



# **Fourth** Baltic-German Dialogue

Vilnius, 20th May 2005

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The editors present the contributions  
in their original and lively version

**Impressum:**

Friedrich-Ebert-Stiftung, Riga

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[www.fes-baltic.lv](http://www.fes-baltic.lv)

ISBN 9984-19-844-8

#### 4. Baltic-German Dialogue, Vilnius, 20th May 2005

### MANAGEMENT OF DIVERSITY IN THE EU: EXTERNAL CHALLENGES AND INTERNAL CONSTRAINTS

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# Introduction

## 1. Welcome

*Alexander von Rom, Ambassador of Germany*

*Ladies and Gentlemen!*

It's really a great honour and a very great pleasure for me to participate today here in Vilnius in the opening of the 4th Baltic-German dialogue organised jointly by such important institutions as the Institute of International Relations and Political Science of Vilnius University, on one side, and Friedrich Ebert Foundation, on the other side. I welcome the co-operation of two institutions that are so important in the process of our civil societies to grow together. Let me wish to all of us the most interesting and substantial discussion which does not only enrich us with additional food for thought but also helps us to come to a clearer perspective looking at some of the major problems and tasks which actually exist for us in this region. I think that even before knowing what the results of the discussions will be, only by looking at the list of participants and the topics to be dealt with, it is already clear that you have chosen a good moment to discuss a very important agenda of problems with a very experienced number of experts not only from the three Baltic countries – Lithuania, Latvia and Estonia – and from Germany, but also from the big neighbouring country of Ukraine which we see in a specifically dynamic development.

The participation of government officials, experts, political and academic research institutions and journalists reminds me of some colloquiums I myself had the happy task to organise when some 25 years ago I was a member of the political planning staff in the German Foreign Office. I also remember, and I think it was in the end of the year of 1978 or in the beginning of 1979, that I met Dr. Heinz Kramer from SWP in Ottawa, Canada, where we had very interesting talks with the Canadian Ministry of Foreign Affairs. How many fantastic, fundamental and very encouraging changes have taken place in the meantime! Even in my boldest and most optimistic moments in those days I would never have dared to dream that I would once be here as the ambassador of a unified Germany in an again free and independent Lithuania and participate in a symposium with experts from the three Baltic States, which have all become members of NATO and EU, to discuss together with an expert from the Republic of Ukraine the challenges and constraints in an enlarged European Union and the possibilities of co-operation between the European Union and its neighbouring countries in this region. Even the questions we want to discuss during this meeting are the result of the encouraging changes which brought an end to the East-West conflict; which allowed German unification and the renewal of sovereignty of the three Baltic States; led to their NATO and EU membership and have also opened new perspectives for the relations between the enlarged EU and its neighbours in this region.

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To me, all this gives a very positive background to the topics you want to deal with today. Lithuania and the Baltic countries are full of opportunities and perspectives in the processes that are necessary within the European Union and in the co-operation with the non-EU members in their neighbourhood. We should find out what is necessary to use, and not to lose these opportunities and perspectives. The existing challenges and constraints must be analysed very carefully. What role can and should our relations with Russia play in this context? The negotiations between the European Union and Lithuania, on one side, and the Russian Federation, on the other side, about a facilitated transit regime for Russian train passengers between the Russian mainland and the region of Kaliningrad proved that the EU which is able to come to a clear and realistic negotiation position is able to reach results which are acceptable to both sides and do not infringe Lithuanian sovereignty. Let me congratulate you for the organisation of this conference in this wonderful city of Vilnius and let me wish to you and to me a whole day of interesting and fruitful discussions.

*Thank you very much!*

### 2. EU development at risk

*Dr. Elmar Römpczyk, Representative in Baltic States, Friedrich Ebert Foundation*

The fourth of the *Baltic-German Dialogues* is the first after the effective expansion of EU-15 into EU-25. As could be expected, the extension has its quantitative and its qualitative dimension and both can be transformed into high risks and challenges for Europe's further development in a global context. Today we face enormous domestic challenges as well as global challenges, which easily can blow up the Europe project if the management of the domestic conflicts is not accepted as the dominant task by member governments. It would help if Mr. Juncker tackled the imminent effects of the no-vote in France and the Netherlands as the problem it is: bridging the visions of Europe of the political and economic elites with the expectations and visions of the societies. It also would help to have Mr. Juncker find the political balance between expectations and dispositions in order to design a viable Commission's budget for 2007-2013. Instead we have Mr. Barroso and Mr. Blair.

To communicate the differing interpretations of these challenges among academic fellows and politicians, public administration and civil society from the old and the new Europe, this *Dialogue* was organized and supported by the Friedrich Ebert Stiftung of Latvia and Lithuania.

#### Domestic challenges for old and new EU member states

EU-25 was pushed forward by political leaders with the fascinating vision of forming the second biggest market economy on this globe. One important dimension got lost: the human dimension. The enlargement was pushed forward in Germany at the cost of swallowing up the former East-Germany by the Rhenish capitalist West with no time for social and cultural integration; at the cost of no social security reform for as long as 15 years; with the illusion of opening German finance and capital markets to Hedge-Funds that go along well with shareholder interests, but not so well with social and ecological development; by letting down a good educational and academic standard through no active integration of lessons learnt by the older generation with sophisticated IT development of younger and dynamic talents (*knowledge based society*).

The same enlargement euphoria catalyzed the neo-liberal transformation of the former Soviet societies of Estonia, Latvia and Lithuania – also without care for the varying human identities of these different nations. The three Baltic states and societies therefore suffer commonly from a splitting-up into very small political and financial elites on the one side, and the bulk of the societies under comparatively poor economic and social conditions. The *Scandinavian* Estonia in general gets along on a somewhat higher economic and technological level compared to Latvia; the two other Baltic republics are separated by a dominant Protestantism in Latvia and a dominant Catholicism in Lithuania. There is a high conflict exposure towards Russia in foreign policies in the case of Latvia and Estonia but much less in the case of Lithuania and a handful of fairly delicate other discrepancies with non-EU neighbours showing anything but homogeneity among the Baltic countries.

Despite all those idiosyncrasies of old and new Europe member states, the common domestic challenges are seen and expected through cross-border migration of labour from new into old labour markets having very different working conditions, fostered by the Lisbon strategy, but mostly by initiatives like the *Bolkestein directive*, which explicitly favours:



- no harmonization of social and tax legislations, which are specifically mentioned in the present project for a constitution;
- the principle of «free and undistorted competition» instead of recognizing public services as such and their right to exist;
- to abrogate the right of each member state to legislate in its national territory and under all circumstances, its own labour laws and collective agreements according to the «preferential principle» organized and harmonized under the control of the unions and the Employee Welfare office.

Despite many differences there is one central and essential challenge ahead of the four countries participating in the *Dialogue*, namely their relationship with the treaty of the EU constitution or more precisely, the particular arguments and forms of how the political framework of a united Europe were absent in the public debate. Excluding the people from casting a general or specific vote on the EU Constitution was probably the worst method to gain back confidence in the anonymity of the EU Commission and its General Directions, or in the management of the numerous EU Funds and the intransparency of their tender-systems. Who in the parliaments, in the public administrations, and especially in the general public has digested and appreciated the 80.000 pages of the *Acquis Communautaire*; who in Brussels learnt the lesson of the low voting rate in the EU elections of 2004, who asked Mr. J. M. Barroso to slow down his pace of further enlargement and first settle down to the enormous challenge of managing the wide spectrum of 25 very different countries before even dreaming of including a political and a financial time bomb like Turkey? Obviously no one! The French public was definitely not amused when Mr. Barroso threatened France with consequences if there would be a NON to the constitution. And so the French and Dutch people and others soon to come made use of their small democratic margin of action before it was too late. All these elements of a very complex political process within the united Europe of the EU are enough material to invite sensible political experts to a dialogue.

### Global challenges for old and new EU member states

The *4th Dialogue* in Vilnius spent some time to look also beyond the EU-25 borders. The global scenario of today is a pantagonic one: the imperial USA, the reorganized Japan, the emerging new China, an undefined Russia-oriented economic alliance of CIS countries and a European Union still struggling for its proper structure and vision. Yet the process of globalization is all but stable and finished. Question marks are added to a new economic Union of Asian states (in alliance with Japan or China or India); and new alliances emerge between Brazil and China which might pave the way to rethinking the European strategy of global networking, of defending European values in social policies, in sustainable development, in rebalancing public and private cooperation.

