 41 and 42). Its substance and timing were designed to avoid any proposed reforms. This led the European Council to declare that “the CAP reform is Europe’s important contribution to the DDA and constitutes the limits for the Commission’s negotiation brief in the WTO Round” (European Commission 2005).
The Doha Declaration both structured substantive talks and included a timeline for the next round in Cancun. However, the deadlines were not met due to friction, especially between the EU and developing countries.

The EU sought a leadership role in the WTO and hoped to become the main instigator of the Doha Round (Ahnlid 2005: 130). Since a new round would put a lot of pressure on the EU to reduce its agricultural subsidies and tariffs, the Union promoted the integration of agricultural negotiations into a “Single Undertaking”, which would allow it to balance the costs of agricultural concessions with benefits acquired through concessions by its partners on other issues (Kerremans 2011: 134). During the Cancun negotiations, the EU promoted formal inclusion into the Doha round of the so-called “Singapore Issues”: investment, competition, trade facilitation and transparency in government procurement. Thus, issues ostensibly unrelated to agriculture became essential in agricultural negotiations.

The EU and US presented a joint proposal in August 2003 (EU-US 2003) to help negotiations progress. Despite concessions in domestic support, market access and export competition, this proposal did not include any specific details and therefore retained a defensive nature (Coskeran, Kim & Narlikar 2012: 361; Conceição-Heldt 2011: 156).

In response, the Cancun conference witnessed an unprecedented rise in coalition formation of developing countries, among which the most emblematic was the creation of the G20 as a direct reaction to the EU-US proposal (Narlikar & Tussie 2004: 947). This presented a striking contrast to the Uruguay round, where an EU-US proposal essentially provided a blueprint for the eventual accord. The G20 represented an important economic bloc (representing 69% of the world’s farmers) that carried moral power (representing over half of the world’s population) (Narlikar & Tussie 2004: 953). It included developing countries with defensive (India and China) as well as offensive interests (Brazil and South Africa) that were united in the common goal of resisting the EU-US proposal (Vickers 2012: 268). In addition, the G20 submitted a counter-proposal demanding more ambitious concessions, most significantly the elimination of all export subsidies (G20 2003; Conceição-Heldt 2011: 156).

For the first time, developing countries were prepared to break up ministerial negotiations on the grounds that they were not receiving a balanced package of concessions.

In response, the Cancun conference witnessed an unprecedented rise in coalition formation of developing countries, among which the most emblematic was the creation of the G20 as a direct reaction to the EU-US proposal (Narlikar & Tussie 2004: 947). This presented a striking contrast to the Uruguay round, where an EU-US proposal essentially provided a blueprint for the eventual accord. The G20 represented an important economic bloc (representing 69% of the world’s farmers) that carried moral power (representing over half of the world’s population) (Narlikar & Tussie 2004: 953). It included developing countries with defensive (India and China) as well as offensive interests (Brazil and South Africa) that were united in the common goal of resisting the EU-US proposal (Vickers 2012: 268). In addition, the G20 submitted a counter-proposal demanding more ambitious concessions, most significantly the elimination of all export subsidies (G20 2003; Conceição-Heldt 2011: 156).
Developing countries’ resistance to the inclusion of the Singapore issues proved fatal for negotiations in Cancun (Evenett 2007: 399). After failing to agree on any substantive declaration, the negotiators published only a brief statement.

For the first time, developing countries were prepared to break up ministerial negotiations on the grounds that they were not receiving a balanced package of concessions (Baldwin 2006: 684). Under pressure from increasingly vocal and more organised developing countries, the EU was not at all successful in pushing for a comprehensive agenda that included investment, competition, trade facilitation and increased transparency in procurement. Without the Singapore issues, there was nothing to counter-balance the EU’s potential losses on agricultural issues, but without the concessions by the EU on its CAP, there was nothing to encourage developing countries to move talks forward. The EU simply did not have much to offer and therefore forfeited its position as leader.

Hong Kong Negotiations 2005

The Hong Kong 6th Ministerial WTO meeting, which took place two years after the failure in Cancun, marked a return to bilateral negotiations. However, member states reaffirmed their commitment to the WTO through a new framework agreement signed in July 2004 in Geneva. This 6th Ministerial meeting was then considered an opportunity to re-launch multilateral trade negotiations. A proposal published by the European Commission on the eve of the Hong Kong meeting intensified looming conflicts. The proposal asked the G20 to make concessions on industrial market access and services without presenting anything equivalent to reduce internal tariffs in the agricultural sector (Shah 2005). This conditional offer confirmed that the EU was still a major player on the international trade scene but no longer able to push through its preferences in an increasingly multilateral trade system. Moreover, Europe was divided internally and France, in particular, considered the European Commission’s propositions “excessive and not respecting the mandate given to it by the European Commission” (Conceição-Heldt 2011: 180). The European Trade Commissioner admitted that he was unable to be more enterprising in the negotiations. Thus, an impasse in the agricultural sector emerged during informal talks preceding the meeting in Hong Kong.

The Hong Kong meeting started in a tense atmosphere, which inhibited open and honest discussions. Because other members did not draft a similar proposal to the EU’s, the EU said that it did not have to draft a new proposal on agriculture until an alternative offer was presented. WTO member states set a deadline for new offers: April 30th, 2006. Agricultural
export subsidies were to be abolished by 2013, rather than 2010 as preferred by the majority of members. To push the deadline to 2013, the EU had to agree that a “substantial” reduction in subsidies—the level of which was not defined—would take place within five years in the EU. The Ministerial conference did not come to an agreement on lowering custom duties levied on agricultural products.

Regarding the power balance in the WTO, on the one hand, many deadlines were pushed back during the Hong Kong meeting, favouring the countries with defensive interests such as the EU (Conceição-Heldt 2011: 180). On the other hand, the EU did not manage to promote its offensive interests: access to developing countries’ industrial products and services markets.

Overall, despite the growing role of emerging countries such as Brazil and India in the international trade arena, the parties concluded a weak and unbalanced trade agreement allowing the EU to impose its preferences.

Similarly, however, developing countries also failed to push their agenda forward. Despite coalition attempts by the G20 and the continuing rise of India and Brazil, progress on agriculture was negligible. Nevertheless, a final declaration was adopted on December 18th, 2005, because developing countries became proponents of the WTO system to defend their domestic interests.

Overall, despite the growing role of emerging countries such as Brazil and India in the international trade arena, the parties concluded a weak and unbalanced trade agreement allowing the EU to impose its preferences. Therefore, from the EU’s point of view, the Hong Kong meeting was successful.

**Geneva Negotiations 2009**

WTO members waited until 2009 to reunite in Geneva. Then, in line with the two-year cycle for Ministerial Conferences, they met again in 2011 in Geneva. The global financial and economic crisis provided the context for the two Geneva Ministerials.

With the turmoil the crisis created around the world and the looming threat of protectionist policies—the main thing the WTO tries to prevent—the Doha Development Agenda and most of its contested issues became less important. The decision to hold a regular Ministerial
Conference without the goal of producing a final declaration showed a neglect of the trade bargaining surrounding the DDA and led commentators to see the 7th Ministerial Conference as “housekeeping” exercises and “non-events” with government officials claiming that they had “very low expectations” (Grammling 2009: 1; ICTSD 2009).

After realising that the ambitious plans for advancing the Doha Development Round were not achieved, Mr De Gucht, the EU’s trade commissioner, expressed disappointment with the lack of progress. He identified the unblocking of the Doha Development Agenda as “the biggest challenge”. Making reference to a proposal by the European Union on non-agricultural market access (NAMA), he concluded: “at present there is no political preparedness to compromise on a full Doha Development Agenda package” (EU 2009). He then reiterated the European Union favours reciprocity “but not full harmonisation” (EU 2011: 1f.).

In 2011, Brazil reiterated the negative impact of the global financial and economic crisis on the Global South and reaffirmed the importance of agriculture for the DDA (Brazil 2011: 2). Generally, commentators identified an increased willingness to open up South-South trade, especially between emerging and Least Developed Countries (LDC) (Grammling 2009: 2).

Even though at the 2009 negotiations in Geneva “[m]any Members reaffirmed their commitment to conclude the Doha Round in 2010” (Grammling 2009: 3), no actual negotiations took place on agricultural issues and the diverse statements during the two conferences showed the basic deadlock on the issue. Unsurprisingly, the conferences only produced closing statements by the Chairperson instead of a formal declaration, “thus eliminating another potential occasion for discord” (ICTSD 2009).

While the then Director-General of the WTO Pascal Lamy opened the 7th Ministerial Conference, stating that the “multilateral trading system has also been tested as never before”, but that “[i]t has stood firm and showed its value”, he had to acknowledge that little progress had been achieved on the DDA even though “[t]here is more than eight years’ work on the negotiating table” (WTO 2009). He concluded that the DDA is “at an impasse” with the “key question” of the “balance in contributions and responsibilities between emerging and advanced economies” still unresolved (WTO 2011).

**Conclusion: The EU as veto power and future prospects**

Overall it seems that the EU was able to preserve some of its influence in the WTO over the past several rounds of negotiations. In particular,
it was able to block progress on agricultural issues, and thus protect its defensive interests. At the same time, however, it had very little success in getting its offensive interests represented (Elsig and Dupont 2012).

With discussions about an EU-US Free Trade Area underway, the first signs of recovery from the world recession and the increasingly important role of emerging powers, we can imagine several possible scenarios for the future, all contingent on EU policy, both within the WTO and externally. These scenarios assume that EU members do not reform the CAP or unduly liberalise their agricultural markets.

First, the EU could team up with emerging markets with similar interests. In particular, China has a similar defensive interest with regards to agriculture; a cooperation between China and the EU—while difficult to swallow for EU allies—might be able to preserve the status quo in agricultural trade, without halting negotiations on issues of non-agricultural market access.

Moreover, while emerging markets have successfully cooperated in the past, many analysts agree that cooperation is highly volatile and, without shared ideas and trust, could easily change if other policies were perceived as favourable. Moreover, China and India, arguably two of the most important emerging markets, are competitors, not partners. In the absence of strong, organised opposition from emerging markets, the EU might be better positioned to get some of its offensive interests represented.

While emerging markets have successfully cooperated in the past, many analysts agree that cooperation is highly volatile and, without shared ideas and trust, could easily change.

If an EU-US FTA is not signed, both partners might have an incentive to attempt further multilateral cooperation to get the economic benefits that they were unable to obtain bilaterally. At the same time, however, such a result could also lead to demoralisation, or cause both powers to look for other partners, such as large emerging markets.

Lastly, if an EU-US FTA that includes liberalisation of agricultural markets is signed, the EU and US will face a legitimacy problem with emerging markets. This could lead to continued deadlock in WTO negotiations and possible “trade wars” with negative ramifications for European economies, especially in light of sluggish economic growth in the Global North. On the other hand, the deadlock is likely to persist even if agriculture is not a meaningful part of such an agreement.
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Ecuador, El Salvador, Guatemala, India, Mexico, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand and Venezuela.


