# The Future of Europe:
## A (No) Discrepancy Report

### Will the growing differences in Europe mar the integration process?

Thematic material for debate within the framework of the European Forum for New Ideas (EFNI) – Sopot, Poland 2.10.2014

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# INTRODUCTION



After more than 60 years of efforts to integrate Europe, it still remains divided. The global economic crisis weakened the impetus of the European project and almost led to the collapse of the Eurozone. 10 years after the “big bang” enlargement, the East-West division line (between “new” and “old” member states) has been replaced by new divisions, stemming from different economic conditions and political interests among the 28 EU member states.

New dilemmas emerge in Europe after two decades of stability and growth. First of all, there are difficulties with economic growth and competitiveness. Also, increasing international tensions force the EU to forge a true common foreign and security policy, and to seek energy independence. The EU needs a fresh look and inner consolidation in order to meet these new challenges.

**The purpose of this publication is to show the reasons and interests that have led to major divisions in Europe as well as provide recommendations that take into account the Polish viewpoint on the European project’s future and Poland’s 20 years of political transformation experience (before and after accessing the EU).**

This publication intends to show five main division lines across the EU: energy issues, climate policy, sources of economic growth, common currency, and foreign and security policy. It suggests how to maintain unity between the Eurozone states and other members; how to combine the need for austerity measures with growth-stimulating, and how to achieve balance between industrial and climate policies. It also presents options for viable EU’s Common Foreign and Security Policy and energy union building.

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# ENERGY UNION

## TO SECURE EUROPE'S ENERGY SECURITY?

The EU member states import more than 50% of their energy resources. Part of the EU members depends entirely on Russia, which is now its main gas and petroleum supplier. Increasing tensions behind the EU's eastern border urge to redefine the approach towards the security of energy and raw materials in Europe. European economy is threatened by possible cut-offs of Russian resources. In the short term, it is crucial to be prepared for such cut-offs; in the long term, external energy providers must be diversified, an internal fully integrated European energy market should be built, i.e. by completing key interconnectors as well as developing energy technologies.

### EXISTING DIVISION LINES

The EU imports almost 90% of its petroleum, 66% of gas and 42% of solid fuels (e.g. coal), proportionately to usage. In 2013, the EU energy bill amount was 400 billion EUR. 1/3 of imported petroleum, 39% of imported gas and 26% of imported solid fuels flow from Russia, which is also the only gas supplier for six EU members (Finland, Lithuania, Latvia, Bulgaria and Slovakia). At least 10 EU members depend on Gazprom in more than 50% and 36% in case of Germany. Poland imports 70% of gas and 93% of petroleum from Russia. The reason for such large-scale foreign supplies is the small amount of Europe's own resources and their under-utilisation, accompanied by elevated energy consumption.

The Treaty of Lisbon was the first document to ever mention energy as a separate chapter. The members, however, preserved the right to exploit their own energy resources and to choose foreign suppliers. Any limitations in this matter may only be imposed unanimously for environmental protection purposes (art. 192). A different energy mix among EU members is due to different economic and geological conditions as well as varying agreements with foreign suppliers. Main discrepancies depend on the approach to nuclear and carbon energy, exploitation of shale gas resources, and implementation of renewable energy sources.

**400** bn EUR:

**the energy bill amounted to this much in 2013 (more than 1bn daily).**

Source: European Commission

## A) NUCLEAR ENERGY

France is the traditional leader of nuclear energy in the EU. 70% of the country's energy is generated by 58 reactors. The French government has sought to turn down nuclear power to 50% by 2025, although the society is rather supportive towards it. Such an operation will cost more than 50bn euro. In Poland, 64% of the society supports the project of the first nuclear plant. It is likely to be finished within 10 years from now. However, many countries are sceptical due to potential threats. The 2011 Fukushima disaster marked the energy revolution in Germany, resulting in a turn towards renewable energy sources.



## B) COAL

Even though Germany supports renewable energy sources, they still rely on coal. They exploit their own coal resources, import principally from the US and have plans for new coal power stations after the nuclear ones have been shut down. Over 45% of German electricity was made from coal combustion in the first half of 2014. The Polish economy relies on coal as well: coal combustion accounts for over 80% of its energy production (EU: 30%). Therefore, a shift to greener energy sources cannot be done overnight. The UK and Greece are also among the largest coal consumers in Europe.

## C) SHALE GAS

Poland's position is that the EU should make better use of all energy sources available. Quitting fossil fuels would be to hamper competitiveness with those parts of the world that still use them. It is not only the problem of black and brown coal, but also shale gas, very abundant in Europe. Poland, Romania and the United Kingdom are the EU leaders in the search for this energy source. However, many states are wary of the consequences shale gas extraction may have over the environment. France, probably owning one of the biggest deposits of shale gas in Europe, banned hydraulic fracturing in 2011. This law remains in force.