Not all of these scenarios are discussed with the same intensity in Germany, in Estonia, in Latvia or in Lithuania. In the Baltic Region one can hear comments and questions about an «axis» Paris-Berlin-Moscow to the detriment of the three Baltic states, an energy-alliance between EU member states and a non-EU country. Would a *Russia-strategy* of EU-25 help to prevent tensions among EU partners? A similar question comes up with Latvia's pro China initiative while Brussels or Germany or France are struggling to keep under better control the very intensive Chinese commercial activities in Europe with its high cost for their respective labour markets. Would a *China-strategy* of EU-25 help to prevent tensions among EU partners? And of course there is the «scholarship-effect» of Baltic politicians who had spent their years of exile in the USA or in Canada. The effect was seen when the three Baltic countries followed President Bush's invitation to join US troops in Iraq. Mr. Bush was clever enough to accept the

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invitation by Latvia's president on his way to Moscow in May 2005 and declare American solidarity with the Latvian side in their accusations of Soviet occupation since 1944. Politically Mr. Bush made a point in further weakening the bonds between his Baltic friends and his old European not-so-good friends. The German Bundeskanzler could have gained easily full Baltic support with a similar visit. But he did not come, so the fear of a German-Russian axis prevails. Would a *USA-strategy* of EU-25 help to prevent tensions among EU partners?

The domestic as well as the global challenges, outspoken or not in the Dialogue agenda in Vilnius, require closer communication between politicians and academics of the four countries and a special guest from Ukraine. The 5th Dialogue will be organized in Berlin at the end of 2005 under new political auspices but with an agenda structured by topics mentioned and probably completed by a new understanding of global security and its challenges: terrorism, internet-crime, social destabilization through lack of conflict management between shareholder values principle and societal responsibility...

# Political Management of the new neighbourhood of the EU: Further enlargements and the ENP

## 1. Introduction

*Klaudijus Maniokas, Institute of International Relations and Political Science*

The general topic of this round table is management of diversity in the European Union – external challenges and internal constraints, and this topic is indeed seemingly very much at the centre of the current debate in the European Union. Last year, it seemed that after enlargement there would be a possibility, especially for the old member states, to relax and to rethink the process a bit. Unfortunately, we have no time to relax, and the EU is again in a certain crisis, which is a common and quite a positive environment for the EU since in the context of crisis the greatest achievements of European integration were somehow gained.

This is indeed a very interesting time both in terms of internal developments of the EU, i.e., the ratification of the Constitution and problems related to that, and discussions throughout the European Union about the purpose of the European Union and European integration. At the same time, there is still pressure from the outside – pressures which demand a better definition of the EU global and regional role. This session is about the management of the ENP and will basically center around the level of EU engagement and the shape this new neighbourhood might or can take.

I would like to outline three basic issues:

1. The first set of questions is, of course, questions related to international relations as such. This is about engagement and role of the European Union in the new neighbourhood; it is about the scope and limits of enlargement; it is about the relationship between enlargement and the ENP; it is about the question how to define this ring of friends, this ring of stability the EU wants to create; it is about other players in this new neighbourhood; its is about all important countries which are neighbouring the EU and it is about their ambitions; it is certainly also about Russia since we are talking about Eastern Europe; it is also about the US and the role of the US in this region and relationship between engagement of the EU and other countries.
2. The second set of questions could be related to the governance of this new space. We have two separate sets of policies with respect to ENP – this is namely the enlargement policy and the enlargement perspective which is open for the Balkan countries and Turkey, and about the European neighbourhood policy, which is still the main vehicle to manage the Eastern neighbourhood of the European Union. The question is how these two policy sets could be combined? What are linkages between them and is it possible to really manage the process and to project stability, which is the main goal of ENP, without offering membership? Are the instruments used in both processes – still ongoing enlargement and ENP – appropriate for this goal? Has the EU learned the lessons from the previous enlargement? The Baltic states have indeed a lot to say to our neighbours in terms of EU impact, in terms of results which can be achieved during either the accession process or process which

leads to a more active engagement of the EU in the region. And what about the neighbouring countries themselves? Do we have the necessary willingness and ability to pursue serious reforms which are necessary to achieve stability? This is really a particular moment that the EU has a unique opportunity to make a huge impact on the whole neighbourhood area, especially on Eastern Europe which is willing now to change and willing to embrace EU engagement or influence.

3. Finally, the third set of questions could be related to the political economy questions. What are the economic interests at stake? Are they important at all to the EU in this particular area? To what extent economic factors could be driving this process forward? To what extent the stability projected by the EU can also be instrumental to achieving the stability of the macroeconomic, as well as microeconomic environment in all these neighbourhood countries? Could it be used for promoting EU investments into this region? Could it be used to stabilize the investment climate in all these countries in order to achieve high and stable economic growth in the whole region?

### 2. Closeness with New Bonds – The EU and its Neighbourhood Policy towards Eastern Europe

*Kai Olaf Lang, SWP, Germany*

In the process of making the European Union a «global player» and adapting to a changing international security environment the EU has to come to terms with its direct neighbourhoods in the East and the South. Without the existence of stable and reform-oriented regions at its flanks, the further evolution of the Union's international ambitions will hardly be possible. The Union will not be capable of projecting stability and wealth to other parts of the world unless it succeeds in establishing an efficient regime of cooperation and dialogue that boosts transformation and reform in nearby regions.

This paper seeks to give a brief overview of how the EU wants to organise its relations with its Eastern European Neighbours. The emphasis will be on the «European Neighbourhood Policy» (ENP), i.e. the cooperation framework the EU is developing in order to enhance cooperation with its new periphery. The paper is sub-divided in three parts:

- The first part examines «European Neighbourhood Policy» by describing the underlying causes which have lead to the framing of ENP and by portraying the key objectives of this conception.
- The second section highlights some weaknesses and some strong points of ENP.
- The final part proposes some steps that could be done to make use of the potential of ENP or to upgrade and strengthen this policy. The text will end by some reflections on the possible role of Germany and Baltic countries with regard to ENP.

#### 1. Why ENP?

Several developments and challenges have brought about political discussions about new ways to improve EU cooperation with its Eastern neighbours.

1. *New neighbours.* With the enlargement of May 2004, the bigger EU is directly bordering with countries and regions of limited stability and former or potential European «crash zones». The EU's Near Abroad has become more fragile.
2. *New members.* The enlargement round of 2004 has brought new member countries from Central and Eastern Europe to the European Union. These countries have a vital interest not to remain situated at the fringes of Europe's area of stability and prosperity. That is, why they try to lobby for the EU-Outs beyond their (and at the same time, the Union's) Eastern borders. The emergence of ENP is also an implication of the «Easternisation» of the EU after the latest enlargement.
3. *New borders.* EU-enlargement meant the inclusion of Central and Eastern European countries into the Union. But it went along with forms of exclusion regarding the countries, societies and economies beyond the new Eastern border. Thus, ENP wants to mitigate new dividing lines and compensate for negative effects of enlargement.
4. *Weakness of Partnership and Cooperation Policy.* The EU's hitherto existing approach, the Partnership and Cooperation Policy towards the Eastern European countries did not reach its main goals. Neither did it retard the Transnistrian conflict in Moldova, nor could it prevent Belarus from becoming the last dictatorship in Europe, nor did it speed up reforms in Kucma's Ukraine.

5. *No slipping into new enlargement.* One of the basic intentions of neighbourhood policy is to avoid the fast and uncontrollable making of new membership candidates. Although the key documents of ENP do not spell out if joining the EU is possible or impossible in the long run, the original purpose of the conception was to create a cooperation framework which gives partners an alternative to membership instead of a first step to accession.

Putting these motives together, the EU tries to exert influence on political, social and economic tendencies in countries beyond its borders in order to export stability and to stimulate transformation – without giving these countries a prospect to become members. The EU's overall priority, i.e. «to share the enlarged EU's peace, stability and prosperity with our neighbours» (B. Ferrero-Waldner) translates into a subset of different dimensions.<sup>1</sup>

The general objective of ENP is to consolidate the periphery in the East and in the South by transforming a potential arc of instability running from Morocco to Murmansk into a «ring of well-governed friends». One of the guiding principles to reach this objective is to give all cooperation partners inclusion without political participation. I.e. the EU is ready to blur the difference between being inside and standing outside, offering «everything but institutions». Improving governance in neighbouring regions and exporting «European values», the EU tries to build-up reliable and transparent partners.

Against this background, ENP is the attempt to reach the effects of EU-enlargement with different means. Its key challenge is to find a way of intensified cooperation without the «golden carrot» of eventually joining the Union.