Changing Paradigms: from Power Politics to Empathy

Günter Sölken & Claudia Sölken
ATTAC

ATTAC is an international organisation involved in the alter-globalisation movement. They oppose neo-liberal globalisation and develop social, ecological and democratic alternatives so as to guarantee fundamental rights for all. Specifically, they fight for the regulation of financial markets, the closure of tax havens, the introduction of global taxes to finance global public goods, the cancellation of the debt of developing countries, fair trade and the implementation of limits to free trade and capital flows.
The paper seeks “to evaluate whether the EU was able to preserve its influence [in the WTO] in the face of a rising presence of developing countries”, but the focus on power politics obscures more important questions on agriculture and world trade.

Despite Africa being much richer than the US or the EU in terms of natural resources, its wealth is consumed outside the continent.

One is how to feed a growing world population. Despite Africa being much richer than the US or the EU in terms of natural resources, its wealth is consumed outside the continent—and “we let them starve” as UN Commissioner Jean Ziegler put it. This is the result of globalisation and the expansion of free trade, which continue a similar and effective exploitation of Africa as in colonial times. The thousands of refugees drowned in the Mediterranean and off the coast of Lampedusa fled their African homes because they saw no future there, and followed the route of their historically stolen riches. Additional challenges like desertification, planting biofuel instead of food on farmlands and land- and water-grabbing will intensify forced migration, despite FRONTEX. The displacement of thousands of families to slums in mega-cities will continue. Whether these challenges could be solved by strengthening the EU’s standing in the WTO needs to be questioned.

The article’s history of the WTO misses out that the organisation’s founding after the Cold War, with its one-country-one-vote system, gave hope that fair cooperation and sustainable solutions would replace the former bilateral negotiations of the GATT. However, already in 1995 the OECD states and the EU launched into secret negotiations with transnational companies on the Multilateral Treatment on Investments (MTI), the foundation for the WTO’s strategic orientation, based on the Washington Consensus. This agreement would have weakened participating states’ sovereignty in favour of the conglomerates. The latter would have had guaranteed freedom concerning financial transactions, protection from expropriation and a right to damage compensation for expropriation-like and win-decreasing legal requirements. The states were to be denied certain economic prerogatives; companies would have enjoyed the benefits of a one-sided right of action against the signing states, unbalanced by any “counter-right of action”. Once the negotiations became public, they caused an uproar in civil society. The negotiations and the subsequent WTO round in 1999 in Seattle eventually failed, partly due to international civil society resistance.
The principles of the failed MTI have persisted as a blueprint for the EU and the US’s stance on world trade and global agriculture for the Doha process, which commenced in Seattle and remains to be concluded.

Other global institutions like the World Bank and the IMF are also controlled by the US and the EU, which is why developing countries perceive them as a place of last resort when they need financial aid. The US and the EU have abused their positions by introducing deregulation in their own but not developing countries’ interests, making their access to local markets a precondition for aid—thereby preventing the implementation of healthcare programmes, educational initiatives and sustainable agriculture projects. Also these challenges raise the question of how they could be addressed by increasing the EU’s influence in the WTO.

**Both [the US and EU] have let go of the WTO’s multilateral approach in favour of bilateral free trade.**

Over the last decades the EU and the US have been losing interest in the WTO due to increasing resistance and opposition by different alliances of developing countries which have impeded the realisation of their interests. Both have let go of the WTO’s multilateral approach in favour of bilateral free trade and association agreements that enable them to use their market power. The WTO negotiations share the fate of other multilateral agreements such as the Kyoto Protocol. Negotiations are not led in a goal-oriented manner.

From ATTAC’s perspective, the West should acknowledge its global political responsibility and give up its dogmatic free trade positions. To do this effectively, the West has to replace power politics with smart diplomacy, empathy and respect for the interests of the weak and hungry. Such a change of heart and political course is difficult but not impossible, as last seen in the 1980s during the CSCE negotiations. There, difficult steps were taken on an ultimately successful path; this experience could serve as a more instructive model than the EU-centric one.
The commentary by ATAC rightly draws attention to unresolved problems of world hunger. The authors share the view that it is increasingly necessary to focus on pressing global issues such as ‘how to feed a growing world population.’ The authors can also partially agree with the criticism of the WTO governance system, namely consensus bargaining. This ‘organised hypocrisy’ has also been acknowledged by political scientists, for example, by Richard Steinberg in ‘In the Shadow of Law or Power? Consensus-Based Bargaining and Outcomes in the GATT/WTO’.

The authors agree that addressing these questions is important for policy-makers, but posit that ATAC misunderstands the normative message of the paper, and furthermore want to address ATAC’s criticism of power politics as its central focus.

The commentary raises the question whether the position of the EU within the WTO should be strengthened and remains very sceptical that this would lead to an improvement of the situation, understanding the paper advocates a strong EU. This is not the case. The paper does not feature any normative statement about the EU’s position within the
WTO. Its goal was to provide an unbiased descriptive and analytical account of a global economic power transformation and its impact upon the negotiations in the WTO. The paper did not examine the concrete policies proposed by the EU or other players as the question guiding our report was focusing on who gets his interest pushed and not what those interests were. The authors agree however, that a discussion of the concrete policies and their positive and negative effects on world trade, and individual countries would be fruitful. Such discussions would allow for a more informed discourse, going beyond simple ideological statements pro or contra free-trade. In addition, the paper’s scenarios, descriptions and analysis can serve as an important basis for future, value-informed policy recommendations, as the authors consider it vital to understand a situation and dynamics to sustainably change it.

The paper’s research question makes a focus on power politics necessary. However, ATTAC criticises this move by arguing that more important aspects are being overlooked. The authors disagree. All the policies and changes ATTAC mentions in the commentary would need to be implemented in some way. Whether one likes it or not, at the moment and for the foreseeable future, the WTO is the most relevant international organisation for questions of international trade. Hence, it is interesting to see how actors can lobby for their interests and get them implemented. It might be normatively desirable for the West to “replace power politics with smart diplomacy, empathy and respect for the interests of the weak and hungry”, but the global governance we perceive today is dominated by power politics, as ATTAC itself comments when it points to allegedly USA and EU controlled international organisations. The growth of developing countries is especially interesting from a power politics perspective as they are likely to increase their stake in international organisations, the very subject of the paper.

The authors’ understanding of power, in this context, however, is neither static nor purely military; the paper is especially concerned with economic and soft power and power-over-outcomes. In focusing on a comprehensive concept of power, smart diplomacy and coalition abilities are already included in our report. Current and future changes in the power structure between the developed and developing countries will have far-reaching consequences on how and when any of the pressing global issues, including world hunger, can be resolved. The authors argue that the understanding of power dynamics is an essential precondition to any constructive global solution whether in trade, agriculture or environment. This perspective can also benefit NGOs by giving them a better understanding of the decision-making process and how they can influence it.
Striving for an ‘Arab Summer’: Possibilities for EU-MENA Cooperation in Energy, Migration and Higher Education Policy

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The Arab Spring has presented the European Union with a window of opportunity to (re)affirm its role in the Middle East and North Africa (MENA) by gaining influence in the region vis-à-vis its global competitors and establishing itself as a driver of developments. This paper contends that the EU should secure its interests in supporting the region by focusing on three areas: energy, migration and higher education. First, the EU has a strong interest in the natural resources of MENA countries and in particular MENA’s comparative advantage in renewable energy production. In the field of migration policy, the two regions should act more cooperatively in order to harvest mutual benefits from the mobility of skilled labour. Furthermore, strengthening institutional ties is considered to be crucial in continuing the reforms in higher education in cooperation with the new authorities. Based on these findings, this paper outlines distinct policy recommendations concerning each area of action.

Introduction

After the recent wave of political upheaval and reform in the Middle East and North Africa (MENA), the region has become even more important to the European Union (EU), both as a neighbouring region and a potential economic partner. The EU now has the chance to serve as a role model by positively influencing neighbouring countries, helping to guide their transition process and providing them with necessary support. The EU has a window of opportunity to secure its position among several global actors with an interest in the future of the region.

This paper discusses three aspects of potential support and cooperation: energy, migration and higher education. In the first section, we demonstrate that the EU has a strong interest in the natural resources of MENA countries and that this interest extends to MENA’s comparative advantage in renewable energy production. The second section, which focuses on migration issues, argues that Europe’s relationship with its southern neighbourhood—and with the North African countries in particular—should become more cooperative. The final section, higher education, contends that the Arab Spring has presented the European Union with an opportunity to support the modernisation efforts of new authorities in the MENA region.

New opportunities in changing markets: the EU-MENA energy nexus

Egypt, Syria and Libya are situated at the crossroads of three continents and are important players in regional and global energy markets: Egypt, with its control of the Suez Canal and the Suez-Mediterranean Pipeline
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Libya, with its huge oil reserves; and Syria, in an important geo-strategic position. All are important players in the region.

Libya holds the largest oil reserves in Africa (around 47.1 billion barrels) and close to 55 trillion cubic feet of natural gas reserves (Energy Information Administration [EIA] 2012). It is the sixth-largest energy supplier to the European Union and covers 17% of European energy needs (Abbasov 2011). After the fall of Gaddafi’s regime, Libyan oil production recovered rapidly, and, as of May 2012, production reached 1.4 million barrels per day (EIA 2012). Consumption in Libya is not high, so the country exports most of its hydrocarbon to the EU (EIA 2012).

Egypt has the sixth-largest oil reserves in Africa and the 27th-largest in the world. Currently, 51% of its oil exports go to India and 25% to European countries (European Commission 2013a). But it is the largest crude oil-producing country in the Eastern Mediterranean region (which also includes Jordan, Lebanon, Israel, the West Bank and Gaza). As for Liquefied Natural Gas (LNG) exports, 53% go to Asia, 39% to Europe and the rest to the Middle East (2%), North America (1%) and South America (5%) (EIA 2013).

The EU is MENA’s largest trading partner. It is also Egypt’s most important import and export partner as more than 30% of its trade volume is accounted for by Europe (European Commission 2013a). Likewise, the EU accounted for 70% of Libya’s total trade before the Libyan uprising (European Commission 2012). After the end of the crisis, national production (especially of hydrocarbons) increased. Now Libya’s economic security depends heavily on its energy exports to the EU. Similarly, the EU is Syria’s largest trading partner, with 22.5% of trade (BBC 2012). Thus the region needs exports to the EU to maintain its economic prosperity.

In addition, MENA countries stand to benefit from cooperation with the EU on the Mediterranean Solar Plan (MSP), a project that takes place within the framework of the Union for the Mediterranean (UfM). The MSP aims to exploit the comparative advantages of the EU’s southern neighbours in renewable energy by increasing solar and wind power generation.