## D) GREEN ENERGY

There is no doubt in Europe that renewable energy sources (i.e. solar, geothermal, wind) should be developed. However, their exploitation among countries vary. In 2012, renewable energy amounted to no more than 14% of total energy usage in the EU. The largest "green" consumers were: Sweden (51%), Latvia (35.8%), Finland (34.3%) and Austria (32.1%). The smallest were Malta (1.4%), Luxembourg (3.1%), the UK (4.2%) and the Netherlands (4.5%), whereas Poland occupies the middle

MAP 1. **ENERGY DEPENDENCY RATES SHOWING TO WHAT EXTENT A COUNTRY RELIES ON IMPORTS FOR ITS ENERGY NEEDS**


Source: European Parliament

ranks (over 11%). France appears to be more and more in favour of renewable energy, as they intend to establish a Franco-German energy company and they research renewable energy sources.

## WHAT IS THE EU'S SOLUTION FOR THE DISCREPANCIES?

In May 2014, the European Commission unveiled the European Energy Security Strategy, submitted to debate in the EP's Industry, Research and Energy Committee. The new chair, Jerzy Buzek, declared that energy security should be the principal business of the Committee over the next few months. This strategy is closely related to the 2030 framework for the EU climate and energy policies, therefore, the two issues are linked.

In order to enhance energy security, the EU intends to:

- diversify foreign energy suppliers
- establish a well-integrated internal European market for energy
- enhance and update energy production from domestic sources, enhance the cooperation among the member states in this matter.

Other proposals are to diversify energy sources, finally implement the internal energy market and foster solidarity among the member states during situations of crisis. The strategy features many proposals already mentioned in the plan for the energy union, presented in March 2014 by Poland's PM, Donald Tusk. As the future President of the European Council, he is very likely to try and make Europe less dependent on Russian gas and petroleum, by means of a coordinated EU energy policy – and, therefore, make Europe more resilient against the EU's eastern neighbour.

## A) DIVERSIFICATION OF FOREIGN ENERGY SUPPLIERS

This claim requires also a common EU policy towards foreign suppliers. Therefore, the European Commission plans to take part in early contract negotiations with third-party governments that could potentially influence the security of European supplies. Decisions on key infrastructure investments, i.e. new gas pipelines (e.g. in the Caspian Sea region) and LNG terminals are to be discussed on a European level. Thus, decisions made by one EU member should not pose any threat to other EU members' supplies. In terms of LNG supplies, Europe is also looking forward to the free trade agreement (TTIP) with the US.

## B) ESTABLISHMENT OF AN INTERNAL ENERGY MARKET

By developing system interconnections, the EU will eliminate the cases of member states being cut off from gas and electricity supply networks. This will remove blank spots and bottlenecks from the continent's energy infrastructure map; particularly in Central and Eastern Europe, the region most exposed to energy supply interruptions from the East. One year ago, the EC selected 248 energy projects, whose completion will allow for an energy flow direction change, should such a need arise. They are eligible for co-funding from the new Connecting Europe Facility (CEF) instrument. Total energy transmission infrastructure investments until 2020 could amount to 200bn euro, the EU estimates; the scale of the challenge is self-explanatory. An integrated market for energy would allow EU member states to support each other if necessary; the EC decided to focus on countries located on its Eastern border and together with the member states



it plans to draw emergency plans and establish suitable reserves, in case foreign supplies are cut off. Investments in backup infrastructure are already compulsory.

## C) ENHANCEMENT OF ENERGY PRODUCTION FROM DOMESTIC SOURCES

In 2001-2012, total energy generated within the EU territory decreased by 15%. Europe must reverse this trend by using its own resources (including fossil fuels and shale gas), renewable energy or nuclear energy. The development of domestic energy sources should be seen as an investment to stimulate the economy. Nowadays, gas extraction in EU member states satisfies only 1/3 of their yearly needs. This could be boosted by, e.g. shale gas usage.

## RECOMMENDATIONS

The key to better EU energy security is the energy union, based on an integrated internal market, common approach, and better cooperation among member states. As the treaties guarantee freedom of choice of the energy mix, it is desirable to strengthen EU institutions within the EU's energy policy, as well as to increase the funding of key infrastructure projects.
In order to overcome the dysfunctionality of the EU's energy market, efficient and coherent enforcement of competition law is also essential, particularly in case of third parties, e.g. based in Russia. R&D of innovative and more energy-efficient technologies is also vital, so that the EU can depend less on foreign energy suppliers.

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# GREEN EUROPE

## – HOW TO COMBINE COMPETITIVENESS WITH LOW-EMISSION ECONOMY?

The 2020-2030 climate and energy package presented by the EC proposes greenhouse gas emissions reduction until 2030 by 40% in comparison with the 1990 levels. This goal is set to be the point of focus of the EU's climate and energy policy until 2030. Its implementation is to be divided among sectors that are eligible and non-eligible for the EU's Emissions Trading System (ETS). In the second case, the target should be distributed among the member states. Brussels also proposed to increase the share of renewable energy to 27% in energy consumption in the EU by 2030 (however, each member state will be allowed to set flexible national targets), as well as a reform of ETS, and an increase in energy efficiency by 30%, with no national targets. By 2020, Europe will have implemented the 3x20 plan, i.e. reduce the $CO_2$ emissions by 20%, increase the share of renewable sources in the mix to 20%, and reduce energy usage by 20% versus 1990 levels.

