

Lecture by Professor Danuta Hübner
European Commissioner

**Meeting the challenges of the future – institutional
development of the European Union after the Lisbon Treaty**

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Last year we celebrated 50 years of the common Europe. Over this time, the European Union has come a long way. It has grown from 6 Member States to 27. It has widened its initial focus on peace, as it was created out of the ashes of the Second World War, to become a remarkable motor for democracy and reconciliation across the whole continent. It has moved from a simple coal and steel community to the biggest Internal Market ever created. The Union has developed, broadly and deeply, contributing to many aspects of daily life, from trade to transport, from environment to health and from security to foreign affairs.

We can be proud of what Europe has done and does. But it is also a good point of departure towards the future, with the accumulated stock of European integration. Our past should allow us to invest, without fears and prejudices, in modernizing the present in order to better tackle today's realities and future challenges.

The Union has developed institutions and structures of its own. It has its own Parliament - the biggest directly elected multinational parliament in the world, representing 500 million citizens, its own Court of Justice, and, for many countries, a single currency. Its institutions have evolved over time with a view to make the Union more effective in responding to ever new challenges.

That is why I believe it is sensible to consider what the main challenges to the Union are likely to be in the medium term to see what institutional changes are necessary to ensure that the Union can adequately respond to these challenges. It is also clear that the challenges we are faced with are very different from those of the past.

These challenges are certainly policy-related - in other words the question is what policies are appropriate to ensure that the Union remains an influential power for good in the world, as well as developing a strong economic basis at home. But they are also existential challenges about the sort of European Union in which its citizens want to live and to which they want to contribute.

How would we define what we want the European Union to be in the long-term? My response to this question is that we want to defend our fundamental values inside the European Union and we want to spread these values to the rest of the world and in particular to our nearest neighbourhood. When we talk about values, there is a lot of scepticism both inside and outside the Union. I don't share this scepticism at all. We are certainly not perfect, but the values which form the basis of European

integration, tolerance, rule of law, democracy, the protection of minorities, in other words the value base of European liberal democracy, are what makes life in the European Union enjoyable and fulfilling. And it is right that we should try to share these values with peoples outside the Union.

From this there flows a whole series of policy considerations for the medium-term. Domestically we need general policies which ensure that these values are upheld throughout the Union but also economic policies which allow our citizens to look forward to rising prosperity and full employment. Abroad we need policies which aim to maintain or establish peace and stability, and which defend the open trading system which has been of such great importance to our economic development. And all of these policies have to be credible both within and without the European Union.

Looking today at the problems facing the Union, one has to be brave not to bury one's head in the sand and hope that they will disappear. They will not disappear. The list of recent world failures includes the war in Georgia, energy and food shortages, our current difficulties in concluding the Doha world trade round and the turbulence on world financial markets. And they come on the top of climate change, demographic trends and new global competitive pressures. Each of these crises threatens the peace, stability and prosperity of our citizens in the Union and each of them requires an EU response as well as national action.

Abroad, the European Union must have a foreign policy and trade policy which are both credible to our partners. There is no point in disguising the

fact in foreign policy that there are profound differences between the member states of the Union. We saw this over the war in Iraq and we have seen it again in the reactions to the war in Georgia just over a month ago. It is really quite unlikely that these differences can be bridged in the medium term, but I think the way in which the Union dealt with these two crises indicates a considerable advance in the quality of policy-making since 2003. In its response to the Georgian War, the European Union concentrated on those areas of action in which the agreement of all 27 member states could be ensured. It did not attempt to apportion blame, even though many member states at home were prepared to do just that, but it concentrated on getting a ceasefire as soon as possible and taking measures to help those citizens in Georgia, including South Ossetia and Abkhazia, who had been displaced by the fighting. It has continued since the ceasefire to strive for a solution which is likely to maintain the peace in the region. In this case the EU has appeared united and effective in spite of the fundamental differences between member states.