But EU member countries are not the only major players in the MENA region. With regard to oil, the key emerging player is China.

But EU member countries are not the only major players in the MENA region. With regard to oil, the key emerging player is China. In 2003, the Chinese National Petroleum Corporation (CNPC), China’s state-owned oil company, purchased several refineries in Algeria for €400
million and signed a deal to explore further fields (Taylor 2006: 944). A similar trend is taking place in Libya where China has assisted the new government with humanitarian supplies and has invested in several oil-related projects (Khankishiyeva 2013).

Germany, France, Italy, Spain and the United Kingdom—some of the largest importers of the region’s hydrocarbon—not only have to compete with China, but also with the national oil corporations and governments of growing economies such as India and Brazil, and the United States.

Egypt’s growing hydrocarbon energy market is already dominated by EU companies, such as BP (UK), Royal Dutch Shell (Anglo-Dutch), Eni (Italy), RWE DEA (Germany), that have cooperated in many joint ventures with the Egyptian authorities (Bahgat 2013: 20). However, given LNG’s potential to create a global market for gas (breaking the intra-regional scope of most production and consumption worldwide), the EU may soon have to compete more fiercely with BRIC countries (Brazil, Russia, India and China) and the US as the key global consumers of energy.

The EU and the North African migration pathway: change, adaptation, cooperation

Taking as a reference point the round of population censuses from 2000 described in Parsons et al. (2007), the MENA region as a whole had about 15 million emigrants living abroad, with 5.1 million in the EU. In 2010 the MENA region sent 18.1 million or 5.3% of the population to emigrate abroad, 63.4% went to OECD countries—and mainly to European countries (World Bank 2011).

It seems that Europe is the main destination for unskilled labour, with 85% going to the EU and 5% to the US.

The main “push factors” for migration from Egypt, Morocco and Tunisia are population growth, economic instability, high unemployment rates, regional underdevelopment and poverty. The main “pull factors” are the labour shortages in European countries, the wage differential and the option to gain EU citizenship. However, there is a clear difference on the migration pattern when we look at the skill level of the migrants. It seems that Europe is the main destination for unskilled labour, with 85% going to the EU and 5% to the US. “In contrast, only 5% of skilled labour lands in the EU—whereas the US alone absorbs the lion’s share of
engineers, technicians and ICT specialists, 55% of the total highly-skilled mobile workforce” (EurActiv 2008).

But, as the EU average unemployment rate increased from 8.9% in 2009 to 9.6% in 2010, the employment situation of migrant workers deteriorated more rapidly than that of EU natives, with unemployment rates of up to 45% in Spain (IOM 2011). With an increased unemployment rate and the rise of terrorism threats, the perception of immigration to European citizens changed into more of a problem than an opportunity (Transatlantic Trends 2010; The Guardian 2013).

In 2005 Eurostat concluded that Europe needed 20 million new high-skilled workers to fill the labour gap in Europe (Eurostat 2005) due in part to European students’ disaffection with scientific and technical studies (Sjoberg 2002). In 2008, the World Bank projected that in the absence of migration, high-income countries would lose some 216 million workers by 2050 due to demographic shifts. Europe alone would see a decline of almost one-third of its total population, ending with around one active worker for every two retirees (World Bank 2008). Besides the existing labour shortages in mid-level areas such as the health sector (Bach 2008), the decline in active working population in developed countries would result in more labour shortages across different skills spectrums including low-skilled labours in retail, construction, tourism and catering (World Bank 2008). Thus, immigration has become an important political issue.

Although the EU needs immigration from across the skills spectrum, EU policy currently discourages low-skilled immigrants from entering the region, preferring to focus on growing demand for high-skilled labour through programmes such as the introduction of the EU Blue card (European Commission 2007; European Council 2009) and the Erasmus Mundus Masters and PhD Programs (European Commission 2013c).

Continuing cooperation and changing incentives in higher education

The EU’s interests in the MENA region’s higher education sector are manifold. Besides being an important area of interest for security and regional dialogue, economic incentives also play a key role in shaping EU-MENA partnerships in the field. As discussed in the last section, demographic trends in the majority of EU member states will lead to a sharp decline in population growth over the coming decades as well as a decrease in the number of qualified workers. While these gaps will certainly be filled by the next generation of EU citizens coming out of tertiary educational
institutions, they will have to be complemented with skilled migrants from countries outside the EU. In addition, programs such as Erasmus Mundus MA and PhD programs target the higher education sector in an aim to attract the best-qualified students from the MENA region to come to the EU.

In the MENA region, education is considered to be a key factor for political, social and economic development (Cairo Declaration 2007). The Arab states have recognised the need to reform higher education in order to fill social and labour market needs. This marks the beginning of a new era; higher education institutions have changed from mere tools of political legitimation and nation-building (Buckner 2011: 21) to become drivers of the transition to a knowledge-based economy and society, indicating a shift towards the global paradigm of development. In the attempt to become better equipped to meet this challenge, many governments are looking to import or adopt local versions of different higher education models, such as the so-called “European model”.

European procedures of harmonisation and shared standards [in education] are promoted worldwide as trademarks of excellence

While it is not possible to talk of a single and coherent “European model of higher education”, European procedures of harmonisation and shared standards are promoted worldwide as trademarks of excellence (Keeling 2006: 211). The output-oriented approach to higher education taken by both the Bologna process and the EU’s Higher Education Modernisation Agenda relies largely on processes of rationalisation, which structure educational activities in terms of “measurable” (Pasias & Roussakis 2012: 128), economically sensible indicators.

The Cairo Declaration on the creation of a Euro-Mediterranean Higher Education and Research Area (2007) is the most recent framework for cooperation between the EU and the MENA, which offers grounds for the development of national systems based on internationally recognised standards of quality. The main goal is to explicitly link the modernisation of the higher education sector in MENA countries to economic development by enhancing the employability of students and researchers and facilitating their participation in exchange programs. EU involvement in the MENA region is mainly concentrated in three flagship areas: modernisation, quality assurance and mobility. In May 2013, the first Arab-Euro Conference of Higher Education (AECHE) was held
in Barcelona, organised by regional university associations. Such initiatives have the potential to initiate meaningful dialogue between institutions and to achieve, in the words of Deputy Director-General of the Directorate-General for Education and Culture Xavier Prats Monné a “systemic impact” across the region via the exchange of good practice (AECHE Conference Conclusions 2013: 3). Political and professional actors in the MENA region have clearly defined incentives to involve the European Union in the modernisation of their educational sector.

The EU’s involvement in the higher education reforms of Egypt, Libya and Tunisia has led to the introduction of some fundamental concepts and associated policy instruments of the European model—such as lifelong learning, competitiveness or networking—into the higher education infrastructure of the countries in question. By resorting to instruments of rationalisation, governments have been able to respond to labour market needs and to keep their political influence over higher education institutions (Mazawi 2011: 12). It is expected that the Arab Spring will profoundly alter some current political incentives, as countries will have to reconsider their educational strategies and their relation to the region’s changing social and political reality.

One implication of the transformations that MENA countries are now undergoing is that the marginalisation of social and political issues in higher education management and reforms is not likely to continue. The democratisation of the public sphere will necessarily redefine the relationship between institutions and the state as well as their role in political, social and economic development, which might eventually lead to change in conceptualisations of higher education, including the imported concepts of the European model.

**Recommendations**

**ENERGY**

In its “new response” to the Arab Spring, the Commission has alluded to the possible extension of the Energy Community Treaty (ECT) to the Mediterranean region (not MENA in general), a treaty which aims to create an integrated energy market between the Union and contracting third countries (European Commission 2011: 10). The ECT already operates in the EU’s eastern neighbourhood. An extension of this agreement to the south could benefit the EU’s Mediterranean partners in two important ways:

1. It would create a stable regulatory framework that would facilitate private investment in infrastructure and increase security of
supply. This is of particular interest to countries at the centre of the Arab Spring movement that wish to demonstrate credibility to international investors.

2. An extension would increase cross-border relations in the field of energy. The growing demand for electricity in North Africa already outstrips supply. For example, Egypt’s economic development and growing population have increased demand in all sectors (Bahgat 2013: 13). The MENA region’s renewable energy potential could meet its rising energy needs (Carafa 2012: 1).

3. Increased market integration will lead to more competition. If implemented correctly, this could create incentives for market players to innovate, benefiting consumers on both sides of the Mediterranean.

MIGRATION

Today, migration is acknowledged for its growing political and economic importance in North African and European countries. Migration has become a thorny political question in the EU, because Europe needs highly skilled migrants in the short run and migrants of all skill levels on the long run. Yet Europe finds itself facing challenges in attracting skilled labour as well as enhancing its migration governance with Southern Mediterranean countries. The extraordinary changes currently taking place on the southern shore of the Mediterranean, the MENA region’s high youth unemployment rate, the ageing European workforces and growing Arab populations present a unique opportunity for Europe to develop a more cooperative approach with its southern neighbours and with the North African countries in particular due to the geographical proximity as well as the historical linkage and the resulting shared linguistic characteristics with these countries. To that end, we propose the following recommendations:

1. European institutions need to argue that the EU is in need of labour migration of all skill levels and raise awareness of the positive economic benefits of immigration in order to change the hostile environment towards migrants.

2. Europe should invest in the higher education sector in Egypt, Morocco and Tunisia. Today’s youth will be part of tomorrow’s active labour force, potentially in the EU.

3. In order to enhance migration governance, the EU should implement a more proactive and cooperative approach with North African countries by implementing more activities to enhance the socio-economical and human development conditions in these countries.
Superimposition of political frontiers at the turn of each century between year 0 and year 2000 on the European Peninsula and its surroundings
In the field of higher education, the current political context has opened a window of opportunity for the European Union to support the modernisation efforts in MENA countries, and it is likely that the exchange of knowledge and good practice will intensify in the future. The instrumental language of higher education that the EU has already successfully introduced in certain countries will provide a common ground for countries throughout the region to develop network relations between their academic communities and thus to give an impetus to the modernisation process as well as to better respond to the needs of the labour market.

If the European Union hopes to assure the continuity of successful projects and meaningfully respond to recent political and social developments, it must also provide new incentives for cooperation in the higher education sector. We propose the following recommendations to be considered as a basis for developing future EU actions:

1. The EU must reach out to newly independent academic communities (i.e. Libya).
2. The EU should aim to tailor current programmes to the needs of individual partner countries, as well as assess the quality of its programmes regarding the effects of reforms on social inclusion and democratisation.
3. The EU should further encourage cooperation between individual institutions and university associations in order to develop long-lasting relations between academic communities.

References


The Possibilities of EU-MENA Cooperation

Abbas Al-Mamori
INTERNATIONAL CRISIS GROUP IRAQ

The International Crisis Group is recognised as the world’s leading independent, non-partisan source of analysis and advice to governments and intergovernmental bodies like the United Nations, European Union and World Bank on the prevention and resolution of deadly conflict.
The paper, while a thoroughly-researched piece, bases its conclusions and arguments on an inadequate understanding of the MENA region and of the challenges faced by any key player wishing to capitalise on events in the region.