However, such a strict climate policy seriously affects EU economic growth. Investments in Europe have been hampered by the expected increase in emission allowances pricing within the ETS framework. It is estimated that 10% of the European market for energy-consuming industrial products may be transferred to more business-friendly countries within the next decade. However, the shale gas revolution caused energy prices in the US to drop. Europe's main challenge is, therefore, to find an appropriate balance between the shift in favour of low emission economy and the preservation of competitiveness of the European industry, based upon the current situation in each member state.



### NEW CLIMATE OBJECTIVES; NEW DIVISIONS

The EU's climate and energy policy is highly controversial in Europe. The main discrepancies are: whether both of its pillars should be compulsory for all member states, whether it is worthwhile to require renewable energy sources to be included in the energy mix; what should be the pace of achieving such a radical $CO_2$ reduction; and what should be first: a worldwide agreement or an EU agreement?

### A) RENEWABLE ENERGY SOURCES COMPULSORY?

Germany leads the way to introducing binding targets for renewable energy sources, by claiming that it would reduce the costs of climate policy in new member states, which is vital during the period of austerity. This view is supported by France, Italy, Spain, Denmark, Portugal, Belgium, The Netherlands, Finland, Sweden, Slovenia, Estonia, Austria, Ireland, Greece, and Luxembourg. Poland and the UK do not agree. The main supporter of renewable energy is Portugal, backing the 40% target, whereas Denmark, Germany, Greece and Luxembourg propose 30%.

### B) RENEWABLE ENERGY SOURCES DROPPED?

The BusinessEurope lobby group and other representatives of European business, claim that after 2020, the reduction of $CO_2$ emissions should be the only point of focus, as it is more cost-efficient and less detrimental to competitiveness (compulsory investments in renewable energy are the main factor of increase of energy prices in Europe). Green energy priorities lack relevance versus EU economy. Lower prices out of Europe have forced the EU to reindustrialise. If the industry is to increase its share in the EU's GDP from 16% to 20% by 2020, the costs of running a must decrease: particularly the electricity bills. It is all the more important within the framework of the currently negotiated EU-US free trade agreement (TTIP), which is supposed to be one of the responses to the economic crisis.

## C) HOW TO DISTRIBUTE THE COSTS AMONG EU MEMBER STATES?

The Visegrad Group claims that current EU plans create a disproportionate burden for countries with low income. Central and Eastern Europe started its economic transformation with several years of delay. Therefore, it could not make us of the Marshall plan, which helped to reconstruct Western Europe. However, these countries have accomplished a radical transformation over the last 25 years. Poland is the best example: the largest in the region, combining economic growth with low emission economy since 1989 ($CO_2$ emissions reduced by 33% at 200% growth). Today, however, Central and Eastern Europe is afraid of losing competitiveness, which it is strongly dependent on carbon economy, due to fact that in a short time it would be faced with costs of implementing the climate and energy package that are much larger than for other countries.

## D) GLOBAL AGREEMENT, FIRST OR LATER?

France, Germany and Italy want the EU to propose more ambitious goals before the 2015 climate conference in Paris. Poland, Czech Republic and Romania claim that the global nature of these challenges requires global commitments first. Therefore, they advocate an


MAP 2. **GLOBAL AGREEMENT FIRST OR LATER?**

- Countries supporting GHG reductions in the EU by 40% in 2030, depending on whether a global agreement is reached
- Countries supporting GHG reductions in the EU by 40% in 2030, regardless of the global agreement
- Countries supporting GHG reductions in the EU by 40% in 2030, regardless of the global agreement, however under various other conditions

Source: European Commission

agreement that will impose costs on all countries of the world, as Europe emits only 11% of world's $CO_2$, while China, India, Brazil or the US emit a lot more, and the tendency is increasing. Such an approach minimizes the risk of industry relocation to countries with less strict emission norms. The European business world supports this position in fear of competitiveness loss.

