



EXECUTIVE SUMMARY

International Summer Seminar

“The European Union: 2005 and beyond”

13th-16th July 2005

Kotor, Montenegro (Serbia and Montenegro)

Introduction

The Luxembourg Institute for European and International Studies (LIEIS) and the Institute for European Studies (IES) from Belgrade organised an international summer seminar on “The EU: 2005 and beyond” from 13th to 16th July 2005 in Kotor, Montenegro. The focus of this summer school was to formulate some of the main conceptual questions arising from the current crisis of the EU and to sketch a number of alternative propositions in order to address the EU’s failures.

Approximately 20 students and young professionals from more than 10 countries of the Western Balkans and 5 lecturers from Serbia and Montenegro as well as some EU countries participated in the summer school, which consisted of eleven sessions composed of introductory presentations and debates.

The topics debated in the course of the summer school can be divided into three categories:

- I. The EU’s predicament
- II. Prospects for enlargement
- III. The EU as an alternative project and its future role on the international stage

I. The EU's predicament

Across the Balkans, the future of the EU is viewed with deep scepticism. There is a widespread perception that the current political and socio-economic problems betray a much deeper crisis than the ruling elites inside and outside the EU are prepared to admit. This crisis jeopardises not only the integration process within the EU but also and above all EU enlargement to the Balkans and beyond (Turkey, Ukraine and perhaps even Russia). Most Balkan participants believe that the Constitutional Treaty is an elite-product, which lacks popular support and is unnecessary for the continuous functioning of the EU. What is required in its stead is a set of institutional reforms to enable a Union of 25 to operate properly. Such reforms are also indispensable for the upcoming enlargement to Romania and Bulgaria in 2007 or 2008 and to Balkan countries over the next decade or so.

The decisive rejection of the Constitutional Treaty in the French and Dutch referenda is by no means the cause of the current deadlock, but a symptom of a profound crisis that boils down to the inability to offer a genuine political project around civic participation. This is the latest in a long series of failures that stretch back to the 1950s, when the most ambitious project – the European Defence Community – was invented by the French in 1950 and destroyed by the French on 30th August 1954 (in a vote in the *Assemblée Nationale*). The end of this vision was followed by a functionalist approach, which was advocated by Jean Monnet and which has prevailed ever since. As such, the 1957 Rome Treaty was already the product of disillusionment (Armand Clesse).

The dominance of incremental change is also evident in the Constitution, which is little more than a re-writing of existing treaties so as to make them less obscure. While the purpose was to set out the Union's key principles and common values and to streamline the decision- and policy-making process, the Constitution has encountered increasing popular reticence and resentment: Luxembourg was the 13th country to say yes, but there was only a slim majority (56%) – despite an unprecedented mobilisation of the elite. Similarly, 72% of Spaniards voted in favour of the Constitution, but the turnout was a mere 40%, all of which highlights an increasingly rotten political process in Europe. The fundamental question is whether the Constitution is really necessary and why the political, business and media elite refuses to engage in a genuine debate on the finality of the European integration process (A. Clesse).

Paradoxically, even in countries such as Hungary where until recently there was quasi-unanimous support for the EU, the No is gaining momentum because the citizens feel that for the first time they have a say in the future of the Union. Far from being confined to national discontent, the rejection of the Constitution is an expression of a growing distrust of the political class at large, both in national capitals and in Brussels (Eric Weaver).

The political disarray is exacerbated by a deteriorating economic crisis, itself the result of the collapse of the prevailing socio-economic settlement, particularly the demise of the post-war welfare state. In the wake of successive recessions, unemployment has soared to

unprecedented levels, while social benefits have been cut dramatically, especially in Germany. Poverty and inequality are on the rise and have reached levels unseen since the 1930s. This alarming tendency undermines national cohesion and the European social fabric. One of the consequences is growing popular anxiety and a fear of the other, which fuels xenophobia and reinforces social, political and ethnic exclusion (A. Clesse).