### 2. Weak and strong points

Whatever the interests and objectives of the European Union vis-à-vis its neighbourhood are, there is no doubt that during the last two or three years Brussels has produced a variety of programmatic documents which constitute the conceptual basis of Neighbourhood policy. This «basis» of ENP includes the Commission Strategy Paper of May 2004, the proposal for general provisions establishing a European Neighbourhood and Partnership Instrument of October 2004, individual country reports about the state of reforms in the neighbouring countries, and two waves of so called Action Plans, i.e. more concrete and operative bilateral agreements between the EU and single partners (with a first wave of drafts having been presented in December 2004, the Action Plans for Ukraine and Moldova adopted in February 2005, and a second wave of drafts being presented in March 2005). Moreover, the EU has initiated some institutional and organisational arrangements to achieve progress with the realisation of ENP. Among other things, the Council established a Wider Europe Task Force and a Commissioner in charge of External Relations in general and Neighbourhood policy in particular.

Trying to assess ENP is a risky undertaking since the implementation of the first Action Plans has just begun. Moreover, ENP is an «unfinished construction» and it is difficult to image where it might end up or at least to

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<sup>1</sup> Europe's Neighbours – Towards Closer Integration, Speech by Benita Ferrero-Waldner, Commissioner for External Relations and European Neighbourhood Policy, Brussels Economic Forum, Brussels, April 22, 2005, [http://europa.eu.int/comm/external\\_relations/news/ferrero/2005/sp05\\_253.htm](http://europa.eu.int/comm/external_relations/news/ferrero/2005/sp05_253.htm)

pre-estimate towards which medium-term objectives it might be gravitating. Despite this imponderability and starting from the present state of ENP some basic features of the EU's policy towards its neighbours are visible and a cautious analysis of weak and strong points of the conception is possible.

### Weak points

- The ENP is not clear about the level of ambitions in the EU's cooperation with its neighbours. Is ENP predominantly about stabilising its environment or is it about the creation of a homogenous neighbourhood? The Neighbourhood Policy Strategy Paper seems to ascribe high importance to the goal of creating a homogenous neighbourhood, i.e. one which is based on common values like «respect for human dignity, liberty, democracy, equality, the rule of law and respect for human rights».<sup>2</sup> The Strategy Paper even says that «in its relations with the wider world, it [the EU; K.-O. L.] aims at upholding and promoting these values.» On the other hand, in line with the European Security Strategy, ENP wants to «make a particular contribution to stability and good governance in our immediate neighbourhood [and] to promote a ring of well governed countries to the East of the European Union and on the borders of the Mediterranean».<sup>3</sup> Stabilisation has a lower level of ambition as compared to homogenisation, with the former often being identified with the establishment of well-governed countries and the latter being a comprehensive long-term project addressing governmental as well as non-governmental players.
- ENP is characterised by a broad embrace – both, as for its geographic scope and the areas of cooperation envisaged. Whereas ENP has been quite often blamed for its geographic scope and the inclusion of Mediterranean and Eastern European countries in one conceptual framework, the functional spread of ENP has not been in the central focus of critics. Indeed, ENP seems to start from a limited number of key areas of mutual cooperation: political dialogue and reform; trade and preparation for a possible future stake in internal market; justice and home affairs; energy, transport, information society, environment, research and innovation; social policy and people-to-people-contacts. But looking at the Action Plans, there is a lack of clearly defined focal points. For example, the EU-Ukraine Action Plan resembles a hodgepodge of innumerable common goals and fields of cooperation.
- There is no clear definition of the place of Russia in or towards ENP. On the one hand, Russia is not part of the ENP because the EU and Russia have decided to progress with their «strategic partnership» in the framework of the «four spaces». On the other hand, the ENP also addresses Russia.<sup>4</sup> Whereas it is without a doubt that many of the cooperation proposals to Eastern European or Southern Caucasus partners are hardly realistic without including Russia (for example in the energy sector), the ENP has not said how and where it intends to involve Russia in ENP-related cooperation.

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<sup>2</sup> Communication from the Commission, European Neighbourhood Policy, Strategy Paper, Brussels, May 2004, p. 12.  
[http://europa.eu.int/comm/world/enp/pdf/strategy/Strategy\\_Paper\\_EN.pdf](http://europa.eu.int/comm/world/enp/pdf/strategy/Strategy_Paper_EN.pdf)

<sup>3</sup> Ibid., p. 6.

<sup>4</sup> «The ENP is addressed to the EU's existing neighbours and to those that have drawn closer to the EU as a result of enlargement. In Europe this applies to Russia, Ukraine, Belarus and Moldova. The EU and Russia have decided to develop their strategic partnership further through the creation of four common spaces, as defined at the 2003 St. Petersburg summit.» Ibid, p. 7.

- ENP requires an appropriate financial coverage. That is why the Commission wants more than 14 billion Euro to be committed for Neighbourhood Policy from 2007 to 2013. This would be substantially more than the amounts that have been earmarked in previous years. But whereas there is a chance that the overall sum assigned for ENP might be considerably boosted, another problem could hamper the implementation of projects. Experience with the Mediterranean and the Balkans shows that money remains unspent because there is a lack of ideas and well elaborated projects. Weak administrative structures and low co-financing possibilities due to budget restraints in new member countries and partner countries will enact an additional bottle-neck. Although the new European Neighbourhood Policy Instrument (which will start in 2007) will operate under a simplified management system there is a certain risk that much of the ENP-funds will not be used.<sup>5</sup>

### Strengths

- ENP is organised on the basis of a couple of guiding principles like differentiation, progressivity and conditionality. These principles allow for a flexible implementation and a gradual approach. Taking into account the varying pace of reform in different partner countries and considering social, political or economic particularities, ENP enacts a flexible framework for cooperation which allows for individualised interaction and «tailor made» cooperation. The monitoring mechanisms envisaged by ENP and the Action Plans can ensure an effective assessment of reform dynamics.
- ENP is vague as for the mid-term and long-term prospects of cooperation. There is no clearly defined destination where the intensification of mutual contacts should lead. The only hint is the possibility of signing «Neighbourhood Agreements» after Action Plans will have been successfully implemented. But whereas vagueness has been often criticised it also holds a chance: It permits the EU and neighbouring countries to search for new forms of cooperation without excluding an option in advance. So, the nebulous ideas about future ties allows for a creative discussion about enhanced bonds.
- The Orange Revolution in Ukraine has acted as a catalyst. Ukraine, but also Neighbourhood Policy has been «discovered» by the EU and by many member countries. Most importantly, something like an implicit «road map» for Ukraine has emerged. The future stages of EU-Ukraine cooperation and Ukrainian reforms are: market economy status, WTO-accession, creation of a free trade agreement with the Union and – possibly in 2008, after the EU-Ukraine Partnership and Cooperation agreement will have expired – the signing of a «new agreement» between EU and Ukraine.

All in all, ENP is rather a new stimulus than just an air bubble. Certainly, ENP and the Action Plans do not mark an immediate breakthrough in EU-Neighbourhood relations. But they are more than just old wine in new bottles. Only half of all goals described in the Action Plans are put into effect, a new quality in mutual cooperation and a new stage of reforms in most neighbouring countries will be reached.

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<sup>5</sup> See Jiri Sedivy, The new member states: bridges between the former member states and the eastern neighbourhood, presentation based on a paper presented at the «Workshop on the European Neighbourhood policy», organized by CEFRES, DGAP and IIR, Prague, 10 June 2004, p. 7.



### 3. Prospects: What should be done?

ENP is an opportunity rather than a straight way to success. Advancement in the implementation of ENP depends on both sides. The EU has to stand to its commitments and has to steadily ask if the incentives are sufficient or how they can be elaborated. At the same time, there is no doubt that additional effort in the partner countries is a necessary condition for progress. What should the EU and member countries do to make ENP and the cooperation with Eastern European partners a success story?

- Partners need a «manifest destiny» where their European journey goes. This target point has to include an interesting and attractive reward for their reform efforts. A form of «association» might be such a destination. Because of this, the EU and their respective neighbours should start reflection about how «association» could look like and what implications for both sides it could have.
- Set aside the «membership-question». Most of the EU's Eastern and Caucasian partners want to join the EU at some point in the near future. At the same time, the EU, absorbed by internal challenges and frightened by the danger of overstretch, is extremely reluctant to give new membership promises to its partners. How should the EU deal with this divergence? Probably the best way would be to follow a line of «strategic indifference» and «enlargement agnostic». The Union does not know how it will look like in ten or twenty years, neither in geographic terms nor in terms of its *finalité politique*. That is, why it would be insincere and unrealistic to lock the doors for possible novices for all times. On the other hand, given the multitude of internal tasks ranging from the Constitutional Treaty to economic and social reform, the EU will not be willing to send a clear positive signal announcing the possibility of further enlargements. Taking into account these restrictions the EU should orientate its course in line with the principle «not now, but not no» – avoiding a way leading necessarily to membership, but also avoiding discouragement of the pro-reform elites in the partner countries.
- Concentrate on Action Plans. The bilateral Action Plans are the centre piece of ENP. In operative terms, (apart from the ENPI) they are the only real innovation triggered by Neighbourhood policy. If there is no progress with the implementation of the Action Plans ENP will face a set back and it might suffer a similar fate like the Partnership and Association policy of the 1990ies. In this context, it is important for both sides to define priorities. First steps in this direction have been done, (e.g. the ten point appendix to the draft Action Plan for Ukraine presented by Ferrero-Waldner and Solana in February 2005, or the so called road map, i.e. a set of concrete «measures to implement the EU-Ukraine Action Plan in 2005» presented by Ukraine's deputy prime minister for European affairs in April 2005). In sectoral terms, the EU should determine five or six priority areas of cooperation starting from the Union's own interests: domestic and internal security (Justice and Home Affairs); assistance for economic transformation; support for democratisation and civil society building; governance (including harmonisation efforts with the EU-Acquis); CFSP; energy, transport and infrastructure.