RECOMMENDATIONS

In order to remove discrepancies between EU members regarding the EU's climate and energy policy, the Union should first and foremost invest in the implementation of targets upon which the majority of EU members have already agreed. One of such targets is the increase energy efficiency, which would allow Europe to maintain balance between economic, climate and energy objectives. It is also an efficient way of reducing the cost of energy and greenhouse gases emission, as well as the dependence on foreign supplies. To achieve this goal, the EU should continue its legal efforts towards lowering energy consumption by electrical devices, particularly in the industry, transport and construction sectors. From a business point of view, such a policy has a disadvantage of elevated initial investment in production transformation. However, in the long term, these changes may strengthen the private sector in Europe. The debate on reindustrialising Europe should reverse the logic behind emission targets. The costs of further climate commitments should be calculated first; then the decision should be made on $CO_2$ reduction levels by 2030. It would also be key to set the goals for ETS-eligible sectors (energy and industry) and non-ETS-eligible ones (mainly agriculture and transport) in each member state. A suitable compensation scheme might be desirable, as high prices for allowances of $CO_2$ emissions may cause its production to be uneconomic e.g. brown coal energy.



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# AUSTERITY VS. STIMULUS

## – FINANCIAL CONSOLIDATION VERSUS GROWTH STIMULATION IN EUROPEAN ECONOMY

One of today's most important challenges for the EU is to fight against economic stagnation. The economy has been suffering ever since it was hit by the 2008 recession. This year's EP electoral campaign has featured topics such as the ratio to which should kept between growth stimulation and austerity policy. Nowadays, the EU's strategy on recovery is based on budget cuts (the Stability and Growth Pact). In countries with particularly high levels of debt it has triggered social turmoil, for such strategy leads to massive layoffs. It is also detrimental to the youth struggling for employment. In consequence, more and more states demand a shift in strategy. They request more stimulation for EU economy.

### IDEAS FOR POST-CRISIS RECOVERY

Germany is the main supporter of austerity in Europe; the Germans claim that a long-term recession stems from an economic crisis triggered out of the Eurozone, and that cuts in public expenditure can revive private investment. Being the EU's strongest economy, its most populated state, and the largest contributor to the EU budget, Germany expects other countries to follow in its steps. Poland intends to do so.

Countries which believe that the austerity policy is not a remedy for the crisis are also the most indebted ones:

Portugal, Italy, Greece and Spain (the so-called PIGS) as well as Ireland, which is recovering from its debts, and France, which favours economy stimulation. Those against austerity claim that cuts cause too much collateral damage (26m unemployed, out of which 7.5m don't study or seek education or training) and in the long run, a smart investment policy and support for innovation is more profitable. However, the MEPs from the European People's Party (the last EP election winner) advocate that financial markets should be regulated first, so that the states would not put themselves in debt again.

Between the two opposing groups is Britain, which claims that post-crisis recovery should be based on the policy of quantitative easing. Italy, on the other hand, is the main supporter of more flexible rules within the Stability and Growth Pact, so that investments increase. Northern states are unwilling to accept this idea, given that broken rules were among the causes for the Eurozone crisis. Varying concepts for post-crisis recovery have awakened political debates in Europe. Divisions stemming from incompatible views on economic strategy caused the fall of the French government, and a heated argument within the grand coalition between CDU/CSU-SPD in Germany.

## WHAT IS THE EU'S SOLUTION FOR THE DISCREPANCIES?

The EU decided to impose limits on national budget policies by enhanced economic policy coordination, called the European Semester. New rules (sponsored by France and Italy, among others) weakened German emphasis on reducing expenditures. Countries with a reasonable public debt and a fiscal deficit (e.g. Poland) can, therefore, spend more on policies that stimulate economic growth.