As the state retreats and the market expands, Community solidarity – one of the cornerstones of the European integration and enlargement process – is conditional upon neo-liberal reforms and associated with arrogant paternalism. But the same ‘one-size-fits-all model’ is failing both within the EU and as a path towards development for candidate countries (Adrian Pabst). In member states such as Greece, which have benefited substantially from structural funds, the EU is viewed – rightly or wrongly – as an obstacle to the solution of quotidian problems like unemployment and social exclusion (Grigoris Mouladoudis).

In this highly charged context, the Luxembourg Presidency of the European Council in the first half of 2005 has produced mixed results. On the one hand, it has brought about a number of achievements, above all the reform of the Stability and Growth Pact. Against great opposition, Luxembourg has watered down the rules that determine whether a country of the Eurozone is in breach of the rules governing the deficit and debt criteria. In order to allow for greater flexibility, Luxembourg has managed to mitigate the orthodoxy of German monetarism by introducing some elements of French Keynesianism, without however establishing a genuine political counterweight to the European Central Bank (ECB). A second, albeit smaller, achievement has been the re-launch of the Lisbon Agenda, with the aim of enhancing the EU’s competitiveness in the global economy through improving productivity and innovation (Mario Hirsch).

On the other hand, the biggest single failure of the Luxembourg Presidency is the ongoing dispute over the Community budget. Although it represents barely more than 1% of national GDP, the budget is beset by the so-called Venice syndrome – the irremediable decline of former powers, above all France and Germany. Both speak of a *juste retour* (a ‘just return’ to their contribution), but this mentality flies in the face of their commitment to solidarity – one of the fundamental tenets of the original European Economic Union (EEC). The 10 new member states, which had faced a gradual ‘phasing-in’ of the Common Agricultural Policy (CAP) and structural and regional aid, went as far as offering a further reduction of their benefits in order to strike a deal at the European Summit meeting in June 2005. The selfish behaviour of the old member states was simply shameful (M. Hirsch).

As OECD projections suggest, low growth and high unemployment will continue to exacerbate the EU’s economic and financial problems. One of the alternatives is to turn structural and regional aid into means-tested benefits and to reduce the sheer bureaucracy of managing funds by involving the European Investment Bank. Given the contentious nature of the British rebate, a solution to the budgetary crisis is unlikely to be found during the ongoing British Presidency of the European Council and will have to be

postponed until the first semester of 2006, when Austria takes over the reigns of the EU (M. Hirsch).

The current political disarray and the worsening socio-economic problems pose a major threat to the EU's foreign policy, both in terms of enlargement to Romania and Bulgaria and vis-à-vis potential candidate countries. This is because the so-called 'safeguard clauses' reserve the right for the EU to postpone at any point in time the date for actual accession of Romania and Bulgaria (Bogdan Stefan; Sevelina Todorova). In all candidate countries, above all Croatia, there is growing anxiety and fear about the enlargement process because of the EU's uncertain future. The two exceptions on the Balkans are Macedonia and Montenegro. The current UK Presidency of the Council favours continuous enlargement and is likely to push for an EU decision to grant Macedonia the status of accession country, which would lead to the opening of negotiations and higher financial assistance (Islam Yusufi). Montenegro is hoping for the same over the next two years. The EU's principal condition to grant Montenegro the status of candidate country is state independence from Serbia, which might be met after the 2006 referendum on whether to maintain or revoke the state union with Serbia (Nina Labovic).

But as a result, Serbia resents the EU's policy towards Montenegro and towards Kosovo. EU policy is seen by Serbs as well as the Bosnian Croats and Muslims to be authoritarian and colonial because the EU imposes a unilateral settlement at the expense of local participation (Jelena Savcic). This approach causes popular humiliation and alienation. Yet at the same time, the current Croatian and Serbia governments comply with some of the EU's conditions, which widens the gap between elites and the populace and exacerbates tensions for the foreseeable future (Helga Spadina; Dejan Pavlovic).