Given the obvious shortcomings of ENP, there is ample space for activities and initiatives of members states apart from or complementary to ENP. This also implies possibilities for cooperation between Germany and the Baltic countries.

- Together with Poland, the other Visegrád-countries, Austria and Scandinavia, Germany and the Baltic countries could try to build an informal coalition of countries interested in strengthening ENP. This group of

the «Friends of ENP» would ensure that ENP will be permanently anchored as a top priority of the EU- and CFSP-agenda. Moreover, it would prepare initiatives and proposals for the development of ENP.

- As for German-Baltic cooperation ideas concerning Ukraine and Belarus are highly welcome. Especially common proposals how to support civil society and democratisation in Belarus could be useful input for EU discussions. But the focus of German and Baltic cooperation in ENP should be the South Caucasus. It is this region, where the Baltic States see one of their foreign policy priorities. Their engagement in the region and their contacts with Georgia, Armenia and Azerbaidzhan, (e.g. the format of 3+3 meetings) are precious contributions to CFSP. The German and the Baltic Ministries of Foreign Affairs could draft preliminary Action Plans or elements which should be included in the official EU-Action Plans for the South Caucasus countries. Foreign Ministries and think tanks from all four countries could work out impact analyses of the approximation of South Caucasus states to the EU. Members of parliaments from Germany and the Baltic countries could organise common meetings on ENP with a special focus on the South Caucasus.
- Germany and the Baltic states could assess the record of Baltic Sea cooperation and the impact of EU-enlargement for regional contacts in the Baltic rim. Building on this, they could reflect upon possibilities how to transfer experiences from the Baltic Sea to Black Sea cooperation.

### 3. The Ukrainian view

*Dr. Michail Tolstanov, Senior Consultant, National Institute of Strategic Studies, Ukraine*

The famous British writer Gilbert K. Chesterton once said: «We make our friends; we make our enemies; but God makes our next door neighbour.» It is a basis for building up relations with each of our neighbours. Neighbourhood is a reality, a geographical, historical, geopolitical fact. This is a test for our tolerance, wisdom, capability to overcome the problems and benefits arising from advantages with each of the neighbours.

Today Ukraine, just like each of its neighbours, faces a key challenge: how to develop its relations under conditions of radical change in Europe caused by EU enlargement? To what extent does neighbourhood policy proposed by the European Union comply with the needs of the region as a whole and each country in particular? To what extent can it prevent new division lines in Europe, and preserve unity of the continent? How should each of our neighbours act in order to find its place in an ever more integrated Europe and in an ever more interdependent world?

The European debate on the limits of the EU enlargement is dragging on for many years and without a foreseeable end. At the same time the European identity is probably some kind of butterfly constantly escaping the net of politicians. I wonder about these geopolitical pundits who like to rack their brains, because the answer is in fact written in their Amsterdam Treaty and in the future Constitution.

Roughly speaking, there are four principal criteria to meet if a country wants to join the EU: geographic, political, economic and legal.

Geographic – a country has to be on the continent, though small exceptions are allowed: if Ireland is an EU member, why not Ukraine or Turkey?

Political – meaning mature democracy with all its indispensable elements.

Economic – to endure the pressure of the single market competition.

And legal – to be able to function in the EU legal and legislative area with all its ensuing obligations.

Geographically, Ukraine is without any doubt a part of Europe. Actually, the geographic center of Europe lies in Western Ukraine. Therefore, when the European Union regards Ukraine within the framework of its Neighbourhood Policy alongside with North African states, I feel a bit puzzled.

It could have been understandable before the Orange Revolution in Ukraine.

The essential meaning of the Orange Revolution is that it is part and parcel of the grand European project. Without any exaggeration, I would put it in one line with the EU Constitution and its enlargement. Not only because of its importance as an individual event in a given country. But because – as somebody rightly phrased it – the Ukrainian Maidan, the central square of Kyiv had been the heart of Europe. Economic and legal aspects of Ukraine's European integration will naturally take a longer time.

Today the EU is a major trade and economic partner of Ukraine. Our bilateral trade last year grew by 23% amounting to 20 billion dollars and one third of our external trade. The EU is also the biggest investor in our economy, with 45% of all foreign capital stock.

Contrary to some fears, the latest EU enlargement had no adverse effect on our economic relations, because the termination of free trade agreements with some of the EU newcomers were compensated by lower common tariffs.

We signed the agreement with the EU on our textile exports and agreed on the quotas for steel products for this year. In addition to the agricultural products, these are two major export commodities of Ukraine to the EU member states. Ukraine has long been famous for its powerful space industry and rocket launchers. Recognition by the EU of its continental and global importance was expressed in the invitation of Ukraine to take part in developing a new EU space strategy.

Ukraine is a focal point of Europe for international transit and integration into global transport network. We welcomed the EU initiative: «Wider Europe for transport», which envisages promotion of the Trans-European transport network until 2020. Probably the biggest opportunities are offered by Ukraine-EU cooperation in the energy field. The Ukrainian transit system has already become an issue of the European gas and oil security network. This is true both for a multilateral gas consortium comprising the countries of supply (mainly Russia and Central Asia), transit (Ukraine) and consumers (the European Union) member states, as well as the oil route Odesa Brody designated for transportation of Caspian oil to Europe.

We expect that new proposals of the EU in the area of energy policy will include Ukrainian electricity exports, alternative energy sources, diversification of routes of energy supply and energy saving technologies. In order to achieve this, Ukraine is prepared to develop and implement jointly the common energy policy with the EU. Integration of the Ukrainian infrastructure into Europe has been supported by financial incentives from the European Union. I should mention the loan of 2 billion US\$ by Deutsche Bank to upgrade our transit capacities, as well as a total of 250 million US\$ from the European Investment Bank.

Summing up, I should say that Ukraine is not a consumer, but a net contributor to big European projects.

Ukraine's roadmap with the European Union is very clear. We have already signed with the EU the Protocol on Ukraine's accession to the World Trade Organization. We expect the market economy status in the near future, and the beginning of the negotiations on a free trade agreement by the end of the year following our accession to WTO. After the next year March parliamentary elections, when Ukraine accomplishes political criteria for the EU membership, we intend to begin negotiations on the Association agreement, which is to replace in 2008 the current Cooperation and Partnership agreement.

The regional policy of Ukraine is another important asset to Europe. The democratic developments in Ukraine, Georgia and Moldova will mark the beginning of intensified regional cooperation in the wider area of Central and Eastern Europe, Black Sea and Caucasus and bring about sustainable economic prosperity to that part of the world. The main purpose of the regional policy of Ukraine is to create a homogenous area with the EU area of democracy, prosperity and security. The recent Summit of the so called GUUAM States comprising Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova, attended also by other Central European Presidents, will mark the birth of a new regional organization. Its activity will include political, economic, military and humanitarian dimensions. The free trade area within this group of countries is to be launched in the nearest future.

Another very important field of common efforts is the resolution of frozen conflicts in the region. Ukrainian peacekeepers serve in many parts of the world, including Lebanon, Sierra Leone, Kosovo and soon the Golan Heights in Syria.

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We trust and are committed to the European values. This is the only alternative for the country in the heart of Europe. European values should determine politics, the economy, and the well-being of citizens. I am convinced that this approach is common for the Estonians, Germans, Latvians, Lithuanians, Poles, Ukrainians or Russians. We have to show a political will and human willingness to ensure that all our nations will live in united Europe without new dividing line. The Berlin wall is no more and we have to do our best to avoid that a new Euro wall would not artificially divide those who live by European values and those who want to do so.

### 4. The Lithuanian view

*Jonas Daniliauskas, IIRPS, Vilnius University*

The first important thing when speaking about Lithuania's position on further enlargements and European Neighbourhood policy and the role our country plays in shaping these policies is that this should be analysed in a broader context. In other words, Lithuania's position and role is shaped and guided by one fundamental principle – after joining the EU and NATO, Lithuania should not only continue to pursue an active foreign policy, but also increase efforts in seeking more influence and visibility.