### A) CONTRACTS FOR STRUCTURAL REFORMS

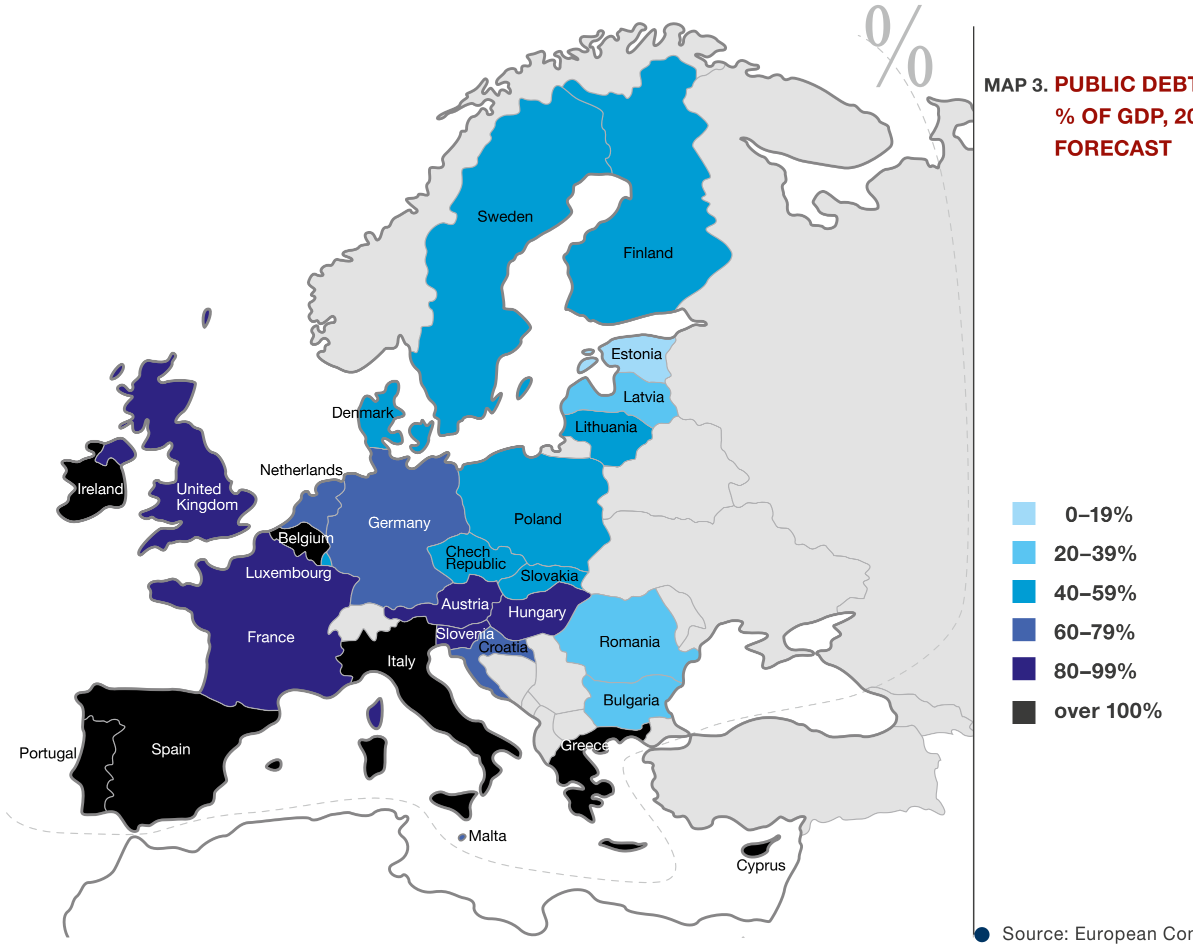
Supporters of more flexible fiscal rules, propose more time for fiscal deficit reduction for economically troubled states in exchange for reforms. They also state that once Brussels does not allow EU members to decide upon the scale of their investments, it should take responsibility for their economic growth. One such solution could be the introduction of contracts to support structural reforms within the sectors now being under the exclusive jurisdiction of EU member states. Poland claims such contracts should not be the next top-down imposed mechanism, but rather a tool to support internal reforms in the EU. They should also remain available to all the member states.

### B) COMPLETING THE SINGLE MARKET

The single market is one of the greatest achievements of the EU and deepening it entails EU's growth potential. The cornerstones of the EU's single market are the "four freedoms": the free movement of people, goods, services and capital. All EU members, including the increasingly Eurosceptical UK, declare the wish to eliminate all obstacles interfering with the single market's performance. It is estimated that it would secure a four-per cent GDP growth for the EU by the end of the decade. As a matter of fact, however, some EU members reluctantly (and slowly) introduce full EU legal regulations in this matter. This particularly concerns the 2006 Services Directive and the deregulation of professions.

In the period before the French and Dutch referendums on the European Constitution in 2005, some of the "old" EU members opposed full liberalisation of services in the Union. The term "Polish plumber" was then coined in political discourse. On one hand, it stood for a free rendition of services; on the other hand (and in the eyes of the opponents of such freedom, e.g. the French far right), it stood for all possible risks involved, such as

MAP 3. **PUBLIC DEBT AS % OF GDP, 2014 FORECAST**




Source: European Commission

social dumping. Free movement of services also implies a free movement of people; workers included. Some countries claim that some people abuse the welfare system in receiving countries. EU law allows to fill some gaps in the welfare systems, however employees from other EU countries must always be treated as domestic workforce: both in terms of revenue and welfare. Free movement of people is, after all, fundamental for the single market.

Another action to stimulate growth in the EU is the introduction of the single euro payments area (SEPA). The European Commission estimates it might bring up to 22bn EUR in savings to consumers, businesses and public administration, which is a demonstration of relevance of cooperation in this matter. The EU must also introduce a digital agenda, i.e. liberalise e-commerce. Although over 40% Europeans shop online, single payment rules or consumer protection rules are still lacking.

## C) EUROPEAN INVESTMENT FUND

Over the last seven years, Poland has benefited from a 20% cumulated GDP growth, without loosening its fiscal discipline. Therefore, it has achieved the goal that the entire Europe would currently like to achieve. On this basis, and upon the analysis of Polish capital transformation achievements in the last 20 years, at the beginning of September Poland's Minister of Finance proposed to establish a European Investment Fund. Its assets (700bn euro) would complement, and not replace, EIB or EU budget's funding. The Fund would focus on the largest, all-European projects in key sectors: energy, transport, IT and defense. It would stimulate the economy, mobilise private capital in high-risk areas and secure vital infrastructure for Europe necessary to achieve long-term growth. It would also help to avoid the deflation trap.