II. The prospects for EU enlargement

The current crisis of the EU is not confined to the failed ratification of the Constitutional Treaty and the protracted disagreement over the budget. It also extends to the Union's foreign policy, notably vis-à-vis Turkey and the Balkans. The EU's approach to actual or potential candidate countries is perceived by the inhabitants of those countries to be unilateral and hegemonic. The stabilisation agreements and the accession negotiations have caused popular resentment because the EU dictates the terms and conditions of cooperation. After initial euphoria and enthusiasm, the prospective and actual candidate countries are increasingly disillusioned and disappointed with Brussels' biased and bureaucratic approach. This translates into the expectation of many participants that enlargement will not take place for many years to come (cf. appendix 1 for the results of polls conducted during the seminar).

There is no genuine choice for the Balkan countries because joining the EU not only requires the implementation of approximately 80,000 pages of rules and regulations but also the acceptance of a socio-economic model that extends market power and opportunities to the upper- and middle-classes, while depriving the working classes of any prospects and condemning them to economic insecurity and social precariousness. But not

to join also comes at a high price: to refuse the EU's terms and conditions is to be confined to the EU's 'near-abroad' – neither in nor out, a geo-political grey zone, sometimes little more than an arbitrary European protectorate like in the case of Bosnia or Kosovo (J. Savcic).

This raises wider questions about the prospects for actual EU enlargement to the Balkans and beyond. Romania and Bulgaria face two sets of problems, external and internal. Externally, the EU's current political and socio-economic disarray threatens accession, which for the moment is scheduled for 1 January 2007. A delay by only one year, which looks increasingly likely, will amount to a loss of € 3 billion in missed business opportunities and missed EU financial assistance (Cerasela Mihaela Tanase). As and when Romania and Bulgaria do join, their economies will suffer from the onslaught of EU-wide competition. It is projected that only 30% of small- and medium-sized enterprises (SMEs) will survive because the factors that contribute to overall competition (like product quality and management efficiency) will not meet the necessary standards. Furthermore, access to EU funds will be limited because companies either lack the necessary expertise to apply or do not comply with the stringent criteria, e.g. the minimum capital share stipulated by the Commission. More generally, there is in Romania and Bulgaria a growing tension between SMEs and large companies: while the latter favour accession to the common market and the ensuing potential for rapid expansion and delocalisation, the former favour a more gradual approach that allows more time for adaptation (Ionel Androne). However, the political elites in both countries portray EU accession as an absolute prerequisite for normalisation – to join the EU is to escape once and for all the fate of the Balkans. As a result, the populations continue to be pro-EU, even though euroscepticism is growing significantly (Aneta Mihaylova).

The situation of Croatia is incomparably worse. The impact of EU conditionality is being felt by virtually all sectors of society. National sovereignty has already been undermined by an extensive programme of privatisations, which has handed control over national assets and key sectors like telecommunications to foreign owners like Deutsche Telekom and a Hungarian oil giant. Croatia, where nationalism is still rampant, feels under threat from land acquisition by EU nationals, especially in Dalmatia. It also suffers the consequences of political extortion: the EU's demand to hand over a suspected war criminal to the so-called war crimes tribunal in the Hague reinforces the impression that Croats are being persecuted and humiliated. All of these elements have induced the people to turn against EU membership. The initial euphoria has quickly given way to disillusionment and hostility – today only 36% are in favour, while two years ago the support stood at 70-75%. There is a constitutional requirement to hold a referendum, which in the foreseeable future would fail. The increasing opposition to the EU is based not only on the accession diktat but also on the negative prospect of being subject to ferocious competition. Even though the receipts amount to more than € 2 billion per year, tourism alone will not be able to sustain the Croatian economy and population (H. Spadina).

Other countries in the Western Balkans have mixed views on preparing for EU accession. Political and business elites tend to view the process of joining as a way of enhancing

national capacities for systemic transformation – the EU is not only a distant goal but also a concrete means to implement wide-ranging reforms. There is also a widening rift between elites and populations. While in Croatia, the mood has turned sharply against membership, in Serbia up to 74% of the population seem to favour the road to the EU, though the government remains cautious (H. Spadina).