"After the recent wave of political upheaval and reform in the Middle East and North Africa (MENA), the region has become even more important to the European Union (EU), both as a neighbouring region and a potential economic partner." The word ‘potential’ is misleading, as it does not take into account existing partnerships and collaborations between EU and MENA countries. Qatar, UAE, Saudi Arabia and Egypt have long-running partnerships with EU nations; the suggestion that there is a ‘potential’ to develop relations between EU and MENA countries treats the MENA region as a tabula rasa for EU penetration. This is straightforwardly problematic as it ignores the complexity of existing EU-MENA relations and power politics.

If the EU shall ‘serve as a role model’ for MENA countries, as the paper argues, several questions are left out. Do MENA countries going through this transition want support from the EU? Do their citizens? Do they respect the EU enough to follow its lead? Do MENA countries want to adopt political arrangements similar to the EU? Do economic and political allies in the MENA region want the EU to provide the ‘role model’ blueprint for those countries in transition? These questions are important to address, as the assumption that the EU can simply act as a role model without due consideration for the states’ and citizens’ desires, is false and dangerous.

**EU-MENA energy nexus**

Here, the paper builds on the idea of ‘window of opportunity’ for the EU in relation to energy. However, the ‘window of opportunity’ only pertains to the chance for the EU to penetrate the MENA region ahead of competitors. It does not take into account the challenges the EU and other foreign parties will face when wishing to capitalise on these opportunities in the MENA region. For example, Libya’s instability has grown to unnerving levels, and a lack of social order and law-enforcement may render the paper’s recommendations ineffectual. A concerted effort to tap Libya’s energy market may be premature in light of the nation’s current and foreseeable instability.

However, the paper does make good use of statistical research, especially regarding new opportunities and the ‘EU-MENA energy nexus’. It goes into good detail concerning Egypt and Libya’s oil and gas reserves and production, which clearly outlines why the EU should be interested in
the MENA region. Also, the paper describes the competition the EU faces from China effectively, to highlight the need for EU-MENA cooperation.

**North African migration pathway**

Here, the authors purport to develop an argument, but actually develop an outline of what an argument concerning migration should look like. The paper pushes for a ‘sensitive’ treatment of the issue without actually making recommendations. This of course may be due to the brevity of the paper, but a bold statement of intentions would have been welcome. It is a shame because again, the paper demonstrates excellent statistical research and analysis, which could have been better used to form conclusions.

**Higher education**

While this section of the paper is one of the strongest, it occasionally falters when backing up its claims. For example, the quotation from the Cairo Declaration stating that ‘in the MENA region, education is considered to be a key factor for political, social and economic development’ could be supported by statistical examples to highlight the impact of events in the region. For example, the University of Baghdad (the largest university in the region after the University of Cairo) has slipped outside the top 701 ranked universities globally according to the QS League Table. Evidence such as this would only strengthen the paper’s central arguments.
The authors emphasise, above all, that their research dates from Spring 2013. Hence, more recent developments could not have been taken into consideration. Furthermore, the authors wish to clarify that the proposal supports an explicitly cooperative approach towards the political and social developments in the MENA region. Relying on extensive research, the authors are certainly aware that the EU-MENA relationship is not at a beginning, but has already developed over decades. Nonetheless, the authors believe that the current moment offers the opportunity to develop this relationship further for the mutual benefit of people living in the EU and MENA. Thus, while not denying that the EU may serve as a (voluntary) ‘role model’ for developing countries in the MENA region, the authors vehemently reject the imposition of such a model, European ideals, or the idea that the EU should move to simply ‘capitalise on events’. Instead, they are advocating for an equal partnership approach that allows for the citizens of the EU and MENA region and their respective governments to voice their opinions and influence the development of this partnership in the future. Therefore, the authors decided not to look at
the MENA region as a whole, but opted for a case study approach that allowed them to identify specific opportunities.

With respect to the EU-MENA energy nexus, the situation in each of the countries the authors focused on—Syria, Egypt and Libya—has changed for the worse since the writing of the initial contribution. As touched upon in the commentary, emerging instability in the MENA region poses problems for the threefold recommendations for EU-MENA energy relations proposed by the authors, based on market integration, greater cross-border relation and more stability in regulatory frameworks.

Yet, though the situation has worsened this year, there is still a vital role which the EU can play, which is consistent with the ‘window of opportunity’ principle the authors introduced in their contribution. This is not only as an economic partner, but as a good neighbour, also in a political sense. The EU, then, should seek to build better partnerships, where possible, and make use of all its economic and diplomatic tools to promote stability in the region. Such efforts could pave the way for the recommendations the authors set out originally.

Immigration is a complex political question for the EU and MENA. Hence, the paper concentrated explicitly on the issue of labour migration. The paper pointed to the projected threat to Europe that it could end up with one active worker for every two retirees by 2050, in the absence of migration. In practical terms, it suggested that the EU must change its migration policies towards the North African countries by engaging further with the higher education sector of these countries and by opening the labour market between the EU and Morocco, Egypt and Tunisia. The effect would be twofold: the EU would be able to secure a constant supply of workers to help mitigate its oncoming demographic crisis and MENA migrants would be able to achieve a stable source of income, allowing them to send remittances to their home countries.

Regarding higher education, the authors based their argumentation on the specific cases of Egypt, Tunisia and Libya, in order to present the strategic importance of higher education for the future of these societies from different angles, given that these countries have reached different stages in the implementation of higher education reforms. The authors gave evidence in their presentation that there is a general trend of internationalisation of higher education prevailing across the region, of which the reader can find many examples from state-level explicit engagement to inter-institutional cooperation. The authors also wanted to emphasise that the current socio-political transformations will most probably motivate the EU to revise some incentives underpinning its cooperation programmes in order to continue and expand the dialogue between European and Mediterranean academic communities.
Responses to the Financial Crisis in Europe

Authors: Thomas Bosley, Thomas Raeburn, Rohan Sakhrani

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Considering some of the policies proposed or already implemented within the European Union, this paper discusses whether these measures are well-suited to the task. Putting the issues of a single supervisory mechanism and a financial transaction tax under scrutiny, as well as the bonus culture of banks, we show how modifications or alternatives for each of the discussed measures are not merely technical questions of who can regulate more efficiently, but also an issue of sovereignty and democratic legitimacy of political institutions.

Introduction

The financial crisis and more recent public finance crises in certain European countries are important tests for the economic and political institutions of Europe. The existence of the European Union provides a common political forum to debate possible solutions as well as a platform to implement some of them. However, it is a matter of debate whether financial issues are better remedied by nation-states or supranational organisations like the EU.

In this report we consider some of the policies proposed or already implemented within the European Union and discussed whether these measures are well-suited to the task. We identify what we perceive as desirable modifications or alternatives for each of the discussed measures as well as considering an important additional complexity of building financial architectures at the EU level: the issue of the division of powers in economic regulation between member states and the EU. This is not a merely technical question of who can regulate more efficiently, but also an issue of sovereignty and democratic legitimacy of political institutions.

Single Supervisory Mechanism: the first step towards a banking union

The complex web of financial interactions that take place within the EU means that greater financial integration is required in financial architecture to sustain current levels of monetary integration, which the proposed Single Supervisory Mechanism (ssm) aims to achieve. Further integration, including Eurobonds and a common fiscal policy, may enhance the Eurozone’s long-term stability, but such options are currently seen as politically unbearable. The task policymakers face is difficult: their actions must both contain the current crisis and prevent future crises.

The objectives of the Single Supervisory Mechanism

The Single Supervisory Mechanism (ssm) is a proposal outlined in September 2012 that would allow the European Stability Mechanism
(ESM) to support Eurozone banks directly, in contrast to the existing European Financial Stability Facility (EFSF), which may only support banks through national governments. As with any financial supervisory body, the ESM will be tasked with ensuring regulations are followed, risk-taking is controlled and banks maintain required buffers as outlined by Basel III. Vitor Constâncio (2013), vice president of the European Central Bank, has identified the two main objectives of the SSM as:

1. Addressing the “financial trilemma” of achieving financial stability, financial integration and maintaining national financial policies in an integrated financial market; and
2. Helping to break the negative feedback loops that have been key features of the current crisis.

The negative feedback loops identified by Constâncio exist between the financial sector, the fiscal situation and the state of the economy. For example, an unstable financial sector can deteriorate the region’s fiscal situation by causing fears of default. This can further harm the financial sector by leading to higher debt service and bailout costs. An SSM may be able to reduce default worries and bailout costs. In addition, a Single Resolution Mechanism and Single Deposit Guarantee Scheme could create a true banking union that would break the negative cycle between the financial sector and the fiscal situation.

When the economy recovers, such an integrated architecture for financial stability in the Eurozone should in theory bring a uniformly high standard of enforcement, remove national distortions and reduce the build-up of systemic risk (Goyal et al. 2013). Economists had warned about the separation of federal level monetary policy from national-level banking supervision since the inception of the euro (e.g. Goodhart 2000); the crisis has made this visible to all.

**Features of the SSM**

Vitor Constâncio’s speech on the establishment of the SSM earlier this year has highlighted three arguments why the ECB will be responsible:

1. Responsibility for monetary policy will give the central bank a strong self-interest in a stable financial system;
2. The micro-prudential control of individual institutions is closely related to the ECB’s broader mandate for macro-prudential stability; and
3. The bank possesses expertise on the financial sector, and informational synergies exist between supervision of banks and central banking functions.

Considering that the ECB already has the trust of financial markets, it is likely to be seen as more credible than many national supervisors. This should increase investor confidence in peripheral banks and, given their interconnectedness, peripheral governments. Experience in the United Kingdom of the apparent failure of the UK’s now defunct Financial Stability Authority (FSA) to operate well outside of the Bank of England also suggests this is a sensible move, and it coordinates with a “global tendency to shift supervision... towards central banks” (House of Lords publications 2012).

**Will SSM achieve its objectives?**

The SSM is just one feature of a banking union. Without a common resolution and safety net framework it will not be able to stabilise the Eurozone banking system by breaking the negative feedback loops between the financial sector and the broader economy. Here, the long experience of the United States’ Federal Reserve system could provide important lessons. For example, most of the failing banks that led to the Great Depression were smaller banks that were not members of the Federal Reserve System, and thus not protected by the Fed (Friedman and Schwartz 1963). This makes it important to ensure that the ECB can monitor and influence all Eurozone banks. However, the capacity and ability to do this will take time to build. The SSM is thus right to begin with those banks that are most important to the system or already vulnerable. Still, plans to expand to all 6,000 banks remain unclear.

The complex web of financial interactions that take place within the EU means that greater financial integration is required in financial architecture to sustain current levels of monetary integration...