RECOMMENDATIONS
In order to bar the discrepancies concerning the methods of stimulating the economy, the EU should focus on actions supported by all member states, which in turn would lead to economic growth. All parties involved agree that the implementation of the single market needs to be concluded. The European economy also needs a larger involvement of the industry (up to 20% of GDP by 2020) and further development of the digital agenda. Europe is on its way to a new growth strategy and it can exploit the Polish experience, which shows that one can combine economic development with fiscal discipline.

**20.1 %**

**Poland's cumulated GDP growth in 2008-2013**

Source: The Chancellery of the Prime Minister of the Republic of Poland



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# COHERENT EUROPE

## – HOW TO KEEP THE BALANCE BETWEEN THE EUROZONE AND OTHER EU MEMBER STATES?

The Eurozone collapse scenario has been ruled out due to fundamental changes within the common currency area. At the same time, the division into "new" and "old" EU members somehow vanished when the countries that joined the EU during the "big bang" enlargement also joined the Eurozone (Slovenia in 2007, Cyprus and Malta in 2008, Slovakia in 2009, Estonia in 2011, Latvia in 2014 and Lithuania from 2015). However, deep reforms of the EU aiming at the establishment of a banking union and a common economic model can potentially cause a new fundamental split.

The real challenge is to find balance between the requirement to pursue Economic and Monetary Union reforms and the position of EU member states that are not yet part of the Eurozone (or do not even consider such an option). Moreover, some anti-crisis measures were introduced by intergovernmental agreements, i.e. out of EU legal framework. Thus, the whole process has been negatively affected in terms of democratic legitimisation.

### A THREE-SPEED UNION

Reforms stemming from the Eurozone crisis reinforced the "three speeds" in the EU's internal dynamics. The first concerns the accelerated integration of the Eurozone (currently 18 members). The second: changes among

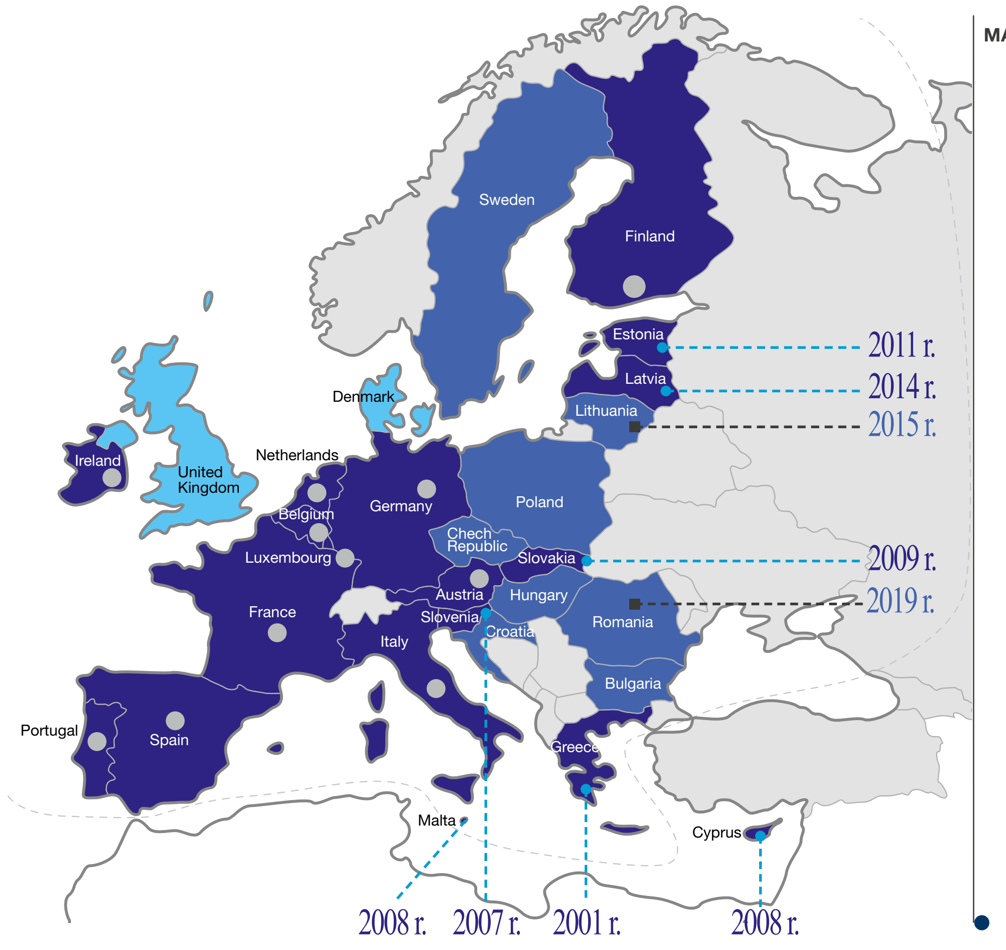
EU members who wish to join the Eurozone at different times in the future (Lithuania, Poland, Czech Republic, Hungary, Bulgaria, Romania, Croatia, and Sweden). The third: EU members that do not intend to adopt the euro (UK, Denmark).