This is because the economic situation is dire and EU membership promises growth and prosperity: nowadays, 70% of the total population are worse off than under the regime of President Slobodan Milosevic. The unemployment rate is between 30% and 70% (depending on the definition). But popular endorsement of closer cooperation with the EU depends almost entirely on the outcome of the ‘final status’ negotiations on Kosovo – the independence of Kosovo will turn not only the USA but also the EU into the public enemy number one. Except for Kosovo, the same is true for Albania, where prospective accession status (and ultimately EU membership) commands significant support among the population (Zivota Lazarevic).

If Serbia’s prospects look remote, Bosnia’s are practically inexistent. The main reason is the sheer economic lag due to the destructiveness of the war and the 1995 NATO bombing. In addition to economic growth, the first priority in Bosnia is to develop formal political and legal institutions and to promote civil society. But there is little scope, not least because Lord Ashdown, the EU High Representative, displays a behaviour that can only be described as totalitarian and imperial: in the name of democracy and market economy, he rules Bosnia like a Western colony and makes unilateral demands (above all the extradition of suspected war criminals). This makes the Bosnian government look like a victim – a distorted image which is fuelled by the media. This is especially true in the Republica Srpska, the Serbian part of Bosnia (J. Savcic).

Turkey and Russia are in a different position because their political and economic weight allows them to remain outside the EU. However, the Turkish elite has chosen to apply for full EU membership and Turkey was granted the status of accession country in December 2004. The UK Presidency of the European Council is currently trying to persuade all 25 member states to open accession negotiations in October 2005. However, just as the Turkish political and business elite is in favour and popular expectations are high, the mood within the EU is changing rapidly: eventually both German and French leaders could rule out membership and opt for a ‘privileged partnership’, which Turkey rejects categorically. Turkey’s case raises a number of fundamental questions. First, is not the EU bound by its promises in the same way as Turkey needs to comply with the criteria for EU membership? Secondly, does Turkey belong to the EU, geographically and culturally? Thirdly, might Turkey pursue accession without ever attaining full membership, in the knowledge that reforms might otherwise not be possible (i.e. not without external pressure)? Fourthly, what are the chances for a dramatic change of Turkish public opinion, especially in the name of the widely shared Muslim identity? Finally, will the mutual benefits of Turkish accession outweigh the mutual costs? (M. Hirsch)

For the moment, Russia seems to have ruled out applying for membership, as it seeks to regain its status as global power by reinforcing the strategic partnership it has forged with

the EU over the last four to five years. This is because Russia resents and rejects the EU's slow bureaucratic approach, which is based on incremental change rather than bold strategic decisions. Russia prefers to deal bilaterally on issues of great political importance and sensitivity, while also insisting on a special treatment by the EU (compared with other post-Soviet countries like the Ukraine and Georgia). Even if from an objective point of view, the EU and Russia are complementary, the gulf that divides them is too wide to be bridged easily and rapidly. Disagreements are not just economic and social in nature, they are cultural in nature too. It is unclear whether divergences are merely at the level of interests and norms, or whether also at the level of values and principles (A. Pabst).

However, the perspective of a stronger Russia and enhanced cooperation with the EU is not far-fetched as many commentators suppose. If the UK, France and Germany managed to establish close relations after the Second World War, then Poland, the Baltic States and Russia should be able to do the same. While it is true that Russia has taken an increasingly authoritarian turn, it is equally true that it displays growing political realism by withdrawing troops from the Balkans, engaging in economic cooperation with Macedonia and seeking more balanced relations with most of its European neighbours. Over the medium- to long-term, it is not unimaginable that the political empowerment of Russian minorities in EU member states will change the attitude towards Russia, e.g. in the Baltic States and in Poland (Norbert von Kunitzki).

What is more, the potential mutual benefits of closer cooperation between Russia and the EU (and of eventual integration) are enormous. In addition to economic and trade relations (especially energy and consumer goods), the EU stands to gain from Russia's military and foreign policy potential. For the time being, the EU faces an unassailable gap vis-à-vis the USA in terms of science, technology and above all military intelligence – precisely some of Russia's 'competitive advantages'. Moreover, the EU and Russia share a commitment (at least on paper) to multilateralism, which is significant in the face of US unilateralism or a potential bipolarity that might one day oppose Washington to Beijing. The EU countries are neglecting Russia at their own expense by failing to develop a geo-political vision that enables genuine European autonomy vis-à-vis America (N. von Kunitzki).

