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The European Union After Enlargement

by Erik Jones

The European Union (EU) expanded to 25 members on 1 May 2004. In turn, this increase in membership brought with it a range of challenges. The EU is not only larger, it is more cumbersome, more diverse, and more expensive. How the EU adapts to these challenges will determine not just the internal dynamics of the 'union', but its external presence as well. Hence it is time for Europe's major partners in the world to take the implications of a changed EU into account.

The Challenges of Enlargement

The difficulties adapting to a European Union of 25 (or more) member states have been well- recognised since the start of the 1990s. Even before a major enlargement became a realistic prospect, and at a time when French President François Mitterrand was still suggesting that the unification of Europe would take 'decades and decades', analysts began to cluster the challenges of a wider union into three categories: decision- making, diversity, and redistribution.

The problem of decision- making is three fold. To begin with, and obviously, larger groups have more difficulty making decisions than smaller groups. Second, no matter what the number of countries involved, the institutions of the European Union are unwieldy and decision- making authority is poorly distributed both across institutions and across member states. Third, the informal practice of decision- making in the European Union is difficult to learn, it relies heavily on the ability of member states to engage in complicated exchanges both over time and across issues, and it functions only when member state representatives can achieve a degree of autonomy from their domestic constituencies. To summarise, a larger union would have more difficulty making decisions under the best of circumstances – both in terms of institutions and membership. However, the circumstances were likely to be anything but the best.

The problem of diversity differs depending upon the policy area. Diversity is least problematic in the realm of market competition or the common external commercial policy. The existing body of economic legislation known as the *acquis communautaire* sets the boundaries for acceptable diversity within which what is acceptable in any one country should be acceptable in all the rest. Hence to the extent to which the accession countries have adapted to the acquis they should not pose a problem. A similar point applies with reference to the common external commercial policy, where European Commission representatives have considerable autonomy from the demands of national politicians or special interests.

Diversity is more problematic with reference to welfare state institutions, wage bargaining practices, corporate governance, and tax regimes. Many of these structures are market distorting and yet are not subject to legislation within the acquis communautaire.

Therefore, these structural issues will remain a problem no matter how well the accession countries may have adapted to the body of EU law. Finally, diversity is most important in terms of matters relating to 'Justice and Home Affairs' and 'Common Foreign and Security Policy'. These policy areas remain largely outside the scope of the *acquis*, they rely on unanimous decision- making within the Council of Ministers, and they only progress on the basis of established areas of common concern.

The problem of redistribution is in many ways a feature of diversity as well. The accession countries are generally less wealthy, on a per capita basis, than the existing member states. Therefore, they are sure to attract financial resources directed to regional development that are triggered by relative per capita income. Many of the accession countries also include large agricultural sectors **[see Table 1]**. By implication they will attract large support under the EU's common agricultural policy (CAP). Given that regional and agricultural transfers make up the bulk of the EU's budget, the effect of enlargement will be to trigger massive transfers from existing member states to the accession countries – transfers that would not only increase the burden on net- contributors to EU coffers, but that would decrease (or eliminate) the benefits paid out to net- recipients.

These issues were well known already in the early 1990s. Moreover, the challenges of enlargement have not changed in the intervening period. What has changed is the European Union.

Responding to the Challenge

The EU member states have engaged in a prolonged struggle to reform their institutions, procedures, and finances in preparation for enlargement. At times, this struggle has coincided with other developments in European integration, such as the deepening of European policy competence in the area of Justice and Home Affairs or with respect to unemployment. At other times, however, the struggle to adapt the EU to enlargement has come into conflict with other integration projects, such as the elaboration of a European Security and Defense Identity (ESDI) or a common European Security and Defense Policy (ESDP). Moreover, the pattern of *adaptation has not been optimal* when viewed in terms of the EU as a whole. Rather it has reflected the political possibilities of the member states, both existing and potential.

Adapting the institutions for decision making has proven to be extremely difficult. The European Council agreed treaty revisions at Amsterdam (June 1997), Nice (December 2000), and in the form of a draft constitutional treaty (July 2003). However, the Amsterdam revisions did not address fundamental questions of institutional design, the Nice revisions provided only stop-gap measures that some have argued are actually worse than the original institutions themselves, and negotiation of the draft constitutional treaty collapsed at the Brussels European Council summit (December 2003). The failure of the Brussels summit was due in large part to a bitter conflict over relative voting weights between France and Germany on the one hand, Spain and Poland on the other hand. The fact of this conflict is unremarkable. That the weaker parties, Spain and Poland, could not be bought off is more important. Constitutional negotiations have resumed with the recent change in the Spanish government. However, the intransigence of Polish opposition in December 2003 suggests that the accession countries may have some way to go before they learn the art of effective participation in European decision- making. Put another way, institutional reform, no matter how difficult, is only part of the solution to a problem that must still be addressed.