Whilst we support the SSM being part of the ECB, there is potential for conflicts of interest between monetary policy and supervision. Therefore it is important that the two functions are performed separately. A logical and important next step, a Single Resolution Mechanism.
(SRM), is planned by the European Commission. The SRM will make the SSM incentive-compatible by resolving the conflict between national resolution authorities and the ECB (Schoenmaker & Gros 2012).

The single deposit guarantee scheme is likely to prove the most contentious aspect of the banking union. Given Eurozone politicians’ history of avoiding difficult, preventative measures and instead only acting when forced to do so, we worry that if a recovery occurs before all aspects of the banking union are in place it may take another crisis to stimulate this last step.

Many features of the SSM are yet to be determined, which makes it difficult to fully evaluate. The extent to which the supervisory philosophy will be principles-based or rules-based is yet to be seen, although given the diverse nature of Eurozone banks one would assume a tendency towards the former. Whilst this risks inconsistency across banks, being too strictly rules-based in such fast-moving industry poses the risk that regulators will be unable to keep up industry innovation and quickly become outdated and irrelevant.

The SSM, if implemented and operated correctly, could be the first step to a stable Eurozone. But this will only occur if it is afforded sufficient power and occurs in combination with an SRM and a system of common deposit protection.

The proposal for a Financial Transaction Tax (FTT)

Following failed attempts to implement a financial transaction tax (FTT) on a global or even an EU-wide level, the European Commission has drawn up proposals for 11 EU member states—Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (referred to henceforth as the FTT zone)—to implement the tax under a framework of “enhanced co-operation” (European Commission 2013). The proposal aims to tax trade on all financial instruments—including stocks, bonds and derivatives—between actors in the FTT zone. To mitigate tax avoidance and the risk of relocation, the FTT is to be applied based on principles of residency (who is party to a transaction, not where it takes place) and issuance (if financial instruments were issued in the EU) (European Commission 2013).

Rationale for the FTT

The European Commission lists three main objectives it hopes the FTT will achieve:
1. *Fair and substantial contribution of the financial sector*

There is a general consensus that the financial sector has not paid an appropriate price relative to the actions that caused the financial crisis. In addition, as the sector is exempt from VAT, many argue it is under-taxed relative to other sectors. Further, the implicit state guarantee offered to many financial institutions results in a lower cost of capital, and thus excess profits, for the sector.

2. *Harmonisation of indirect tax legislation*

The Commission claims that the current patchwork of national legislation on financial services taxation could lead to fragmentation of the internal market and thus impede on the smooth functioning of the Single Market.

3. *Create appropriate disincentives for certain transactions*

The EC’s objective in this regard is to discourage short-term transactions, which it deems socially undesirable. By taxing derivatives on a notional value basis, the Commission wants to encourage the reduction in large risk-taking, as more highly leveraged transactions would attract a proportionately higher tax rate relative to underlying assets.

We will primarily address the last of the points above as it is the most contentious. Both the theoretical and empirical arguments for the FTT’s ability to reduce market volatility are shaky. Whilst transaction costs imposed by the tax may impact short-term volatility, they are unlikely to reduce asset price bubbles. A prime example of a market with high transaction costs nevertheless prone to bubbles is the real estate market.

There is a general consensus that the financial sector has not paid an appropriate price relative to the actions that caused the financial crisis.

Secondly, if the aim of the tax is to curb the types of transactions that destabilised the financial system and caused the subsequent financial crisis, the FTT does not seem to target the right transactions. The crisis was caused to a large extent by excess leverage, risk concentration and product innovation. Financial instruments such as asset-backed securities (ABSs) are not frequently traded, so it is unlikely an FTT would have discouraged this innovation and the subsequent build-up of systemic risk.

Finally, a great source of concern from both industry participants and sovereign governments is the potential impact of the tax on the repo market, a major source of short-term funding for banks. With effective
bid-ask spreads on transactions in this market in the range of 10-20bps, a flat 10bps FTT on overnight transactions could virtually wipe out the industry. An ICMA study calculates that the repo market in the EU11 would likely contract by two-thirds as most transactions would be rendered unprofitable (Comotto 2013). At a time where regulators are keen for banks to be weaned off cheap central bank capital, the FTT could cut off a vital source of short-term funding for banks and make them both more vulnerable to shocks as well as more reluctant to lend to the real economy.

The future

The FTT appears unlikely to achieve its objectives, but there are still questions over whether it is even legal in its planned form. Although the Commission is fairly confident that the FTT operating under “enhanced co-operation” does not contravene any EU treaties, other parties are concerned about the “extraterritorial aspects” of the tax. In April 2013, the Chancellor of the UK announced that he was willing to challenge the levy at the European Court of Justice on the grounds that the tax would be unfair to those EU member states unwilling to take part, which would contravene aspects of the Single Market.

The plan to introduce the tax by January 1st, 2014 now looks certain to be missed. Indeed, some commentators state the FTT will not be implemented for several more years, and even then likely in a watered-down form, with possible further exemptions for certain instruments and institutions. These reasons all make the FTT undesirable, but most importantly it will be unable to achieve the important objective of creating disincentives for certain harmful transactions.

The financial industry’s bonus culture

Since the financial crisis, the bonus culture prevalent throughout much of the EU’s financial sector has been highly scrutinised. Many observers have argued that banks not only failed to understand their operational risk before the crisis but actually encouraged dangerous risk-taking via financial incentivisation. The culture of large bonuses driven by short-term performance may be seen as intrinsically linked to this systemic failure in the financial industry.

The Policy options: Tax, Cap or Ban?

In 2009, then UK Chancellor Alistair Darling announced a 50% “super-tax” payable on all bonuses over £25,000 (approx. €30,000) by financial
institutions. The tax was a one-off and applied only in the 2009-2010 financial year. While major institutions in some of Europe’s key financial markets may be able to curtail their activities in a single national jurisdiction in response to an unfavourable tax regime, they will be less able to evade an EU-wide regime.

The EU has recently passed a bonus cap to be enacted in 2014 that will limit pay-outs in the financial sector at one year of base salary or two years with shareholder consent. This achieves the objective of delinking risk and reward, as banks are forced to pay higher salaries rather than performance-related incentives. However, the policy could have the unintended consequence of increasing base salaries (which are simply taxed at normal rates), thus preventing total compensation from falling.

**Whilst a tax focused on investment operations could act as a premium for government insurance, a true harmonisation of risk and reward would require a cultural shift in operating profits.**

It has already been demonstrated that neither the super-tax nor the bonus cap are optimal in fulfilling the main policy objectives: contributing to government insurance and properly harmonising risk and reward. The outcome of the Vickers report facilitating the division of retail and investment operations may provide a structure that not only reduces risk to the deposits of the public but allows more focused government intervention. Whilst a tax focused on investment operations could act as a premium for government insurance, a true harmonisation of risk and reward would require a cultural shift in operating profits.

The media has already publicly shamed banks employing improper rewards systems, but this must translate into a change in human resources policies. Incentives based on long-term performance will ensure that decision-makers consider risks throughout the economic cycle while increasing attachment to a particular institution, thereby preventing pursuit of the highest short-term rewards. The EU’s bonus cap may allow some progress towards this goal but also risks poor alignment with reward structures. Finally, it must be noted that the complex deficiencies of the banking sector mean there may be no optimal policy response.
Impact of the banking reform bill on the UK-Eurozone financial sector

The UK Independent Commission on Banking (ICB) was established by the coalition government when it came to power in 2010, in direct response to the financial crisis. Chaired by Sir John Vickers, the commission was tasked with proposing changes to the UK’s banking system that would increase stability, competition and reduce the implicit government guarantee. Here we highlight the potential differences that will be created between UK and Eurozone banking regulation and their possible impacts to argue that the EU can learn from some of the UK’s achievements.

The future differences between the UK and the EU

The UK government is set to implement the core Vickers proposals by forcing systemically important banks to ring-fence their retail and small-business operations, ensuring these remain underwritten by the UK taxpayer. Most investment banking activities will be outside the ring-fence, but given that each bank operates with a different business model, there will be some flexibility as to where each bank draws the line.

The EU followed the UK’s lead by setting up the Liikanen Group, which suggested a similar separation of banking activities, particularly the separation of proprietary trading and market-making (Liikanen et al 2012). However both France and Germany look set to only isolate proprietary trading. Groupe BPCE chairman Francois Perol has expressed confidence that further separation, which would result in the region’s banks becoming uncompetitive, will not be implemented (Bloomberg June 2013).

The Vickers report also suggested the ring-fenced banks should hold an additional 3% of equity on top of the 7% Basel III minimum standards and supported the introduction of a 3% binding minimum leverage ratio, as proposed under Basel III. It further called for both parts of the bank to hold a minimum amount of loss absorbing capacity, made up of debt or equity, of 17-20% of risk-weighted assets. Greater limits on derivatives trading will make risk management activities more expensive, but should mean the UK taxpayer is no longer underwriting such activity.

The impacts of these differences

Increasing capital requirements will increase bank funding costs at a time when banks’ profitability ratios are already below their cost of capital. A McKinsey report from October 2012 shows that the world’s largest 300
lenders averaged just 7.6% return on equity in 2011—half of its peak before the financial crisis. Such an increase in funding costs will undoubtedly result in some, if not all, of the costs being passed on to customers, especially considering the oligopolistic nature of the UK banking sector. In addition, banks may find it easier to subject retail borrowers and savers, who are faced with fewer alternatives, to these costs.

**Recommendations**

The Banking Reform Bill has received minor criticisms from Sir John Vickers and others for watering down some of the ICB’s proposals, including leverage ratio requirements. UK banks will only be required to meet the international standards outlined by Basel III, a 33x leverage ratio, instead of the 25x proposed by the ICB. Sir John argues for the lower ratio in order to “reflect the imperfection of risk weighting” (Vickers 2013); a valid point that we hope will receive due consideration in the future. However we recognise the UK government must balance the need to remain a successful international financial centre without burdening taxpayers with excessive amounts of risk. As such we feel the Banking Reform Bill strikes the appropriate balance and hope it receives support from in the House of Lords, as it has now done in the House of Commons.

Many of the recommendations made by Liikanen et al. (2012) would bring the Eurozone in line with the UK. We feel this is a desirable medium-term goal. Given the interconnectedness of the banking sector, reforms to make banks safer in one jurisdiction will reduce the likelihood of failure in other jurisdictions. As such it is admirable that the UK is leading the way in banking sector reform and we would like to see the Eurozone follow closely behind.

**References**


Slow Responses to the Financial Crisis in Europe

Greg Ford
FINANCE WATCH

Finance Watch is an independent non-profit members’ association set up in 2011 to act as a public interest counterweight to the powerful financial lobby. Their mission is to strengthen the voice of society in the reform of financial regulation by conducting advocacy and presenting public interest arguments to lawmakers and citizens. Their members are civil society organisations and expert individuals, supported by a full-time secretariat.
Single Supervisory Mechanism (SSM)

The authors make some important points about the EU’s Banking Union plans. The SSM must be able to cope with systemic risks from small as well as large banks, and to cope with local differences in the EU banking industry. A principles-based approach should help with both of these.