In fact, the USA is encircling Russia (and India) in order to undercut any ambitions and thereby prevent the emergence of competitors in the American quest for global hegemony. This explains US support for Pakistan in developing nuclear weapons (to contain India) and in the so-called 'war on terror' (to contain radical Islam – a global force of resistance against US domination). This strategy is not confined to geo-politics. The USA has also consistently torpedoed European efforts to create a successful monetary union by undermining the credibility of the nascent common currency. Alan Greenspan, the Chairman of the US Federal Reserve, declared in October 1998 that the Euro would either not come or not last. What the USA resents is the possibility of a rival currency that might one day replace the US Dollar as global reserve currency and thereby deprive the USA of much-needed capital injection, nowadays generously provided by China and Japan (A. Clesse).

III. The EU as an alternative project and its future role on the international stage

The bleak prospect for further enlargement casts a long shadow over the EU as an emerging economic, political and societal project. The socio-economic crisis raises questions about the desirability and the feasibility of a political project that is proper to Europe. There has been an ongoing dispute over the merits and limits of two rival models: the Franco-German and the Anglo-Saxon. However, common to both are a set of essentially monetarist and neo-liberal policies. The alternative of the Scandinavian experience has yet to be explored. Politically, the EU lacks a coherent vision, coupled with effective capacities and capabilities, including the area of common foreign, security and defence policy where dependence on NATO and the USA locks the EU into a geopolitical straightjacket (N. von Kunitzki).

The prevailing crisis impinges upon the EU's preparedness for future enlargement, as the current institutional arrangement is already inadequate for the Union of 25. The fate of the Constitution and the debate on Turkey show that national veto power is likely to stall further expansion and further integration alike. For countries of the Western Balkans, it might be preferable to stay out in the short-run but it seems that in the long-term EU involvement is mutually beneficial, not least for reasons of geographical proximity and demography (M. Hirsch).

Conjointly, the socio-economic and the political crisis of the EU diminish the prospects for an alternative societal project, which incidentally used to be associated with Yugoslavia and other non-aligned countries. The centralised bureaucratic nation-state and the global 'free-market' tend to collude to their mutual benefit and to society's collective disadvantage. The challenge to the EU is to help solve pressing problems while at the same time to break away from well-trod paths and conventional thinking, by promoting critical questioning, creative concepts and innovative policies (A. Clesse).

One contribution to such an alternative is to develop civil society, both inside and outside the EU. Traditionally, civil society is associated with autonomy from the 'free market', e.g. in the writings of Antonio Gramsci and Pierre Bourdieu. However, of equal importance today is the defence of civil society against the growing domination of the state. The emergence of feminism and ecology and of new social movements reinforce the diversity of civil society in the face of state and market power alike. The rise of new democracies in Eastern Europe and the process of globalisation have contributed to the creation of a global civil society with transnational norms and actors; s. the works of Mancur Olson and John Keane (Vukasin Pavlovic).

Given that globalisation has in some ways reinforced national sovereignty (e.g. by handing central governments the power of regulation held by previously autonomous self-regulating institutions), the problem is how to use the forces of globalisation to consolidate and extend civil society and thereby perhaps offer an alternative to the current consensus. The concrete challenge for the EU is twofold. Internally, the failure to change

cap will lead over time to the demise of the political union and the slow disintegration into a free trade area. Externally, the failure of the EU as a socio-economic, political and societal project will hand over the fate of the European continent to foreign powers, above all the USA and China. The status quo of incremental change is no longer an option.