Adaptation to the challenge of diversity has been more successful, particularly in the realm of economic structural reform. (NB: This is not to say that the reforms themselves have been successful, only that the process is improved). In part this adaptation has derived from a deepening of European responsibility for employment and unemployment. The June 1997 Amsterdam treaty revisions introduced a title on employment into the Treaty Establishing the European Community (TEC). At the time, this amendment was viewed as a political concession to the incoming left- wing French cabinet of Lionel Jospin. However, it has since evolved into a complicated network of overlapping procedures for active labor market policies, market structural reforms, and macro- economic dialogue between government, labor, and industry. A general strategy for this network of reform procedures was agreed by the European Council at Lisbon (March 2000) and centres on an open method of co- ordination. Within the 'open method', member states tailor their reform strategies to their own requirements, both institutional and political. The European Union as a whole plays a role in monitoring and encouragement.

The results of the Lisbon strategy are mixed. The EU has not been able to achieve the world's most competitive economy, but it has been able to make progress in reform on a number of different fronts in different member states. In particular, the introduction of active labour market policies has changed the way many member states tackle the jobs crisis. Meanwhile, the broader application of shared- best- practice has provided an important source of policy innovation at the member level. The result has not been to encourage diversity in Europe. Rather it has been to take advantage of diverse European experience in managing the process of welfare state reform. In the final analysis, the Lisbon strategy is more important for the procedures it introduces than for the results that it has achieved. Hence, the most recent European Council summit (March 2004) has lowered expectations from the Lisbon strategy but also renewed commitment to progress despite diversity. This commitment is signally important given the increased diversity – both institutional and political – that will come into the Lisbon strategy as a result of accession.

Response to diversity has been less remarkable in the area of foreign and security policy, but is evident nevertheless. The controversy that surrounded the war in Iraq was certainly a setback. Over the long term, however, giving too much attention to the 'old Europe'- - 'new Europe' dichotomy is likely to prove misleading. It is true that a number of EU member states disagreed with France and Germany in their opposition to US- led intervention. It is also true that a number of the accession countries sided with the pro- Atlantic faction. However, there is nothing remarkable in this. Euro- Atlantic controversy is as old as European integration. Moreover, Iraq- sized conflicts are relatively rare. Far more important is the fact that the European Union was able to agree on so- called 'Berlin- plus' procedures for borrowing NATO assets. In doing so, the EU was able to assume responsibility for peace- keeping operations in former Yugoslavia. Critics of the ESDI and ESDP may point to the limited scale of these operations, but the point is that a European identity does exist, this identity is undiminished (and is indeed strengthened) by enlargement, and *this identity can give way to effective* common policy. Such policies remain limited by the requirement to achieve a common position before the fact. The point is simply that they can exist.

EU adaptation to the problem of redistribution falls somewhere between relative success and relative failure. The existing member states have proven consistently unwilling to accommodate the costs of enlargement, either before or after the fact. The European Commission's blueprint for enlargement, Agenda 2000 (June 1997), and the European Council's Berlin budgetary agreement (March 1999), both underscored that the accession countries would have to pay the major share of the costs of adapting to membership and that they should expect to receive only belated access to redistribution through EU coffers. However, NATO conflict in Kosovo gave new impetus to the enlargement process and forced a reconsideration of the financial implications. Before the conflict, the EU expected to take in only six new member states in the first wave of accession. Afterward, the accession process was amended to accommodate 12 countries plus, eventually, Turkey. Although only ten of the 12 would be eligible to join on 1 May 2004, it was clear already in 2000 that the financial implications would have to be revisited – not once, but twice. The EU would have to amend the financial authority granted at Berlin, and it would have to plan its expenditures for the period 2007- 2013.

Focus on Finance

Three aspects of the changed financial situation require consideration: the treatment of accession countries, the structure of transfers for agricultural support and regional development, and the overall provision of resources for the EU budget. Of the three, the treatment of accession countries is the most explicit. The European Council decided in Brussels (October 2002) that the new member states would immediately contribute as full members to EU coffers. Nevertheless, they would receive direct payments for agricultural support at only 25% of the EU level in 2004, rising by increments of 5% to 2007, and further increments of 10% until 2013.