What is also important is that Lithuania's active foreign policy efforts are focused towards the East. Here, the EU enlargement policy and European Neighbourhood Policy provides us with a useful framework to act in. However, this does not mean that Lithuania's policy towards the new Eastern neighbours (new only for the EU, not Lithuania) is conducted only in the framework of EU policies. Bilateral and other multilateral contacts and initiatives are also important.

What is also important to note is that there is quite a visible differentiation in Lithuania's policy towards Eastern neighbours. At the moment, the priority is given to Ukraine. Lithuania is pursuing an active policy towards this country. We already have a visa-free regime, common institutions, such as a common Parliamentary Assembly, a joint Governmental commission. Also, just a week ago, a trilateral Ukrainian-Polish-Lithuanian Parliamentary Assembly was established. Lithuania, together with Poland, is the most active advocates of not limiting the EU's policy towards Ukraine only by the ENP framework, but giving to this country a clear EU membership perspective. However, this is long perspective, facing a lot of internal and external obstacles. Leaving the internal problems, I would like just to mention two main external ones. The first is the position of other EU member states and EU institutions. At the moment, the majority of the EU member states does not consider Ukraine's integration into the EU (not necessarily membership) as an important question. The second problem is the position of Russia. For Russia, losing Ukraine is a fundamental loss. Thus, it is obvious, that Russia will act by all means to keep Ukraine in its own sphere of influence and resist attempts to integrate the country into Europe.

The other priority of Lithuania's policy towards Eastern neighbours is Kaliningrad Oblast. Lithuania is very concerned about the socio-economic underdevelopment of the region, which could eventually cause economic, social and even political instability resulting in a «black hole» in Europe. However, the main problem and obstacle when pursuing an active policy towards Kaliningrad is the position of the federal government in Moscow. Moscow is also actively using the «Kaliningrad card» to influence Lithuania. That was the case in negotiations on transit of Russian citizens through Lithuania's territory to Kaliningrad from mainland Russia. This is the case now, when Russia is pushing for more favourable terms of transit of goods and also seeking a treaty on military transit.

The third priority is possibly Belarus. This is our neighbour state with the largest common border. We are especially concerned about the state of democracy in this country (or, rather non-existence of democracy). The main problem is that the relations between the EU and Belarus are frozen and ENP in practice is not applied to this country. However, the events of last months indicate that the West will probably soon play a more active role in Belarus.

When speaking about Moldova and the South Caucasian countries, we should also note that Lithuania is increasing contacts with these countries. However, one important observation here can be made – the intensity of relations is directly dependent on those countries will to modernise and Westernise. Only after the Rose Revolution in Georgia and elections in Moldova, the West, including Lithuania, increased their efforts to support democratic processes in these countries. We can thus observe a kind of conditionality principle here.

Speaking about further enlargements of the EU, one should note that Lithuania was always supporting the «open door» policy of not only EU but also NATO. This is shaped by three main reasons. First, history. Lithuania has just undergone modernisation and integration into the Euroatlantic structures and perfectly understands that a membership perspective is the best incentive for reforms. Second, the membership and even the process of integration are simultaneously the expansion of the zone of freedom and stability towards East. Third, further enlargements also mean slowing possible federalisation of the EU.

One may ask – why has Lithuania chosen to play an active role towards the Eastern neighbours? My personal answer is that this is a question of «finding our own role under the EU sun». In fact, all states act selfishly. They try to gain from the EU as much as possible. For some this is a question of money for farmers, for regions. For Lithuania, this is a question of stability in the neighbourhood. This can be achieved by playing an active role and shaping the CFSP, ENP and enlargement policies. In my opinion, this is the main reason why Lithuania is so keen in shifting ENP's focus towards the East and even replacing ENP for some countries, first of all Ukraine and Georgia, by an enlargement policy.

### 5. The Estonian view

*Viljar Veebel, Lecturer, University Tartu*

First, I must admit that in earlier days ESDP has been a great debating topic – it has been debated for ten years and yet we still have many open questions. I hope ENP will not suffer a similar fate, we continue talking but have very little practical experience. ENP could be something the EU really could do well as it does not need a consensus in any question and it needs mostly money, which is the strong side of the EU. The second aspect is that the EU actually has no choice about the neighbouring countries as we can see, for example, in the Balkan case. If there is a problem, you need to go there, you can't just stay aside. I think that is a very good lesson to our Georgian and Ukrainian friends: be a small troublemaker because if there is quiet and no crisis, attention is going somewhere else.

It was mentioned that we have no experience of neighbourhood policy. Actually, we do have quite a lot of experience – it wasn't called neighbourhood policy but people in the Baltics are quite familiar with the methods, for example, conditionality, urbanisation, so we actually do have quite good knowledge of how it feels being a target of neighbourhood policy. I think here we could serve EU very well because we could solve the semantic problem between the EU and neighbourhood policy target countries. If we meet, for example, Ukrainian or Georgian people, the main question they ask is: «What do they really want from us to let us in? How did you manage to sneak in? Can you teach us some small details how should we look like at the door?» Here we could give advice.

In academic terms there is, of course, the importance to analyse which are the critical variables of neighbourhood policy if we are quite agreed that the accession promise is one of the most important aspects. It matters most for the countries because it's a question of prestige and economic benefit. But maybe there are other variables and we still haven't discussed other possibilities, and here I am in a quite different position than Dr. Lang. I think that the membership question should be used in a very wise way as it has been done with Turkey. Actually, Turkey has tried to get membership for more than 40 years and it has worked very well in the sense that they still believe it. We shouldn't say anything concrete. We could just give hope. Taking the hope away is the most irrational thing we could do because hope doesn't cost anything.

On the other hand, if we look from the target country perspective, the best advice is: «Don't ask for membership. They don't like it. Just ask for partnership.» We see that we could help both sides to form good relations and to understand each other better and, as it was also said, neighbourhood policy is not a fixed policy. So, if we look at the groups – the countries are divided into groups – everybody can move and they can move quite fast as we have seen in the Moldovian case. You can go upwards and downwards – every kind of development is possible. If we go back to Baltic possibilities to participate in the neighbourhood policy, then we have the chance but not a given role. If we look how many Baltic people are already working for the EU, then it's not many and we also have somewhat of a bad reputation in that we are the troublemakers in some respects and are not the best PR people in the region. I think that countries in the Baltic region should also develop the concept of neighbourhood policy and try to participate in a dynamic way.

There are other questions and the first is value sharing. Is ENP about values or geographical location? These two things cannot be put together – if we say that some country has a wrong geopolitical or geographical location,



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than it's not good style for European values. We can see that it is quite often said that Georgia has a «wrong» location and maybe Ukraine has a better location and Belarus, on the other hand, has a «wrong» geopolitical position.

The last thing I want to add is the Caucasus question. We tend to lump these three Caucasus countries together, but I had a chance to chat with a Georgian civil servant yesterday before coming here and they did the Baltic trick again. They said: «There are no three Caucasus republics. We are not the Caucasus – we are the Black Sea Region Republic.» We tend to say: «Oh, they are in Caucasus – they must all be similar.» It's not the best way to start the partnership with them. I think we here in Baltics are much more similar than they there. The earlier the EU understands it the better, and the more successful ENP will be.

# Problems and perspectives of a Common Foreign and Security Policy/European Security and Defence Framework

## 1. Problems and Perspectives of CFSP/ESDP

*Volker Heise, SWP, Germany*

«I am convinced,» said Javier Solana recently in an article of the YES-Magazine, «... that 2005 will be a crucial year for the political development of the EU and its growing international ambitions and responsibilities. ... If we seize the opportunities that present themselves, we can deliver an EU foreign policy which is pro-active, coherent and hence effective.»<sup>6</sup>

Indeed, there are some opportunities to seize and challenges to meet if Europe wants to pursue a coherent, pro-active and effective CFSP/ESDP.

### Coherence

A question quite often asked by third countries is who is conducting EU's external relations. To them, the High Representative is well-known by his frequent visits around the world. If, however, something definitive is to be negotiated, the EU is – at the upper level – represented by the Troika, consisting of the actual Presidency, the Commission and the HR/SG. For non-EU participants of such talks it is rather unclear who of the Troika is effectively in charge. At any rate, for third countries the most attractive party is the Commission because it has the EU-money.

Most prominent in current news and headlines are the Union's talks with Iran. Compared to other organisations and actors, EU is better able to offer – and to withdraw – benefits, particularly in the economic and technological field, which are quite attractive to Iran, thus hopefully inciting her to seek co-operation on the nuclear issue. These talks, however, are not conducted by the Troika but by the «Big Three». Perhaps, EU representation is considered more effective, and for Iran more convincing, if interlocutors are chosen from France, Germany and United Kingdom rather than from the EU-Troika.