They also note the importance of backing the SSM with an effective Single Resolution Mechanism. At Finance Watch, we go a step further and insist that for the SRM itself to work, the EU must first confront its ‘SIFI’ banks (Systemically Important Financial Institutions). If it doesn’t, Banking Union will not be able to meet its objectives.

US experience illustrates the SIFI problem. The FDIC has resolved more than 400 smaller banks since 2008 but when it was confronted with a fully grown SIFI (Washington Mutual in September 2008), it was forced to engineer a sale to another large bank instead. The lesson for the SRM is: too-big-to-resolve and Banking Union do not mix.

Higher bank capital would help banks to continue lending in a downturn, weakening the part of the feedback loop where a banking crisis triggers an economic crisis.

Finance Watch would highlight several policies to help achieve Banking Union’s aim of breaking the negative feedback mechanisms between banks, the economy and states. Higher bank capital would help banks to continue lending in a downturn, weakening the part of the feedback loop where a banking crisis triggers an economic crisis. Preventing SIFI banks from becoming too-big-to-resolve would help to stop their losses from ending up as public liabilities, breaking the part of the loop where bank failures lead to sovereign crises. Finally, requiring banks to fund some of their sovereign debt holdings with equity would help to break the link in the other direction, so that any future Eurozone sovereign crisis would be less of a threat to the banking system.

Financial Transaction Tax (FTT)

The authors are right to support the FTT’s overall goals, especially the goal of moving investment behaviour away from speculative trading (although several other measures could also help achieve this, such as better disclosure of intermediation costs, tax incentives and alignment of fund manager pay with their investors’ time horizons, among others).
Whether the FTT is implemented now or in the future, the debate is raising some interesting questions about the nature of banking, such as: up to what point do the benefits of bank repo funding justify the systemic and liquidity risks? To what extent does very short-term funding support banks’ lending commitments in the real economy? How much financial trading in large banks would still be viable without repo market funding?

**Bonus caps**

The EU is not the only body to lean on banker pay: pressure from politicians, regulators and investors has led banks to look at their own pay structures, with industry proposals including longer bonus deferrals, cancellation of deferred bonuses (sometimes called “malus”), bonus claw-back and principles to require pay to be risk-adjusted and linked to long-term outcomes.

All of these need time to show if they will be effective, as does the EU’s controversial proposal to cap variable versus fixed pay. The EU bonus cap has some technical weaknesses and loopholes (and a legal challenge from the UK) but it has one big strength: it is a direct message from an elected European Parliament to the banking industry to reduce pay. Given that financial pay is a cultural phenomenon, signalling effects such as this should not be dismissed.

**Vickers and Liikanen**

The authors hope that the EU follows the UK lead on banking structure and Finance Watch strongly agrees. The UK and EU’s Liikanen proposals both aim to separate trading from the state-backed business of deposit banking. The reasoning is well-known: there is no reason for taxpayers to stand behind banks’ financial trading operations.

But ending established subsidies is never easy. The French law on bank separation and the current German proposal pay lip service to separation but allow a large exception for “market making”, thus leaving most of the implicit funding subsidy for trading in place. If these national initiatives succeed in influencing the EU’s reform, the EU’s banking sector will continue to favour trading activities over serving the real economy.

We share the authors’ hopes that the EU will put special interests aside and present a proposal that genuinely separates credit from trading.
The authors welcome the analysis and commentary from Finance Watch, and broadly agree with its criticisms, apart from its remarks on the subject of the FTT or Financial Transaction Tax.

The authors agree that there are other, potentially more effective ways to achieve the aims the FTT aims to tackle, however we believe that the FTT is viewed as a politically palatable and high-profile policy solution that will likely be part of the future financial architecture of the zone, albeit probably in a watered-down form.

Finance Watch are right to raise the case of the repo market as the biggest obstacle to the proposal in its current form. When individuals such as Christian Noyer, Governor of Banque de France, call the proposal a “non-starter”, it is clear that there are genuine concerns regarding the threat to financial stability that the FTT poses. The fear is that the cascading effect of the tax would lead to a drying up of the market, and consequentially interfere in the (already fairly dysfunctional) monetary policy transmission mechanism. Given the scale of reliance on wholesale funding in the EU, the authors believe that a tax that could endanger life
as normal needs to be carefully analysed on economic grounds, rather than pushed through due to plain political pressure.

In addition, Finance Watch rightly focuses on the danger that banks will be too-big-to-resolve for the Banking Union to be successful. We share this worry, which is one reason why we seek to limit banking regulation that increases fixed costs for banks and therefore the economies of scale within the banking industry. We would ideally like to see a Eurozone in which any bank could feasibly be restructured or dissolved through the Single Resolution Mechanism. Whilst we don’t support placing strict limits on bank size, we feel there may be scope for attempting to influence this indirectly, such as through progressive capital charges related to banks contribution to systemic risk. However, realistically, it is unlikely there will be an end of SIFIs in the immediate future, but a universally high standard of supervision is certainly a commendable step forward from national banking supervision and should help ensure all institutions remain resolvable if necessary.
GLOBAL CAPITALIST

LOCAL CAPITALIST
Overcoming the Challenges of a Disunified Union

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This article considers current European political challenges through the concept of a “disunified union”. The European Union members disagree on major topics, such as the translation issue due to the variety of languages, the minority group issue, and the energy issue. Examining the difficulties presented by these cases of disunity, we suggest directions for policy makers.

Introduction

Current political challenges facing the European Union (EU) can be understood through the concept of a “disunified union”. In one sense, Europe is clearly unified. The EU claims 28 nation-states as its members; seven more are on the road to membership. Europe has seen more integration in recent decades than perhaps any other continent. At the same time, Europe remains disunified in many ways. Within the EU, there are asymmetries of power and bitter disagreements.

The disunity of the EU is evident in (1) the plurality of languages into which all proceedings and documents must be translated, at great cost, (2) the plurality of conflicting definitions of minority groups, which inhibits cooperation on minority rights issues and (3) the divergent interests of member-states in energy issues, which slow implementation of EU-level energy politics. This paper examines the difficulties presented by these cases of disunity and suggests directions for policy makers.

Federalism in the EU

The concept of federalism is very significant to the future of the EU. Unlike a unitary state, sovereignty in federal political orders is decentralised, often constitutionally, between at least two levels. This means that units at each level have final authority and can be self-governing in some issue area. Citizens thus have political obligations to, or have their rights secured by, two authorities. A federal political order is “the genus of political organization that is marked by the combination of shared rule and self-rule”. A federation is a species of federal political order that “involves a territorial division of power between constituent units...and a common government” (Watts 1998: 120). The EU, however, appears to be a confederation: a political order with a weaker centre than a federation, often dependent on the constituent units. Typically, in a confederation (a) member units may legally exit, (b) the centre only exercises authority delegated by member units, (c) the centre is subject to member unit veto on many issues, (d) centre decisions bind member units but not citizens
directly, (e) the centre lacks an independent fiscal or electoral base and/or (f) the member units do not cede authority permanently to the centre. Analogues to characteristics (b), (c), and (d) are largely responsible for the EU’s disunity.

Because it is a confederation, Europe faces four core sets of issues: constitutional and institutional design, division of power, democracy, and the politics of recognition. Confederations must strike a balance between unity and disunity, and this report explores this balance in the EU. We find that the EU remains disunified, given challenges it faces in linguistic translation, minority rights, and energy policy: areas where cultural and national barriers prevent cooperation among EU member states.

The challenges of a multilingual legal system in the European Court of Justice

The EU project—as a supranational organisation of national governments—necessitates a multilingual legal system. Because EU law pertains to the citizens of its 28 member states (and not solely to their governments), the law must be accessible to its subjects in their own languages (McAuliffe, 2009: 100). The Union’s expensive 24-language translation apparatus is necessary to preserve its sovereignty and its citizens’ claim of access to the law.

The European Court of Justice may not privilege any of the 24 language versions of the law over any other, and may consider no version “the original”. This requirement has led to an interesting experiment in the co-manipulation of language and law, resulting in the development of a unique, unprecedented multilingual legal system.

Those seeking bureaucratic efficiency frequently decry the high cost of multilingualism, especially as the growing dominance of English renders it unnecessary (Cox). The Directorate-General for Translation, which serves all institutions of EU government, produces 1.5 million pages per year at a cost of about €1.03 billion. With the addition of Croatian, the cost is expected to rise to €1.1 billion.

ECJ rulings are made by the Court’s 28 Advocates-General, who draft an opinion in their national tongue. First drafts of these opinions are written in French by civil servants known as référendaires, who find that the bureaucratic translation process forces them to rely heavily on stock phrases used in prior rulings and results in awkward writing. Référendaires typically think first in their own native languages, then translate what they want to say into French.

This process has naturally produced issues of semantic discrepancy
across translations. By comparing the language versions of 246 ECJ judgments drafted between 1960 and 2010, Cornelis Baaij found that in 170 judgments—about 69%—the various versions showed appreciable semantic discrepancies (Baaij 2012: 219). These discrepancies have created an interpretative tool. Legal reasoning at the ECJ relies on what Baaij calls a “context of justification” (Baaij 2012: 220). Judges justify their preferred interpretation by resource to the version they choose, invoking concerns of clarity, literalness and meaning.

In *Paterson v. Weddel & Co. Ltd*, a minor semantic difference in one outlying translation justified the Court’s 1990 ruling.

In *Paterson v. Weddel & Co. Ltd*, a minor semantic difference in one outlying translation justified the Court’s 1990 ruling. A UK lorry firm carrying meat to butchers’ shops was charged with violating an EU regulation that made an exemption for the “transport of animal carcasses or waste not intended for human consumption” (Bellos 2011: 246). The firm claimed its practices were protected by this clause, arguing that the qualification “not intended for human consumption” pertained only to waste, not to animal carcasses. This lexical ambiguity was present in all language versions, except for Dutch. The Court cited the Dutch translation—the only version in which this qualification unambiguously pertained also to animal carcasses—to justify its verdict against the firm. The Court found that only the Dutch translation captured the law’s intent (Bellos 2011: 247).

The Union’s costly but necessary translation apparatus renders the EU truly international in character: it allows the law to exist outside of any language, while at the same time being shaped by 24 official languages. Any budget cuts made for the sake of economy or efficiency must preserve this. Such cuts have so far rightly targeted only the administrative uses of translation, rather than the legal code itself.

**Issues of terminology in reference to minority rights**

While the EU continues to integrate its member states, it must also respect their sovereign rights. Resulting variations can prove problematic, as illustrated by the problems of efforts to combat social and economic marginalisation of ethnic minority groups. Ethnic minority integration is a highly relevant issue for member states, as illustrated by the 2011 production of the EU Framework for National Roma Integration Strategies.
An ethnic minority group can be defined by “identifiable group characteristics with respect to, for example, shared language, religion and cultural practices” (MIDIS 2009: 35).