The UK remains most sceptical towards the euro, mostly due to social reasons. The country is torn by internal conflicts, regarding both the future of the Kingdom (Scottish independence referendum in September) and its EU membership (referendum announced for 2017). Leaving the EU would negatively affect Britain's image of an international financial centre and hamper its commerce with the EU (currently accounting for 50% of its commercial turnover).

Among other reasons, the Eurozone crisis was caused by permanent disrespect for the convergence criteria (i.e. the requirements of the Economic and Monetary Union) shown by some of its members. The fiscal compact was supposed to secure the EU's financial stability and was set upon more coherent common currency governance. It was signed as an intergovernmental treaty by 25 EU members, including all Eurozone members (except for the Czech Republic, the UK and Croatia, the latter having joined the EU later).

Although Poland has still not adopted the common currency, it took an active part in the Eurozone reforms, e.g. in the elaboration of anti-crisis packages (the so-called "six-pack" and "two-pack"), due to both economic (Polish export is closely linked with the Eurozone members, principally Germany) and political reasons (the euro stimulates deeper integration in the EU, which is supported by Poland). Therefore, Warsaw's policy strives to balance the position of Eurozone countries and other EU members.

Poland advocates openness of institutional solutions drafted in the Eurozone also for non-Eurozone




MAP 4. **EUROZONE MEMBER STATES, COUNTRIES WILLING TO ADOPT EURO, COUNTRIES WITH NATIONAL CURRENCY (with opt-out clause)**

- Euro-zone countries
- Countries committed to adopt euro
- Countries not willing to adopt euro (with opt-out clause)
- Countries that joined eurozone in 1999
- Countries that joined eurozone after 1999

Source: European Commission

members. Poland itself is an example of financial responsibility: e.g. the Polish constitution imposes a 60% limit of public debt. Poland has successfully combined fiscal discipline with dynamic economy: in 1989, GDP per capita amounted to approx. 30% of today's EU average (comparable with the Ukrainian GDP at the time). After 25 years it amounts to 70% of EU's average. Poland was the only EU state to avoid global recession and generate cumulated GDP growth of over 20% in 2008-2013 period. Its economy is still growing, and Poland remains a supporter of deeper integration on the continent, which is uncommon nowadays in Europe. Polish solutions, such as the constitutional public debt ceiling inspired similar provisions in the EU's fiscal compact.

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**The number of countries in the Eurozone (Lithuania will have joined by 2015)**

## WHAT IS THE EU'S SOLUTION FOR THE DISCREPANCIES?

The election of Donald Tusk as head of the European Council could contribute to level the discrepancies between the Eurozone and other EU members. The Polish PM will also chair the meetings of Eurozone countries, which allows us to hope for a coherent European project and solidarity among its participants.

New reforms in the Eurozone mean applying deeper changes in its financial management and this could lead to new divisions among the Eurozone and non-Eurozone members. For instance, there is the idea of a separate budget for the Eurozone. However, an alternative solution has been elaborated: the Euro Plus Pact, to set new standards in economic policy coordination among the EU members. As a supporter of maximum coherence, Poland indicates that loans available for both Eurozone countries and those who wish to join it (like Poland) is a more sensible manner of supporting reforms than the exclusive stimulation of Eurozone countries based on a separate fund. Such an approach guarantees institutional coherence of the EU, instead of contributing to increasing discrepancies.



## RECOMMENDATIONS

As far as the EU's integrity is concerned, further modifications in the Economic and Monetary Union are key, however, they cannot infringe the institutional scheme of the Eurozone. Therefore, all member states should gradually withdraw from an intergovernmental approach to decision-making in favour of the Community Method and EC's coordination.

The search for balance between further necessary EU integration and the democratic legitimisation of this process is yet another key element of the reforms. A more important role of the European demos in the election of EU authorities was a good step forward: for the first time ever, the European Parliament's election results were taken into account at the time of appointing the new head of the European Commission.

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# VALUES VERSUS INTERESTS

## – IS THE EU MATURE ENOUGH FOR THE COMMON FOREIGN AND SECURITY POLICY?

Common EU foreign policy is difficult, for the interests of EU members contradict and the views on relations with different parts of the world are biased, for i.e. historical reasons. Today, Europe's unity is being tested in this regard. The EU does not only need a common position towards Russia (due to increasing tensions at the EU's eastern border) and towards the unstable situation in the Middle East. It also has to work out a new security strategy that would define European interests and values – and the options for defending the European soft power – EU's most appealing asset.