Institutional coherence between the various strands of EU policy planning and decisionmaking continues to be a challenge. The co-decision triangle consisting of the European Parliament, the Council (chaired by a rotating

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<sup>6</sup> «The future of the European Union International Actor» – Article by Javier Solana published by YES (Young Europeans for Security), 23-3-2005 (English)

presidency) and the Commission portrays only the upper end. More important are the different structures and committees dealing with CFSP. Both the first and second pillar include a General Directorate for External Relations, but only the Commission provides for an External Action Service (EAS). The EAS's network, consisting of more than 120 delegations and offices around the world, is wider than the foreign embassy system of many of the Member States. Sole responsibility for Community action for humanitarian assistance – a Petersberg task – lies with the Commission, however, not with the external relations directorate but with the Commissioner for Development and Humanitarian Aid.<sup>7</sup> Hence, there is another co-decision triangle requiring co-ordination and coherence.

The perspective given by the Constitutional Treaty on improving and simplifying coherence in EU Foreign and Security Policy is comforting. An EU Foreign Minister, double-hatted as Head of External Relations of the Commission, would certainly provide for more coherence between the first and second pillar. Moreover, a single External Action Service, serving both pillars, would further improve EU's ability to act consistently, in particular if the EU exploits to the full the strengths of all the actors involved – the Commission, including its Delegations, the Council Secretariat, and also the national diplomatic services of the Member States. There is huge potential for the future European Union delegations to represent EU external policy in bilateral relations with third countries. And money to save if the External Action Service is substituted for national embassies in many or even most of third countries.

However: what if the ratification of the constitution fails? The public-opinion polls on forthcoming referenda in France and the Netherlands are not encouraging. Establishing a EU foreign minister and external service may also be feasible through current mechanisms and procedures. It remains to be seen whether consensus on this issue between member states is achievable. For a coherent EU foreign policy this will be crucial.

### **Pro-activeness**

The Tsunami disaster left no possibility for being pro-active. However, EU's re-activity in the initial phase was not convincing either. Disaster relief is one of EU's Petersberg tasks. However, although a number of EU-states and NGO's reacted swiftly, the EU as such did not play a significant role in relief operations. EU's civilian headline goal which foresees some 4.988 personnel for civil protection including experts, co-ordination and support teams deployable within hours or days, did not come to bear.<sup>8</sup>

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<sup>7</sup> see: EU Commission CFSP, [http://europa.eu.int/comm/external\\_relations/cfsp/intro/index.htm#4](http://europa.eu.int/comm/external_relations/cfsp/intro/index.htm#4)

<sup>8</sup> Civilian Capability Commitment Conference 2002: «Civil protection»:

In this area, too, the objective has been achieved and consists of:

- 2 or 3 assessment and/or coordination teams, capable of being mobilised around the clock, and consisting of 10 experts, who could be dispatched within 3 to 7 hours;
- intervention teams of up to 2.000 persons for deployment at short notice;
- additional or more specialised means which could be dispatched within 2 to 7 days depending on the particular needs of each crisis.

The Civilian Capability Commitment Conference 2004 stated 4.988 personnel available for civil protection.

For obvious reasons, re-action of multinational organisations which require agreement and consensus between its members on planning and executing operations will always take longer than those of individual nations.

EU's structures and procedures require particular time to take collective action, because there is a need for co-ordination and agreement not only between members but also between the two pillars. Hence, EU's conclusions on its Tsunami assistance stated that there are lessons to be learned for improving its reaction capabilities, in particular to allow for better coordination of efforts on all levels and regarding all means (analysis, planning of means, operational conduct, prevention, etc.).<sup>9</sup>

All of these improvements – once set into reality – will be helpful but will not overcome EU's basic handicap for swift action, i.e. EU's complicated structures and procedures resting on two (or even three) pillars. Hence, putting the responsibilities and capacities for external action and relations of both pillars under a EU foreign minister will be a step forward. However, co-ordination requirements with the Commission's Directorate General for Development and Humanitarian Aid will continue to exist.

To be pro-active means to be prepared and to act in advance. This, however, does not only depend on structures and procedures. More importantly, pro-activeness requires that member states and the commission find consensus on a common assessment and a consequential policy apt to counter oncoming problems and the readiness to implement it and to bear the inevitable resulting costs, not only in terms of money.

### **Effectiveness**

Apart from coherence and pro-activeness, EU's ability to act in CFSP and ESDP relies on the Union's civilian and military capabilities. There is no lack of best intentions including setting of planning targets under respective Headline Goals. However, the Helsinki Headline Goal 2003 has elapsed without being accomplished to its full extent. The Capability Improvement Chart I/2005 still lists 57 deficiency areas, 24 of which are judged significant. The Headline Goal 2010 goes even further, in particular with a view to strategic mobility.

To overcome current European capability gaps requires co-operative approaches combining synergy and economic use of existing resources. The efforts undertaken by the various ECAP<sup>10</sup> Project Groups are helpful. The establishment of the European Defence Agency is expected to give further impetus into the process. The effects of such endeavours, however, are limited. The crucial factor impeding far-reaching progress continues to be the constraints of financial resources. The simple solution of spending more money on military capabilities is not realistic in view of limited and even shrinking defence budgets. Hence, new co-operative approaches are necessary to overcome current limitations which are first of all EU nations' desire to retain a maximum of national sovereignty in defence matters. Therefore, approaches which allow for much better use of existing resources and consequently for more important savings require a pooling of particular functions of sovereignty.

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<sup>9</sup> See: EU Factsheet 'Tsunami and Reinforcing EU Disaster and Crisis Response'

<sup>10</sup> European Capabilities Action Plan

Air policing over Baltic territories, for instance, is being performed by other NATO-allies, due to the lack of appropriate air forces of the Baltic States. Conducting air policing within European Airspace as a common task, not separated by individual nations' borders would allow important savings of resources. Sea surveillance in North- and Baltic Sea is, despite of Schengen arrangements, a rather national task for which each nation provides a variety of ships and aircraft. The number of these could be reduced remarkably if sea surveillance would be conducted by littoral states collectively. The Belgian and Dutch Navy have successfully established a joint Maritime Headquarters (MHQ) for both navies. Following this example, the German MHQ in Gluecksburg could easily accommodate planning staffs from other Baltic and North-Sea nations in order to perform MHQ tasks jointly. Such joint MHQ could even pave the way to a future European Navy.

EU's civilian capabilities for crisis management are impressive in numbers. The Capability Commitment Conference in 2004 confirmed that Member states' voluntary commitments are now 5.761 in the area of police, 631 for rule of law, 562 for civilian administration and 4.988 for civil protection. However, Ministers also stressed the urgent need of appropriate operational planning and support capabilities, of adequate financial resources and of adequate solutions on the issue of procurement. Last but not least, Ministers urged the promotion of effective close co-ordination and coherence between Community and ESDP activities.<sup>11</sup> The «lessons learned» from EU's reaction in the Tsunami context have to be added.

Although autonomous operations and missions is one of EU's options for taking action, the European Security Strategy clearly states that «...there are few if any problems we can deal with on our own.» Apart from those areas, where EU has already been engaged for quite a while, Iraq, Iran, Middle East Peace process, African trouble spots are some of the challenges to security and stability which need a broad co-operation of all those organisations and actors who are able to contribute to a solution.

Most challenging for the time being are relations with NATO and the United States. Co-operation under the Berlin-plus agreement continues without significant problems for the current EU operation 'Althea'. However, political consultation between EU and NATO seems to be at its lowest point. The underlying Turkey-Cyprus issue is an obstacle not easy to be solved in the short term. The consequences of such stalemate may be more serious by estranging both organisations in these days where closest consultation and co-operation on prevailing security issues is required.

Solving the current Turkey-Cyprus issue is, however, only one part of the problem. The existing structures and procedures for consultation and co-operation between the two organisations need a more fundamental overhaul because they are too complicated and bureaucratic and full of apprehension that one organisation might infringe upon the autonomy of the other. It is obvious that both organisations have different means and strengths at their disposal, it should also be obvious that a synergy of both will be necessary to solve current and forthcoming challenges. Hence, a high-ranking panel of independent figures from both sides of the Atlantic established by the governments of the European Union and the US, as proposed by Chancellor Gerhard Schröder, could find a solution not only to a reform of NATO but also to a more effective co-operation between NATO and EU.