Roma integration in France illustrates the tension between state sovereignty and the EU’s attempt to harmonise policy across member states. “Integration” is defined as equal access and participation in four major areas of society: housing, employment, education and health. It is important to note that integration in all of these sectors does not necessarily require sacrificing Romani culture, although the Roma are not a homogenous group (Saimir Mile 2012).

The EU Framework requires each member state to develop a concrete plan for how to meet the goals it sets out, and France provided the French strategy as its response. Under the French Constitution, the law cannot distinguish between individuals based on origin (French Republic 1958), art. 1. This has been broadly and strictly interpreted in France to mean that ethnicity cannot be an indicator in surveys or public policy. The strategy states that “Roma” is an ethnicity-specific term, and is thus prohibited by French law. This presents a serious obstacle to implementing the EU Framework on both the local and national levels in France. Due to the limitations on terminology, the French strategy outlines a general policy of poverty reduction rather than an ethnicity-specific approach for Roma integration.

In 2008, the French President explained that recognising ethnicity risked setting communities against each other, and ‘trapping each of them in their own identity’ (cited in French govt strategy 2011: 1). This negative conception of ethnicity-based initiatives continues to shape integration policies. However, it is a mistake to assume that poverty-reduction programmes are an appropriate equivalent to Roma integration programmes.

The French strategy acknowledges that current policy has so far failed to solve social issues, characterised by “clear infringements of fundamental rights,” in the country (French govt strategy 2011: 1). It thus makes little sense to assume a sufficient response to the EU Framework is to merely outline existing programmes. It also seems ineffectively redundant for France to duplicate existing poverty reduction programmes in the hopes of promoting Roma integration. It would be more constructive to reconsider the current interpretation of the Constitution, and to recognize ethnic groups (which has happened in a few minor cases).

Given the current situation, very little will change for the Roma population in France. The French strategy is essentially a summary of existing programmes, with no indication as to why they should better serve as an integration tool in the future. It would be wise for France to reconsider
its stance: if it accepted the same fundamental, ethnicity-specific approach as other EU member states, it could better engage with other countries in searching for effective ways to integrate their Roma population.

Minority integration issues are relevant to all EU states, and therefore merit conversation. France has a sovereign right to refuse to recognise ethnic groups, yet this makes it much more difficult for the country to adhere to the EU’s initiatives of integrating ethnic minorities.

The EU’s energy sector: a case study of diverging interests

Perhaps the quintessential paradigm of the EU as a “disunified union” is its energy sector. Since the signing of the Maastricht Treaty, the EU has been trying to create liberalised energy markets in Europe. In 2009, the EU passed the Third Energy Package (TEP) in an attempt to create greater transparency in markets. The 28 member states were concerned that imposing uniform standards would result in non-uniform outcomes across the EU, producing unintended negative consequences.

The TEP, which entered into force in September 2009, was a further affirmation of the Second Energy Market Package, but with a few added stipulations to further ease the transition to liberal markets. The TEP consists of five main principles:

1. Separating the physical distribution of power and gas to end customers from economic activities such as production, generation and retail supply.
2. Greater cooperation and dialogue between domestic regulatory organisations.
3. The creation of an “Agency for the Cooperation of Energy Regulators” to “promote cooperation of, and complement, [national regulatory authorities] at EU level” (Morris, 2008: 9)
4. The creation of two separate European networks of transmission system operators to “ensure optimal management and sound technical evolution of the European transmission network” (Morris, 2008: 10)
5. Greater investment in national gas networks and better coordination in the operation of these networks. (Morris, 2008: 4)

Countries were given multiple choices for unbundling their national energy markets. In an unbundled market, one company produces an energy commodity, another company controls the transmission system to move
the commodity to consumer markets and a third company distributes the commodity to consumers. Unbundling has proven to be an unpopular policy with European energy companies who often wholly control domestic energy transmission and distribution systems.

The deadline for national governments to transpose the TEP into domestic law was March 2011, but 17 of the then 27 member states chose to ignore that deadline (ICIS Heren 2012). A year later, eight countries still had not transposed the TEP. Even in countries where the TEP has been transposed into domestic law, regulators may not have the power to enforce the TEP in the face of the energy lobby.

In addition, the TEP fails to account for the diverging market conditions and energy policies across the EU. Different member states have adopted individual energy policies based on geography and energy prices in specific regions. To change these policies through TEP reform would require substantial shifts in energy strategy at a time when energy is low on many member states’ list of priorities. Geographical differences in market conditions and energy policies make it difficult for the EU to successfully implement the TEP—one piece of legislation simply cannot cover all member states. The EU does not seem to have adequately accounted for unique regional energy differences in the TEP.

In addition, individual member states’ interactions with energy exporters further reinforce the image of the EU as a disunified union, making it difficult for member states to reach a consensus on energy policy. Perhaps the best example is various EU members’ relations with Russia. On one side, Germany and Italy, two of the EU’s largest energy consumers, are close with the energy giant, especially in the natural gas industry. But other EU members, particularly those in Eastern Europe, have more combative relations with Russia. Without a common EU policy toward energy exporters, it will be difficult for the EU and its member states to reach a consensus on how to interact with these foreign parties.

A feasible and pragmatic solution involves states developing individual energy policies without the TEP framework. This would allow states to create unique market solutions based on local conditions. As states develop their own energy policies, the TEP will become increasingly irrelevant. While it is never a good policy for member states to disregard EU legislation, in this situation there are a number of practical reasons for doing so. All things considered, the TEP is an unenforceable piece of legislation that has only hindered possible advances in creating a unified market.

1 The countries that still had not complied were Bulgaria, Cyprus, Estonia, Luxembourg, the Netherlands, Romania, Slovakia, and Spain (ICIS 2012).
Federalism: The question of unity in Europe and Germany

There is a realisation that the dream of a “United States of Europe” has not worked out quite as planned. Despite more than a half-century of thought on the subject, it could be problematic for the nations of Europe, particularly member states of the EU. Indeed, what can a disunified union do to assess internal contradictions in philosophy, policy and execution of (con)federal laws? It is worth re-examining federal evolution in post-war Europe, and Germany for many reasons provides some important examples of the stages of federal structural evolution.

All questions of federalism need to begin with what Michael Burgess outlines as two logical steps: the desire for union and the decision to have a federal union (Burgess 2006). In each of the policy case studies described above, these two fundamental questions have been overlooked in some way that further complicates an already complex situation. In addition, minute distinctions affect the understanding and operation of a federal structure. Perhaps the first distinction is the historical motivation for union: economic goals or national security? Burgess notes these historical motivations stemmed from “defense and security goals on the one hand, and economic and commercial objectives, on the other” (Burgess 2006: 76).

The establishment in 1949 of the constitution of the Federal Republic of Germany—the Grundgesetz—codified the federal structure and units (Länder) of the West German state. Development of the Grundgesetz over the following six decades carried not only discussion of challenges concerning Germany’s federal structure, but the structure of Germany within the European Union.

The evolution of the Grundgesetz is usually broken down into three phases. The first phase was marked by demands for a centralised state that could not be realised “since federalism was the foundation of the new political system according to Article 79(iii) of the Basic Law, it could not be changed by constitutional amendment” (Erk, 2008: 59). The second major phase consisted of a system of structural reform, of “cooperative federalism” wherein the Länder “bartered away a ‘federalism of powers’ (Substanzföderalismus) for a ‘federalism of codetermination’ (Beteiligungsföderalismus)” (Gress 2010: 181-182). The third phase was perhaps the most dramatic: further integration into Europe with the Single European Act in 1986, with the provision for common (single European) policy, particularly the single market and currency union and domestic expansion by absorption of the German Democratic Republic (GDR) in 1989. How a reunited Germany was to be a member in this
greater European structure later required a further examination and alteration of the Basic Law in 2006.

The German experience of structural alteration and expansion—the changes in codetermination privileges of the Länder and the growth by incorporation of five “new” east German Länder—could provide an interesting guide as the EU expands (Gress 2010: 182). Indeed, Gruner argues that “Germany will be able to [convince member states to enjoin on a federal system as] the right path for the European Union to take even if many member states of the EU and future members of an enlarged European Union are not yet prepared to give up the nation-state” (Gruner 2003: 45).

While there is a historical precedent of unification and expansion, and even a record of success in Germany, a German-initiated argument for federal union has yet to take place. National leadership based on specific experiences becomes unreasonable and impractical in fundamental questions of union. Indeed, reflecting upon what it even means to be unified is a difficult question to answer, and further hampered by the practical concerns of policy, such as the case studies explored above. However, a federal union also remains more than a basic administrative approach to government. It is a philosophical structure for the people to govern, to interact with others, and to recognise a certain Eidgenossenschaft; an oath fellowship and moral duty to one another, however abstract.

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'A Disunified Union' or 'United in Diversity'?

Jo Leinen
EUROPEAN MOVEMENT INTERNATIONAL

European Movement International (EMI) is an international organisation with the objective to “contribute to the establishment of a united, federal Europe founded on the principles of peace, democracy, liberty, solidarity, and respect for basic human rights”. Its 42 National Councils and 32 associated Member Organisations work towards bringing together representatives from European associations, political parties, enterprises, trade unions and individual lobbyists to realise this aim.
The paper “Overcoming the Challenges of a Disunified Union” aims to give advice to policy-makers in the European Union (EU) by drawing conclusions from three case studies: the multilingual legal system, terminology in reference to minority rights and the energy market.

Firstly, the characteristics of federalism in Europe are examined. The paper rightly points out that the EU is not (yet) a federation in the classical sense of the word. However, neither is it a confederation as claimed by the paper. The EU is a system “in between”, with policy areas subject to supranational rule with decisions taken either by majority, e.g. regarding the internal market, or subject to unanimous decision-taking, especially in foreign affairs. Member states have no veto power in policy areas subject to supranational decision-taking; all decisions are binding for all member states, which can be brought before the European Court of Justice in case of non-compliance. Thus the characterisation as a confederation does not grasp the whole picture. It is however right that a balance has to be found between “unity and disunity”, as the paper states. In other words, one of the core problems is to determine what has to be dealt with on the federal level and what can be left to the member states or the sub-national level. The official motto of the EU, “United in Diversity”, reflects this dilemma and shows that the EU is not a project that seeks to eradicate all differences between member states and regions. This is also reflected by the core principle of subsidiarity enshrined in article 5 (3) TEU.