Adrian Pabst
LIEIS
September 2005

Appendix 1

Surveys taken among participants

1) EU constitution

Will the EU have a constitution? (Yes: 12 / No: 4)

2) Turkey

a) Will Turkey become a member of the EU? (Yes: 5 / No: 13)

b) Should Turkey become a member of the EU? (Yes: 6 / No: 9)

3) Russia

a) Will Russia be a member of the EU in 2050? (Yes: 1 / No: 20)

b) Should Russia be a member of the EU? (Yes: 13 / No: 7)

4) Croatia

a) Should Croatia be admitted into the EU soon? (Yes: 27 / No: 1)

b) Will Croatia be a member of the EU?

i. in 2010 (Yes: 5 / No: 14)

ii. in 2015 (Yes: 24)

5) Serbia and Montenegro

a) Will Serbia and Montenegro be a member of the EU in 2015? (Yes: 13 / No: 10)

b) Should Serbia and Montenegro be a member in 2015? (Yes: 22)

6) Bosnia-Herzegovina

a) Will Bosnia-Herzegovina be a member of the EU in 2015? (Yes: 2 / No: 23)

b) Should Bosnia-Herzegovina be a member in 2015? (Yes: 25)

7) Macedonia

a) Will Macedonia be a member of the EU in 2015? (Yes: 16 / No: 6)

b) Should Macedonia be a member in 2015? (Yes: 25)

8) Albania

a) Will Albania be a member of the EU in 2015? (Yes: 2 / No: 20)

b) Should Albania be a member in 2015? (Yes: 25)

Appendix 2

Report of Group 1: EU after the Luxemburg Presidency – Where is it heading for?

After the evident failure of the Constitutional Treaty it has become evident that the European Union has been sailing like a ship without a compass. Following the French and Dutch NO EU will and has to become introspective. It will turn to an internal consolidation of its ranks. EU has tried to implement together two incompatible projects: enlarging the Union

with CEEC, not holding firmly to the standards proclaimed by the same Union and at the same time deepening the process of the integration. Now, the Union will have to address internal issues that are left unsolved for too long. Mainly, the Lisbon Agenda, reform or more precisely the abolition of the Common agricultural policy (CAP), enhanced cohesion policy now among 25, which is becoming the major priority in the years to come.

As Jean-Luc Dehaene, former Belgian Prime Minister, eloquently put it after the failure to reach the agreement on Agenda 2000 in late 1998:

“Nobody wants to pay more, some want to pay less, nobody wants to get less and we all have to spend more for enlargement!”

In order to make it possible that everybody gives something up in the general interest of the Union it will first have to finally declare the answer to a crucial question: Where is the Union heading for? What is the final outcome of the integration process?

Every process has to have a goal or it will not get anywhere. Currently, the Union does not have a compass and this is evident from the wording of the Constitution. It has a grand name but very little substance, mainly of pro-governmental nature and not supranational.

What after the Luxemburg presidency? Obviously, it is the British presidency, during which it is very unlikely that any radical improvements of the situation may occur, but it is yet to be seen what the UK has in mind, knowing that it holds a major card of the British budgetary rebate, as a bargain. As Eric Weaver nicely said it "If it's broke, why fix it!"

The main concern during the UK presidency should be the budgetary framework for 2007-2012, but it is highly unlikely that the UK will abolish its own rebate, as much as it is unlikely that France would give up the CAP subsidies.

Unfortunately, the ones that will pay the bill will be newcomers that really need the cohesion funds in order to catch up with the EU of 15. Second to pay the bill will be countries waiting to join the EU. Romania and Bulgaria will have to wait for a year, until January 1, 2008. Turkish membership will become a great question mark, but it is already a never-ending story and the opposition to its membership has always been substantial.

The highest price will be paid by the Western Balkan countries and among them namely Croatia, that has come so close to starting the membership negotiations, and now there are high prospects for it to be held back to wait for Macedonia and Serbia and Montenegro.

From all that has been mentioned above the conclusion could be drawn that EU will become highly introspective, more concerned with the opinion of its citizens that are afraid for their way of life and their future; for several years we will have a major internal reorganisation. This should have been done in the 90s but the opportunity was lost and now the moment has come to show that the European Union is not "a nice weather organisation" as many so strongly believe. The year 2006 will be the year of solving internal problems within the EU ranks.

Rapporteur:

Vladimir Medjak
Serbian European Integration Office
Belgrade, Serbia