### POLICY TOWARDS RUSSIA: THE EXAMPLE OF DISCREPANCY

Although the EU does have its own diplomacy, namely the European External Action Service, the most important decisions on international matters remain at the discretion of EU member states. The EEAS has its success story – it contributed to the solution of the Kosovo problem and to initiating negotiations with Iran on the reduction of its nuclear program. However, the policy towards Russia revealed its weaknesses. The EU has been long reluctant to impose sanctions on Russia, mostly due to the unwillingness of some member states to the prospect of deterioration of relations with Moscow. Large European and Russian companies with serious political lobby are strongly related on a business level. It is a consequence of economic interests, but also of the West's political wish of seeing Russia as a partner for the last two decades.

The Partnership for Modernisation programme, supported mainly by Germany, assumed that more business relations and closer cooperation would convince Russia to the western set of rules and values. Poland was open to such an approach, which is exemplified by its enhanced cooperation within the local border traffic zone with the Kaliningrad Oblast. However, Russian military interventions in Georgia and Ukraine proved that the Partnership's policy has failed. Not only did it fail to westernize Russia, but it also did not prevent its anti-West turn, and made Europe partially dependent on bilateral commerce and Russian petroleum and gas.

More severe EU sanctions were imposed on Russia only after a civilian aircraft had been shot down with the use of Russian weapons (July 2014). However, the approach to Russia still divides Europe. In this regard, the "hawks" are: Denmark, Estonia, Latvia, Lithuania, Poland, Sweden, the Netherlands, and the UK. The "doves" are: Austria, Bulgaria, Cyprus, Greece, Hungary, Italy, Portugal, and Spain. Among the undecided or inconsistent are: Belgium, Croatia, the Czech Republic, France, Finland, Germany, Ireland, Romania, and Slovakia. Britain is one of the main supporters of sanctions (proposing cutting banks off from the SWIFT banking network), even though the City benefits from Russian capital. France has been long undecided whether to put a halt on the delivery of Mistral assault vessels. Germany, also undecided from the outset and responsible for 35% of EU export to Russia, has started to back harsher sanctions.

German diplomacy supported compromise and dialogue from the very beginning of the unrest in Ukraine, regardless of Kremlin's policy. This approach contributed to the late introduction of EU sanctions, critics say. They also


**MAP 5. EU COUNTRIES' POSITIONS ON IMPOSING TOUGHER SANCTIONS AGAINST RUSSIA (4 days after the MH17 Malaysia plane crash)**

- "Hawks"
- "Doves"
- "Undecided"

Source: Business Insider



say that this allowed Russia to escalate its actions in Ukraine after the annexation of Crimea. Some countries argue, this "soft spot" the Germans have for Russia harms their mandate for Europe's leadership, promoted by Joachim Gauck at the beginning of 2014. Also, the Polish President, Bronisław Komorowski, spoke in Berlin of a "special responsibility for Europe" that Germany holds.

## RECOMMENDATIONS

The process of internal consolidation and unanimous position in international affairs should be continued if the EU wants to react efficiently in the light of international challenges. Only a coherent and unanimous EU can be a serious global player; only then would it be capable of advocating and promoting European values globally. **Therefore, it should:**

- strengthen the NATO-EU relations within the framework of clearer prerogatives for the Atlantic Alliance after the last summit;
- establish firm EU-US relations as the basis for promoting "western standards" for international order. The Transatlantic Trade and Investment Partnership could be a significant aid in this regard;
- promote "the rule of law" as a universal concept associated with Europe, and a less controversial one than "democracy" in the countries where there is no social, cultural or political base for its introduction;
- establish a new security strategy that would take into account the shift in international relations and a real threat for peace in Europe.

In the near future, Europe should focus on stabilizing the situation in the East and South from Europe. The appointment of Donald Tusk as the next President of the European Council may contribute to the development of a consensus between the "old" and "new" EU member states in terms of EU-Russia relations as well as challenges associated with the unstable Middle East.

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# RECOMMENDATIONS – SUMMARY

1. In order to enhance energy security of the EU, it is vital to: establish an energy union, strengthen EU institutions within the EU's energy policy, increase funding for the EU's key infrastructural projects, consequently enforce EU competition law, and continue R&D of innovative and more energy-efficient technologies.

2. Enhanced energy efficiency would allow Europe to keep better balance between economic, climate and energy objectives. It is a viable manner of reducing the emission of greenhouse gases, energy costs and dependence on foreign energy suppliers.

3. Europe is on its way to a new growth strategy, and it can use the Polish experience in combining fiscal discipline and economic growth. The search for austerity should be accompanied by a final implementation of the single market, reindustrialisation and introduction of digital agenda.

4. No modifications in the Economic and Monetary Union should infringe the institutional structure of the Eurozone. Therefore, all member states should gradually withdraw from using the intergovernmental approach, in favour of the European Commission's coordination.

5. Only a coherent and unanimous EU can be a serious global player; only then would it be capable of defending and promoting European values globally.

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