The proposals contained in the Lisbon Treaty would undoubtedly contribute to a more effective foreign policy - one High Representative, who would combine responsibility for traditional foreign policy and the tools of foreign policy and a Union diplomatic service for instance – but as we saw in the case of Georgia effective foreign policy is really a matter of action based on our fundamental values and a genuine attempt by all member states to work towards a common policy approach. I personally believe that we need to introduce improvements to our foreign policy performance in the medium term and that this improvement includes institutional change.

In reality of course we cannot divorce questions of foreign policy from questions of trade policy - indeed the double-hatting of the High Representative would have allowed him to work even more closely with the Trade Commissioner than at present. Trade is a key part of foreign policy but it is equally a key part of economic policy. The Union has great interest in the maintenance of open markets throughout the world and in the multilateral negotiations which take place within the World Trade Organisation. It was therefore very unfortunate that the Doha Round could not be brought to a conclusion before the summer, though we still hope that the conclusion might be found later this year.

The maintenance of open markets will be especially important as the world moves into a period, when the temptation for governments to take protectionist measures will increase. But the Union has another interest in trade policy; the projection of the Union's *acquis communautaire* throughout the EU's neighbourhood and its main trading partners. This will now be a key objective in the negotiation of deep free trade agreements which aim to spread Community regulation to our trading partners, simplify trade, increase mutual confidence and are therefore an advantage for both sides.

In trade policy, a Community competence, there are also major differences between member states as we have clearly seen with respect to the Doha Round, but it is essential that the Union speaks with one voice not just in the WTO but also in relations with all our main trading partners throughout the world.

We know very well that power in foreign policy can only be achieved if the economy and society at home are working well. It is therefore vital that our common foreign policy is backed up by a growing economy and high employment. Monetary policy has been managed well by the European Central Bank and this is likely to remain so in the medium term. However economic policy is the competence of the member states, with the Union essentially only having a coordinating role. This situation creates certain dangers for the development of the Eurozone and the whole question of the coordination of economic policy, and particularly fiscal policy, may well have to be looked at again in the medium term.

We have recently seen rapidly rising inflation within the Eurozone but also growing divergence across member states. This is reflected in interest rate spreads on Government paper with similar maturities, which have grown recently and may be put under increased pressure by the current fiscal turbulence. While increased spreads punish governments for inappropriate fiscal policy, they are unlikely to prevent governments in political trouble domestically from following policies which are not appropriate in the monetary union.

The deficiencies in international financial market regulation have become evident in the current crisis. Creating international and European regulation to deal with the international character of banks and other finance institutions is an urgent task, which will not be easy given the complexity and the jealousy of national regulatory institutions.

Structural change in the member states of the European Union is likely to stay high on the political agenda through the medium term. Considerable progress has been made in many member states in line with the recommendations of the Lisbon agenda, but much more needs to be done and reform is a never-ending process. The Lisbon Agenda is implemented not through legally binding Union legislation, but through the enhanced open method of coordination. No doubt in the coming years the discussion about the effectiveness of the open method of coordination will continue, with some observers arguing that the Lisbon agenda should be increasingly implemented by law. It appears to me that the progress which has been made in structural reform in the Union suggests that the enhanced OMC can be reasonably effective in some areas.

It is becoming ever more important for the Member States to remain at the forefront of research and development and innovation. We are in many ways falling behind even some of the emerging nations in certain areas of research. It is obvious that the Union and the Member States need to spend more money on R and D and in many areas cooperative research across frontiers could create efficiency dividends. The search for an efficient way to stimulate R and D will continue with the emphasis on delivery mechanisms.

Energy policy within the Union will of course remain extremely important in the coming years in the light of both questions around climate change and the supply and price of energy. The dramatic changes in climate that we have already seen require urgent action by the Union. Co₂ reduction objectives have been set but the means of reaching these objectives are

still being discussed. Increased diversification of energy supply and an increase in research in new sources of energy will be required. At the EU level both increased storage capacity for energy and the sharing of energy resources around the Union especially when one or more countries are threatened by an external supplier, will remain crucial topics for EU policy.