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<sup>11</sup> see: Civilian Capabilities Commitment Conference: Ministerial Declaration, Brussels, 22 November 2004  
<http://ue.eu.int/uedocs/cmsUpload/COMMITMENT%20CONFERENCE%20MINISTERIAL%20DECLARATION%202022.11.04.pdf>

EU relations with the US are looking forward to a fresh start after Condoleezza Rice's and the US president's visits to Brussels. There is, however, a need to support and realise the aspirations expressed in February. The existing machinery will not suffice for conducting a continuous dialogue necessary to avoid misunderstanding and to resolve differences. This is neither a question of enhancing the number of the twice-yearly EU-US summits nor of new committees. It is rather a question of establishing appropriate contacts and a continuous open dialogue between those persons in both administrations, who deal with foreign and security policy. On EU side, an EU foreign minister supported by his external action service would best be suited to assume this task.

#### **Conclusion**

The Union's CFSP and ESDP have a lot to offer for resolving existing and forthcoming international crises and problems. At present, however, EU is far from bringing the potential of its institutional resources and those of its 25 members to bear in an optimal way. Therefore, improvements in coherence, in pro-activeness and effectiveness are indispensable. Institutional solutions including the possibilities offered by the Constitutional Treaty will be helpful. The effect of these, however, will be limited as long as nations do not choose a more integrative approach. Hence, EU members have to prepare themselves to act as Europeans and not as individual nations within an organisation of 25. New approaches, which necessarily infringe upon national sovereignty may, at the time being, not be achievable with all members. However, some nations willing to do so could be in the vanguard.

## 2. The Lithuanian view

*Margarita Šešelgytė, IIRPS, University Vilnius*

Before starting my short intervention I would like to emphasise that although Lithuania strongly supports ESDP, one has to realize that apart from the EU Lithuania also participates in other multilateral forums such as NATO, UN, OSCE, and it has strategic bilateral partnerships with a number of countries. Thus, whatever expectations Lithuania has towards ESDP they have to be viewed in the broader context.

1. For several years since the introduction of the defence dimension in the EU, Lithuania showed no major interest in it and perceived this initiative rather as vague rhetoric and not real actions. Those perceptions had a credible rationale and were grounded in Lithuania's hard security preoccupations, prioritization of NATO and close relations with the US. Due to the lack of consent between member states and underdeveloped military capabilities, the EU itself was not very helpful in attracting member states' positive attention towards its newly emerging policy.
2. Membership of Lithuania in the EU has committed Lithuania to participate in the ESDP. Moreover, recent developments in the domain have introduced more credibility in the ESDP thereby making it a more attractive project in which to participate.
3. It should be mentioned that aiming to contribute to ESDP, Lithuania, being a small country and a country with a recovering economy, underwent serious deliberations because it possessed only very limited capabilities, which already had been factored into NATO. The final decision was to contribute to both organizations with a single set of forces. That was a wise decision for a small country but the smooth and efficient implementation of it inherently depends on the level of coordination between the EU and NATO.
4. The issue of coordination is very controversial and is constantly debated in both the EU and NATO, also in the member states. Is the labour division between NATO and the EU attainable? Although there is considerable progress in cooperation on the lower levels and in the military domain I have to say that for today the answer to this question is still pretty vague. Expansion of the definition of Petersberg tasks, development of Battle Groups (BGs), the evident lack of political dialogue between two organizations might be indicating serious potential for competition, which is not favourable for Lithuania.
5. As I have already mentioned Lithuania has a very special partnership with the US, which is crucial for the security of our country. Thus, another issue that is worth considering when talking about Lithuania's contributions to ESDP is our participation in US led ad hoc coalitions. If NATO fails in the transformation and the USA decides for future military operations to use other forums than NATO – who can assure that Lithuania will not find itself between the rock and the hard place trying to contribute to the EU defence initiatives and USA led coalitions? If it is so hard to coordinate NATO and the EU activities, will there be a considerable level of coordination between the EU and USA in the future?
6. One might argue by saying that military operations conducted by the EU and the US led coalitions will differ in their intensity, would require rather different capabilities and therefore the US and the EU will not compete. Anticipating those arguments in advance I would like to pre-emptively emphasize that first of all

at least part of the capabilities would be the same. Secondly, one has to bear in mind that small countries have very limited resources (financial, human etc.) to contribute. Thus they might be posed with yet another challenge – how to evenly distribute those resources? And this challenge might concern not only capabilities but also development of their national defence systems.

7. I know that some of the EU member states have recently been investing in capabilities for Network Centric Warfare which appear to be more appropriate for robust «search and strike» operations that are more applicable for NATO or the US led operations. At the same time the same states have to generate military capabilities for the EU crisis management operations. How do states avoid confusion and contradicting goals when under pressure to develop capabilities enabling them to join ad hoc coalitions?
8. Considering what has been said I believe it is evident that participation in ESDP for Lithuania means difficult considerations, defining the level of its political-military ambitions and bringing them in consistency with the resources possessed and national interests.
9. So far I have touched upon just one cluster of the whole ESDP related *problematique* – capabilities. Although it is a very important issue and worth discussing, it makes sense now to go one level up and talk a bit about another challenge which is sometimes even more serious for the future of ESDP than capabilities – that is the future of the EU itself. The first issue to be addressed in the domain is what role will the EU decide to play in the future? Will it be a global or a regional actor? Although the Security Strategy might indicate that the EU is becoming a global actor, it is highly questionable if all member states agree with this and view «global involvement» in the same terms.
10. Due to the lack of a coordinated CFSP it would be very challenging to overcome problems arising because of diverging national interests. External activities of the individual member states vary a lot and depend on a variety of factors such as the geographical position, size, history, alignment etc. Will the EU countries be ready to risk their soldiers' lives in far away countries for the EU? I am confident that countries that are far away from the troublesome regions would be less interested in participating in military operations there unless there is a considerable basis corresponding to their key national interests.
11. Therefore, I would like to argue that one of the major challenges for ESDP is ensuring strong political will to create ESDP. It is very important to promote a political and institutional culture stimulating member states to define their interests in the EU perspective. Also to promote the perception of the EU members that they are a part of a united global actor, i.e., the EU and also to encourage the same perceptions outside the EU, i.e., that the third party states should communicate with the EU as one actor rather than with member states on a bilateral basis.
12. Is Lithuania interested in a successful globally acting EU? I believe that the answer is yes, because Lithuania is a part of this organization, it is involved in its activities and the success of the EU as a global player is also the success of Lithuania. Moreover, for small member states the EU provides unique access to the scene of world politics through sharing of information and participation in procedures and policies that expand the scope of their foreign policies. However, in this respect CFSP should not become an exclusive club of the big and the most influential EU countries with the interests and initiatives of small states being neglected,



suppressed or unwelcome as was the case with the reaction of some EU members towards Lithuanian-Polish initiative during the Ukrainian crisis.

13. Coming back to the issue of the EU's future role, it is worth discussing one more aspect of this role. Even if the EU chooses to act globally with the consent of all member states it is still unclear whether the EU would remain a civilian actor or will seek a greater military role, which still remains important to any entity aiming to become a credible global power even in the XXI century.
14. Is there any evidence that the EU is undertaking a civilian track? First of all this was mentioned in the Security Strategy of the EU, secondly the EU is constantly developing its civilian capabilities, for example at the end of 2004 the member states started contemplating the creation of something similar to BG's in the civilian domain.
15. What does that mean for Lithuania? I believe that Lithuania should consider getting more involved in civilian aspects of ESDP. First of all because it is a rational solution for a small country which cannot purchase extremely expensive modern military technology. Secondly participation in civilian missions might bring relatively more political dividends and be more cost effective. One is that apart of its military contributions to ESDP Lithuania has initiated Rule of Law mission in Georgia THEMIS and now a Lithuanian representative works there as the Deputy Chief of the Mission. That is a great achievement for a small country.
16. Summarizing, it is in the interests of Lithuania to be an active part of ESDP/CFSP, to support both of them, to make them effective. On the other hand Lithuania's participation in ESDP means difficult considerations, defining the level of political and military ambitions and bringing them in consistency with the resources possessed and national interests. Limited resources would inevitably put the emphasis on the request of better coordination with the NATO and US led coalitions. Moreover it is very important that in the framework of CFSP/ESDP Lithuanian interests should be taken into account and defended because this is the only way of building a European identity in our country. If this does not happen I believe that Lithuania might search for alternative forums for security and foreign policy related activities.

### 3. The Latvian view: CFSP/ESDP – a success story?

*Kristaps Misāns, Desk Officer of Policy Department, MFA of Latvia*

Looking back at the origins of European integration most Europeans probably have not viewed the EU as an organization providing security. In a sense they are right. Despite that security has always played a significant role in European integration. Even if integration started primarily at the economical level, the idea of a common foreign and defence policy is as old as European integration itself. Today, after more than 50 years of European integration, security policy is once again on the top of the European policy agenda. Threats like terrorism, failed states, organized crime or frozen conflicts define the need for more engagement from the EU side.