Though the cases focussed in the paper seem to have been chosen randomly, the arguments brought forward and the conclusions drawn in the sections on the multi-lingual legal system and the terminology in reference to minority rights are valid. Indeed, the 24 official languages of the EU are a prominent sign of Europe’s diversity. As rightly pointed out, EU law can affect citizens directly, especially in the case of regulations, which are directly applicable. Thus all laws have to be available in all languages and all language versions have to be legally valid. The cost of roughly €1 billion sounds high but is well spent considering that EU GDP is €18.394 billion and the service that translation provides. The dangers invoked by
having 24 different but equally valid versions of a law are more of a theoretical than practical nature. Even in the cited case, Paterson v. Weddel, it seems that the company argued on grounds of semantics to achieve an outcome that was obviously not the intention of the legislator. Thus the possibility to use other language versions as an “interpretative tool” can even be seen as an advantage.

The study about the terminology with regard to minority rights shows quite well the tensions that can arise between the different levels of government in a federal system. On the one hand the EU is obliged to “respect the national identities, inherent in their fundamental structures, political and constitutional”, as demanded by article 4 (2) TEU. On the other hand, it should effectively implement its fundamental values, as for example the respect of the rights of minorities according to article 2 TEU.

The reasoning with regard to the common energy market seems to be a bit flawed. It is argued that the EU needs a common energy policy towards third countries, but at the same time it is assumed that the Third Energy Package failed to complete the single European energy market so far, and should thus be ignored by member states. The first thesis can be supported. Indeed, in relation to the big energy exporters, the EU should use its economic and political weight and stand together. The completion of the European energy market, however, is of utmost importance for European economies and consumers and a good example for possible added value by the EU. It is unreasonable to advise policy-makers to infringe their obligations to the Treaty and violate European law just because a piece of legislation has not yet brought the desired results. It is not an easy task to integrate numerous markets that sometimes comprise several countries, as in Scandinavia and the Benelux. Thus the current legislation has to be seen as a step on a longer road. To get back to national markets, sometimes serving only a few million people, is not a desirable option.

In the last part of the paper, German federalism is stated as a possible example for the EU. Indeed a lot can be learned from Germany in this respect, because it has a long tradition of federalism, which is not true for all European states. The integration of Europe is not complete, but a continuing process. In the near future the debate about the distribution of competences between the different levels of government and the development of federalism in the EU will regain momentum, especially since the Eurozone needs to make substantial steps towards a more federal union. The European Movement International actively works for a more integrated and more democratic EU, where the big questions are decided on the European level in the light of mutual respect and solidarity between member states, while diversity is not destroyed but cherished as one of Europe’s greatest assets.
Response

Princeton University

Reviewing the commentary from EMI, the authors welcome the critique of the paper, but have some minor disagreements with some of the points raised.

While the European Union is not de jure a confederation, it happens to function as one—that is, with a weaker centre and stronger member states—particularly in the case studies utilised in the paper.

This (legal) power relationship risks the effective implementation of important policy concerns, as was seen in each case study. Concerning the EU’s multi-lingual legal system, as well as that of minority rights and terminology, there are compelling arguments corresponding with each respective case study that the current systems of the EU are necessary to preserve a kind of ‘union in diversity’; and yet, there is a deeply ineffectual response to questions of minorities—and their contributions to the diverse fabric of the union.

The authors disagree with the commentary’s assertion that the reasoning behind the common energy market argument is flawed—indeed, the idea that the Third Energy Package can (or will ever) encourage
serious energy liberalisation in the EU is idealistic, at least for the short-
term future. The fact that so many members have chosen to ignore the TEP or refuse to transpose it into domestic legislation demonstrates that the TEP was an unpopular, ill-fated piece of legislation in the first place. While it is admirable to advocate reforms which will lead to market liberalisation and lower national energy prices, in the end, money and power dictate reality—in other words, unless the European justice system clamps down on countries that are violating the TEP, strong national energy lobbies (domestic energy oligopolies in particular) will continue to decide terms and reject reforms. In this case, the authors are not necessarily advising policy makers one way or the other to accept or reject the TEP—rather, they adopt a pragmatic view of the situation and reflect on the realities of the market. Still, many would even argue that the existing system is not inherently flawed—energy markets in the EU have not suffered any catastrophic failures, energy prices have remained relatively steady over the past few years, and supply interruptions have been few and far between.

In fact, it is safe to say that the EU is not currently in a position to make a widespread push for energy market reform—most member states have bigger issues on the agenda, including crucial Eurozone reforms, before they confront energy market liberalisation. Until these issues are resolved, or at least significant progress is made, in all likelihood, the energy market status quo will persist.

The authors agree that the integration of Europe remains a work in progress, and would be interested in a continued dialogue with the European Movement International in sketching what a possible—more federal—framework for the EU can and should resemble.
good by
friends
Challenging the Status Quo: Europe beyond Institutions

By Citizens For Europe e.V.

Citizens For Europe e.V. (CFE) is an internationally active non-profit and non-governmental organisation that seeks a more participatory and inclusive European Union. CFE uses participatory approaches, non-formal education techniques, and both online and print media in order to bring together diverse stakeholders to develop creative solutions and foster collective intelligence to deal with pressing problems of citizenship, migration and political participation in the EU.
The theme of the Allianz Summer Academy 2013 (ASA) was “Europe in a Changing World Order—Future Economic and Political Architectures”. It is not surprising therefore that the participants chose to consider topics of geopolitical significance, such as financial stability or energy supply. Though by necessity the scope of the papers is limited—they cannot be expected to be too wide-ranging or in-depth—they seem to be trapped in traditional discourses, resulting in positions and arguments that often serve to support the status quo. In light of the very serious challenges Europe faces, such a lack of vision—and unquestioning acceptance of assumptions at precisely the time when they should be challenged—poses its own challenge to the future of Europe, which these young authors will shape. Therefore, we are happy that with this publication dialogue has started and the participants’ articles were commented from the different perspective of a bottom-up Europe. Also our discussion focuses on similar concerns.

First, we find that the papers’ construction of the future of Europe as one that is exclusively institutional and under the purview of the European Union neglects important actions that could be taken by citizens and civil society actors. Second, we suggest to question some fundamental assumptions of the papers about the future of the European Union. For a young generation, that has been especially hard hit by the current architecture and the underlying power mechanisms, this is a critical requirement to envision the future. Finally, we consider the duty incumbent on young European citizens in creating dialogue and discussion. We will discuss each of these issues in turn.

### Putting citizens back into Europe

The participants conceive of the future of European economic and political architectures at the institutional level. This raises questions about power distribution and accessibility, and about the ways in which national governments, civil society organisations and individual citizens should work together in order to promote more inclusive and effective decision-making processes.

Since the end of the Cold War, the rationale for the EU has shifted from a union necessary for peace to a union necessary for (market) power. This shift is a result of a process in which the designed economic interdependencies and the single market emancipated themselves from being a functional mean for peace and prosperity towards being an imperative with (market) power as the end. To consider the future of European economic and political architectures requires thinking about where that power is concentrated and accessed. Here, the papers suggest
further consolidating power into existing structures, which would follow this imperative. The LMU paper on energy, for example, concludes that member states should shift their national competencies on energy to the EU wholesale. Left unexamined is a discussion of ways for citizens to hold this more powerful EU accountable, outside the voting booth, or even the appropriateness of this institutional view on local energy supply in the first place. Opposition to the current UK government’s plan to reinitiate the nuclear energy program shows just how important it is to include people in decision-making processes.

If the European citizen is considered only as passive recipient of the generous operations of EU institutions, then future architectures not only risk alienating and disillusioning citizens, but they will squander the talent and energy of citizens who have the ability and desire to shape the future of Europe. The challenge then is not to make a new chamber or wing in a grand EU palace, but rather, to make more doors.

**The consequences for young citizens**

There is another unarticulated assumption running through the papers: the future of European political and economic architectures is simply and straightforwardly the future of the European Union. This is unfavourable for today’s young Europeans. We live in times of financial instability, which poses special challenges for everyone, especially young Europeans. Young Europeans have far fewer opportunities than preceding generations: all available data shows higher youth unemployment, fewer stable job opportunities and a quality of life for once not certain to be better than that of their parents. This general trend of decline helps to create an environment where young people have less access to traditional power structures. For example, as higher education becomes not only more expensive but also less attractive in an environment where job prospects for graduates are scarce, then it follows that fewer talented young people will embark upon that path. If the only way to access institutional power is by pursuing established courses of education and vocational training, then it also follows that many more talented young people will be excluded from accessing that power than in preceding generations. Critics may say that there is no way of comparing which generation has had greater access to traditional power structures. However, we respond that if there will be greater concentration of power in an institution, and the opportunity to access that power is diminishing, then it is clear which generation is worse off. This has effects for society as well as talented individuals: young people will have less power to challenge traditional power structures, and to shift their society away from the current status quo.
While the CEU paper makes a case for increased partnership between the EU and MENA regions by highlighting even greater levels of unemployment in the MENA region, the paper does not make a persuasive case for how such partnerships would also benefit young Europeans. For example, securing partnerships and agricultural trade agreements with other regions clearly benefits the powerful economic interests that support such measures, but it is unclear how—or whether—future generations of Europeans stand to gain. It is risky to assume that continuing along this path will lead to job creation and prosperity that has not materialised in the past several decades of free market ascendance. Nor is faith in the free market much of a help to young people who feel their talent being not used.

By arguing to maintain the status quo, the participants of the ASA commit themselves to a future of Europe that is more inaccessible and powerful than it currently is, and serves to further deny their generation from the “good life” for which every human strives.

**Questioning the present in envisioning the future**

Every new political generation emerges disappointed by the mistakes made by its elders and passionate about bringing in new ideas to challenge the assumptions that caused those mistakes. Also participants of a programme such as ASA could first question the assumptions of the current regime in order to develop solutions. It is not necessarily important to be “right” in any objective sense, but to start a discussion that breaks free of old believes and behaviours in order to find innovative solutions. Here, we believe that such solutions would directly challenge the kinds of suggestions envisioned in the participants’ papers.

As mentioned above, the papers’ proposals are rather top-down and institutional and some serve to continue the concentration of power within the EU’s institutions, ignoring the fact that this power concentration has led to the very problems the papers seek to resolve. However, the papers presented at ASA present an important first step in a longer deliberation on the future of Europe. As this publication does, it is imperative to also incorporate views from civil society actors with a different stance to recent developments. Such a dialogue between academics and activists allows to develop a new vision for the future economic and political architectures of Europe that breaks through the assumptions of the status quo and allows for a bottom-up Europe.
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About this Publication:

The opinions expressed within these pages are those of the authors and do not necessarily represent the views of the editors.

This publication is produced by Allianz Kulturstiftung and Citizens For Europe e.V.

In cooperation with:

Open Citizenship

Design and Layout by Salon Renate.

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Graphics
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POSTMODERN,
EX-COMMUNIST
Colecția Public
(p. 25, 43, 61, 79, 95 and back cover)

European Map
Société Réaliste
(p. 104)

Photos
Robert Niedring
(p. 10–11)

Berlin, January 2014