Inward migration is likely to remain an important element of policy in the medium term, and one which requires a European Union coordinated response. The European Union remains a very attractive destination for many of the world's migrants seeking work and better living conditions. The demographic situation of the European Union means that we will require more migrant labour in the coming decades as the falling birthrate here continues to reduce the cohorts of working age. However while the Union will need skilled migrants the majority will be unskilled and difficult to integrate. It would be very important to have common rules on immigration and work permits, as well as asylum, to avoid the problems which differing rules will certainly bring. In a Union without frontiers, it is obvious that the decision of any member state affects the other member states.

These challenges do not exhaust the list. The demands for accession to the EU, not only from Croatia and Turkey, but also other states in the western Balkans and Eastern Europe, will put major strains on the institutional architecture of the Union in the longer term.

These areas of work for the Union are fairly obvious. However what sort of Union European citizens want affects all of these policies. In the early

years of the European community there was a deep feeling that a high level of integration should be aimed at. The failure of referenda in the Netherlands, France and Ireland on the Lisbon Treaty have added new elements to our perception of Europe's challenges and have encouraged a new debate on Europe affected by the arrival of the countries of central and eastern Europe, which in many areas have different views to those of the original six member states.

An open debate is fundamental to the future of the European Union and to the institutions which are required to achieve the policy objectives. While membership of a monetary union binds the Eurozone countries through a common monetary policy to deeper integration in many of the economic policy areas, other policy areas are often characterised by radically diverging views. It is for this reason that the Amsterdam Treaty included the possibility of enhanced cooperation or flexible integration, through which member states interested in deeper integration in a particular policy area could forge ahead without requiring the less enthusiastic member states to follow them. In a way the Euro is an example, a very specific example, of enhanced cooperation. There will undoubtedly be much discussion around the question of what sort of quality of integration we want and whether enhanced cooperation can solve problems of increased divergence. My own view is that we all need to be extremely careful in the use of flexible integration because of policy interrelationships. Enhanced co-operation in areas such as the environment may well create risks to the essential policies of the European Union, such as the internal market, which require the participation of all member states. One internal market requires common policies.

Having looked at some of the key policy challenges and the sort of European Union which we want to have, what does this mean for the institutional structure of the Union?

The first point I think it worth making is that policy is always inter-related and institutions must reflect this. The Union's foreign policy has clear implications for trade policy, economic policy, justice liberty and security and many other areas. But we can see equally important relation between transport and environmental policies, between energy and environment, economic and social policies. Effectiveness of sectoral policies has been dramatically weakened, while the role of place-based policies has grown. This interrelationship of policies is already established in the institutions of the Union through the College of Commissioners, the Committee of Permanent Representatives – COREPER – and to a certain extent the Plenary Assembly, the Conference of Presidents and the Bureau of the European Parliament. However in the past one can find examples of sectoral councils taking decisions without considering the views of other sectoral councils which are affected. As policy becomes more complex and frequently more technical, there will be increasing pressure for sectoral decision-making. But this would weaken the effectiveness of policy. The proposal in the Lisbon Treaty to create a new post of high representative, sitting both in the Commission and the Council was in my view a small guarantee that this would not be the case in the Union's foreign policy at least.

The policies, which I have already discussed, in addition suggest a series of principles which must be reflected in the institutional arrangements within the Union. I would suggest that some of the key principles should be cohesiveness, moderation, solidarity, democracy and the rights of the citizen and economic and administrative efficiency. Let me briefly say a couple of words about each of these principles.

By **cohesiveness** I mean that institutions in the widest sense need to promote agreement on policy across all 27 member states. Disunity within the European Union will be exploited by those within the Union who are against integration but more seriously by third countries which stand to gain from a disunited Union. The Council showed clearly over Georgia that it understood the importance of cohesiveness in the face of Russian attempts to drive a wedge between Member States. The Commission should always play an important role in ensuring as far as possible that Member States in the Council act as one vis-à-vis the outside world.