The treatment of agriculture is somewhat more complicated. Immediately prior to the October 2002 Brussels summit, the French and the Germans agreed to finance the CAP at constant absolute levels through 2013. This agreement was hotly disputed by both the British and the Dutch, who argued in favour of more comprehensive reform. Nevertheless, the Franco- German deal was ultimately accepted as the only basis for coming to an overall revision of the EU's finances in preparation for enlargement. The deal was made more palatable insofar as the precise wording remained ambiguous **[see box 1]** and given that the EU would have to revise its common agricultural policy in light of the commitments it had made to multilateral negotiations within the Doha Round of the World Trade Organisation (WTO) talks. It soon became clear, however, that the French regard the commitment to agricultural expenditure as a level and not a ceiling. Moreover, a second Franco- German deal in June 2003 mitigated the scope of CAP reform by giving countries the right to delay the 'de- coupling' of agricultural subsidies from production levels by maintaining price supports as opposed to switching over to grants in income. The delay is only for two years, from 2005 to 2007, and the effects are felt primarily in terms of output and not total expenditure under the CAP.

Nevertheless, the concession signals the continuing salience of agriculture subsidies for the French (and therefore the likelihood that the French will continue to resist sweeping reform).

> Box 1
>
> 'The overall expenditure in nominal terms for market- related expenditure and direct payments for each year in the period 2007–2013 shall be kept below this 2006 figure increased by 1% per year.'
>
> Presidency Conclusions,
> Brussels European Council Summit
> 24 & 25 October 2002.

The debate now centres on the overall provision of EU resources. Soon after the European Council failed to reach an agreement on the constitutional treaty in Brussels (December 2003), the six most important net contributors to EU coffers – including Britain, France, and Germany, plus the Netherlands, Austria, and Sweden – wrote a letter to European Commission President Romano Prodi indicating their unwillingness to see EU resources go above 1% of gross national income (GNI). Prodi responded by asserting that 'with only 1% of GNI it will simply not be possible to do what these Member States – and all others – expect from us.' When the Commission presented its financial prospective (10 February 2004), the total allocations averaged 1.14% of GNI during the 2007- 2013 period, with a peak of 1.23% in 2008. Within those figures, the two largest outlays – for agriculture and for regional development – are held constant in absolute terms over the six- year period. Meanwhile, the much smaller allocations for internal security, foreign affairs, and administration, are allowed to grow along with the underlying growth in GNI. Prodi is right to suggest that much of this could not be accomplished without going above the 1% of GNI ceiling.

The question remains, therefore, what part of the agenda will be left undone.

The Larger Picture

The European Union still faces important adaptations to the challenges of enlargement – in terms of decision-making, diversity, and redistribution. Moreover, the range of issues to which the EU must respond has grown dramatically over time. Unemployment remains a problem to which we must add the threats of organised crime, international terrorism, weapons of mass destruction, environmental degradation, demographic change, and world development. Within this new environment, the key to European adaptation will lie in finding a consistent source of leadership with a coherent program of action. The hope among Euro- idealists is that the institutions of the European Union can be refashioned in a manner that gives the Union much the same capacity for agency that we typically associate with a nation-state. A more pragmatic, and yet still optimistic view is that the larger member states will band together either as an informal directoire or as a more formal core Europe. The greatest likelihood is that Europe will move into a phase of muddling through that is marked by more controversy over redistribution than progress in terms of integration.

The idealistic view nevertheless deserves careful consideration. The constitutional treaty does have provisions that should strengthen the 'actorness' or agent- like capacity of the European Union. A dual- majority voting procedure gives greater authority to the larger countries. A European foreign minister may offer greater coherence both to the outside world and in relations between the Council of Ministers and the Commission. And so on. The problem is that this treaty must first be accepted in the European Council and then ratified in each of the 25 member states. The decision by UK Prime Minister Tony Blair to call a referendum in Britain is only one obstacle, albeit an important one. The media pundits are now convinced that such a referendum will inevitably fail. Even if true, it will be only one failure among many. The odds of a successful referendum on the constitution in Sweden, Poland, Slovakia, and Lithuania are worse. The odds of a successful referendum in the Netherlands are only slightly better than those in Britain. The real threat is that French President Jacques Chirac will buckle to domestic pressure and call a referendum in that country. He has foreclosed that option for the moment, but nothing in French politics is ever final (except, perhaps, support for the CAP).