But cohesiveness goes along with **moderation**. In areas of particular sensitivity, it may be necessary to lower the ambitions of certain member states to ensure that agreement can be reached with which all Member States can be comfortable. This applies too to the European Parliament which occasionally takes positions which are unacceptable to certain groups or minorities in the Union. The challenge is, however, to avoid compromises built on the lowest possible common denominator. Here, the enhanced role of the Commission could be of help.

Institutions should ensure that the Union shows a united face to the world and that all Member States are fundamentally supportive of positions taken. Of course there will be situations in which action is necessary and when not all Member States will be able to be persuaded; indeed one of the proposals in the Draft Lisbon Treaty is to extend the scope of Qualified Majority Voting. Particularly where there are states which have 'red lines' which are not acceptable to the other Member States and which hold back progress in the Union, it is necessary to use QMV. So, yes, sometimes you get outvoted.

Solidarity is implicit in most of the policy dilemmas for the medium term which I mentioned earlier. All member states recognize that they have a responsibility to support other member states which find themselves in difficult situations not of their own making. This applies for instance to energy policy, where some of our suppliers have used the oil or gas weapon to put pressure on certain member states. Solidarity is essentially grounded in our common values on which our institutional arrangements must be based.

That our institutions should be **democratic** will not be doubted by anyone in this room. However I sense that the structure of our democracy in Europe is changing under the pressures of new technologies which are reinforcing centripetal rather than centrifugal tendencies. New data processing and communications technologies allow citizens, apparently with the exception of European Commissioners, to live and work in their own towns and villages. Being at the centre is no longer a necessary condition to have influence in the world. But this leads people to identify

more clearly with their local region. I notice this as Commissioner for Regional Policy, as I travel around the European regions. There is growing sense that regional and local actors can really influence their own development and that not everything has to come from the centre. This process is strengthened by increasing effectiveness of horizontally designed and implemented place-based policies.

This tendency for regions and localities to demand a greater say in their own future has implications for the institutional set up in the Union. A first step was proposed in the Lisbon Treaty giving the right to national parliaments to be informed early about EU legislative proposals. The Lisbon Treaty introduced the notion of territorial cohesion and also provided for a new definition of European subsidiarity, emphasising the role of the regional and local actors. When at the Cohesion Forum in September 2007 I launched the public consultation on the future of the Cohesion policy, more than 100 comments warmly welcomed the inclusion of territorial cohesion in the Lisbon Treaty considering it an important step towards a better territorial coherence of EU policies.

Finally institutions and the institutional architecture will need to conform to ideas of **economic and administrative efficiency**.

I am convinced that the institutional structure of the Eurozone will gradually develop in line with the needs of the monetary union. Gradually the role of the Eurozone finance ministers will increase and become a firmer part of the institutional structure. But it is likely too that other sectoral groupings of Eurozone ministers will begin to meet simply because the discipline of

being a member of the Eurozone will force other ministers to coordinate policy closely.

I am unable to say whether the institutional structure of the Lisbon Agenda will develop beyond the OMC but I think that this is likely at least in some particular fields, in line with a growing perceived need to strengthen the impact of the Broad Economic Policy Guidelines.

Finally, the demand of governments and citizens for administrative efficiency will weigh heavily on all the European Union institutions, as the demands on the EU budget from new policies grow and the willingness of Member States to contribute stagnates. One particular element which I think will become important in the implementation of the budget will be the efficiency of the institutional structure in spending the available finance.

Well after all of this, how does the draft Lisbon Treaty meet the demands of medium term growth and change? In my view it tackles several of these problems but not all. It is particularly reticent in the economic policy area, perhaps because it might be unwise to change institutional structures so soon after the launch of the Single Currency. It states reasonably clearly the competence of the Union which should lead to more cohesiveness of Union policy in the future. Foreign policy would clearly get a boost from the widening of the powers of the High Representative while the granting of certain powers to the National Parliaments can only be welcomed.

I hope that Lisbon will be saved. I think it would be a considerable improvement in the institutional structures required to tackle the problems

of the next decade. It is not perfect but as every politician says at the end of his or her speech: the best can be the enemy of the good!.