The notion of a Franco- German-British directoire is more believable.

However, the potential for contradiction within such a coalition is high. Despite the intensity of the conflict over Iraq, the three countries are actually closet on matters of foreign and security policy. They are also the most capable in terms of projecting force beyond the boundaries of the European Union. In these areas, we should expect three- way co- operation to provide leadership, at least so long as such actions do not bring the special relationship between Britain and the United States in question. The prospects for agricultural reform are far more distant. The British position is strongly pro- reform, and the French position is strongly conservative. Personal relations between Blair and Chirac deteriorated dramatically around the Franco- German financial agreement of October 2002 and they remained poor through the CAP reforms of June 2003. Blair's decision to join the Franco-German summit in September 2003 was a reaction to foreign policy and not agricultural policy. The trilateral summit of February 2004 was focused on the Lisbon strategy. These are areas of relative success. But leadership is more important in the context of failure. In that case, close tri- lateral co- operation is unlikely to be forthcoming.

That leaves a large Europe that is both introspective and indecisive. This was always the nightmare result of enlargement. And there is good reason to believe that it will come about – particularly should the European Council finally agree on a constitutional treaty only to see it resoundingly rejected by the electorates of not one, but several member states. The implications of this unfortunate scenario remain to be seen. However, some trends are already visible:

- To begin with, the EU will be less able to manoeuvre in multilateral negotiations because EU negotiators will have less autonomy from the domestic political constituencies within diverse member states. Such restrictions will be more apparent in those areas where multilateral negotiations are dependent upon institutional reform at the member state level than in areas where European regulations can have direct effect. For example, the EU can eliminate export subsidies on agriculture more easily than it can dispense with income and price supports altogether. In this way, enlargement will make the European Union more coherent as a trading entity, but less effective as a negotiating partner – at least, once again, where EU concessions are dependent upon member state action.
- Second, EU market structural reform will slow down, particularly in relation to common institutions like the CAP. Meanwhile, different national reform agendas will continue to progress under the Lisbon strategy. As a result, the market environment within Europe will become more differentiated and more competitive, even as the market distortions created by common institutions become more prominent and relatively more important.

Of course it is possible that such indecision will provide the opportunity for European institutions to fill the governance gap in Europe. For example, the European Commission could assert more autonomy in the realm of multilateral negotiations and more authority in the encouragement of market- structural reform. It is too early to judge whether this scenario will materialise. However, it is possible to establish indicators to watch in the future.

- The first indicator is the European Commission's court case against the Council of Ministers over the administration of the Stability and Growth Pact (SGP). At issue is whether the Council can depart from established procedures and ignore Commission recommendations whenever these prove awkward or inexpedient. A victory for the Commission will either strengthen the hand of supranational authority in Europe or set the stage for a major showdown between the Council and the Commission over the reform of the SGP. This decision is likely to be delivered in July 2004.
- A second indicator to watch is the appointment of the new European Commission and particularly the new European Commission president. Should the European Council promote a well- regarded politician of strong opinions from one of the larger member states, the Commission could re- establish some of the leadership that it held during the first presidency of Jacques Delors. However, should the European Council opt for a more technocratic or consensual figure, the Commission could find itself deprived of leadership within a College of Commissioners that will be larger and more unwieldy than any before. These appointments will be known in the early autumn. Until then, the leadership of the European Union remains in the balance.

Table 1: EU employment structures

	Employment Distribution by Sector (2001 (%)		
	Agriculture	*Industry*	*Services*
Pre-2004 member states			
Austria	6	30	64
Belgium	2	26	72
Denmark	3	25	71
Finland	6	17	67
France	4	25	71
Germany	3	32	65
Greece	16	23	61
Ireland	7	29	64
Italy	5	32	63
Luxembourg	2	21	77
Netherlands	3	21	76
Portugal	13	35	53
Spain	6	31	62
Sweden	2	24	74
United Kingdom	1	25	74
2004 entrants			
Czech Republic	5	40	55
Cyprus	5	24	71
Estonia	7	33	60
Hungary	6	34	59
Latvia	15	25	59
Lithuania	16	28	56
Malta	na	na	na
Poland	19	31	50
Slovakia	6	38	56
Slovenia	10	38	51

Source: United Nations, Economic Commission for Europe.

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