Integration of foreign and defence policies has its ups and downs and could be seen in both ways. On the one hand the development of CFSP/ESDP can be judged as a story of success. No doubt, since Maastricht and then Cologne, both CFSP and ESDP, have moved forward a lot. Objectives have been set, the European Security Strategy adopted, new institutions created and ESDP missions successfully started. At the same time not all opportunities have been explored in this regard.

On the other hand, the interests and opinions of 25 EU member states on many foreign policy, not to mention defence issues, differs. The gap between expectations as opposed to the real input leads to well-grounded skepticism about the capabilities of CFSP/ESDP. Moreover, the unclear relationship between NATO – EU and relations with U.S. is one of the issues that needs to be further discussed and resolved.

#### **Latvian security policy and peacekeeping missions**

Since the independence in 1991 security issues have always been a priority for Latvian domestic and foreign policy. Therefore our integration into NATO and EU has been the main foreign and security policy goal for a long period of time. Our view on threats is similar to that of our partners in the EU and NATO. Today, as a full member of NATO and EU, Latvia sees both organizations as important partners, however Latvia considers that only NATO with a strong U.S. involvement can guarantee our security. And we are convinced that we can only deal with those threats together with our partners, engaging actively in the peacekeeping missions within NATO and EU. During recent years Latvian participation in international peacekeeping missions has become one of the most important aspects of our security and foreign policy. Currently, Latvia contributes 142 troops to international operations. Furthermore, by August 2005 the number of our participants to international missions should reach 300 persons, as Latvia will send about 100 troops to the NATO mission in Kosovo (KFOR).

#### **Need for effective EU – NATO cooperation**

The EU – NATO relationship is one of the issues that needs to be resolved for a successful future of CFSP/ESDP. Latvia has always supported European Security and Defence Policy. However, ESDP cannot be an alternative for NATO, as the Alliance remains the only organization that can carry out broad scale military operations and give Article V guarantees. In our view ESDP should complement NATO. The member states should use their military expenditures wisely and effectively. On a more practical level there is an open question about Battle Group compatibility to NATO Response forces as the concepts of both are similar. In November 2004 Latvia decided to form a Polish lead Battle Group together with Germany, Slovakia and Lithuania. Currently the Battle Groups as

well as the European Defence Agency should be the main tasks for ESDP. At the same time it is important to raise the question on how compatible NRF and Battle Group projects are. The Latvian view is that there should be a clear principle of rotation between the NATO response forces and EU Battle Groups, and NATO standards should be used as a basis for development.

### **Need for wider EU engagement**

It is often said that Europe has to become as big a political power as it is economically. The European Security Strategy states – «Europe should be ready to share the responsibility for global security and in building a better world». It is a good objective, however, Europe needs to show its commitment in this respect. The EU is doing a lot in this aspect through its engagement in the Balkans, Central Africa or even Afghanistan. At the same time more engagement is needed in the EU Neighborhood policy. The Orange Revolution in Ukraine and overall democratization processes in the former Soviet countries opens up an opportunity to actively engage in those processes, however, some European countries do not show sufficient interest contrary to the U.S. which has become actively engaged in the region. President Bush in his speech in Riga on May 7 expressed support for democratic reforms and freedom all around the world. There is uncertainty in the EU policy towards Ukraine, Georgia or Belarus, and it seems, that this sort of engagement and support is missing in Europe. It is argued that the EU is lacking more capabilities than political will, but maybe sometimes it is a problem in both senses.

### **Need for better military capabilities**

For the ESDP to be effective member states should pay sufficient attention to their national military capabilities. In this respect the European Defence Agency (EDA) is a right step towards a more harmonized policy on military expenditures and improvement of overall military capabilities within the European Union. Thinking about improvement of military capabilities, Latvia has revised its National Defence Concept in 2003, which states that participation in collective defence, establishment of professional armed forces, co-operation between armed forces and society, and international military co-operation are the basic principles of defence. A new structure of professional National Armed Forces has been developed. The overall reforms should be completely implemented by 2007. Latvia announced its participation in the EDA on June 21, 2004.

### **CFSP not yet, but soon**

Thinking about the future of CFSP/ESDP one can say that the European Union member states have a lot in common – the same values and a similar understanding of security problems as well as common partners outside Europe. This makes for an optimistic view about further integration of foreign and security policies and the development of ESDP despite existing problems.

### 4. The Estonian view

*Viljar Veebel, Lecturer, University of Tartu*

First, what seems to be a problem in the ESDP context, as well as in the defence context, is that if we look at the map of Europe and we put on it military capabilities, and levels of threat perceptions the countries feel, then we see that actually the resources are not distributed rationally. We have capabilities where they are not needed, for example, in France or Germany (but actually there is no big threat there) and we have quite big feelings of threats in the Eastern Europe area, or in Greece, which actually are not the big players in military terms. Starting from that position it is quite hard to have a common policy because some countries feel they could do more. They could go, for instance, to the Congo or somewhere else because they don't feel threats at home and the hammer is just wasted. Other countries, like the Baltic countries, are extraordinary weak in military terms. If we put the three Baltic countries together and compare them to Finland – actually there is nothing to compare. If the world is so peaceful as they tell us, why don't Swedes and Finns understand that? And that is one of the main public questions in the Baltics – people will understand it on the high state level but if we look at the public opinion polls, the people say that they can't feel secure even at home. That's why, for example, we are not ready for the Petersberg tasks because of limited resources. Public opinion, of course, influences the state position because the Minister of Defence as well as the Prime Minister need votes in elections.

The second problem which seems to be evident in ESDP is that we have that ideal model of the Petersberg-type mission, and we are preparing for that already for many years. But does anybody of you know where are we going to find it in the near neighbourhood of the EU? We may look at the map and say: «Maybe there will be a conflict in Belarus, or maybe there will be a conflict in Ukraine, or in Georgia!» But actually they are not matching the criteria of the Petersberg tasks. So we have a very theoretical problem – we have a very nice type of mission but you can't apply it in practical life. The battle groups seem more practical, and the EU itself is beginning to understand at least in some aspects, that there is no Kosovo-type mission anymore.

Third, what we also need to consider is that in the situation where member states claim that they want to develop CFSP and ESDP, but we note only slight practical results, it can mean only two things: either there is no threat, because crisis is a situation when countries are ready for cooperation and if the countries are not ready for cooperation, it means that there is no threat. The second option is that they feel threatened but they use another framework for that. If we are not solving that question, it is very complicated to go on with ESDP.

I have one suggestion as well. There have been problems with the division that we call Old Europe and New Europe and how to overcome it. In this sense, if the New Europe is told that there are new types of threats and old types of measures are no longer needed, then people from the so-called New Europe can always ask: «Why don't we redistribute some resources then if there are no traditional threats in the region?»

# Current cleavages in the EU regard to a successful Lisbon Strategy

## 1. The Latvian view

*Atis Lejiņš, Director, Latvian Institute of International Affairs*

This theme is quite possibly the most important task of the EU. If the EU loses its competitive edge in the global market, and hence becomes economically stagnant, there will not be much to say about the themes we already have discussed. It is hard to imagine a successful ENP and CFSP/ESDP without economic growth and economic growth now is dependent on a knowledge-based society. In fact, a consolidated EU is impossible either if the new member states do not catch up with their richer cousins in living standards.

Globalization and the growth of new super powers will force the EU toward greater integration and adoption of innovative economic policies in line with environmentally friendly sustainable growth. The most forward thinking brains are already positioning themselves for the post-oil and gas era, which demands innovation in the sciences, especially R&D. New technologies in the exploitation of alternative energy sources will, of course, hasten the end of the oil and gas era together with the national rivalries, politics, wars, and pricing that belong to it.

In my country there is a tremendous waste of left-over wood products in Latvia, which, if harnessed to the new technologies, could provide as much heat and electricity as does one major power plant on the river Daugava. In principle, Latvia could become self-sufficient in electricity generation. If this is not the case, clearly politics and various lobbies, as in the case of the Lisbon strategy in general, impede its successful implementation.

Unfortunately, we do not have a Latvian expert to speak on this subject today. But on May 3 we did have a seminar devoted to this subject in Riga under the patronage of our President Vaira Vīķe-Freiberga and attended by Commissioner Verheugen and leading Latvian specialists. A critical summary of this seminar written by a German expert will be included in the published proceedings of this seminar.

## 2. Complementary report related to the importance of the Lisbon Strategy for the Baltic states

*Peter Lindholm, moderator «From Knowledge to growth» – Seminar*

*Peter Lindholm acted as moderator in the seminar «From Knowledge to growth» held in Riga on May 3rd, 2005 with speakers of the most responsible political level of Latvia (President Viķe-Freiberga, Minister of Education, Minister of Economy) and jointly organised by the World Bank and the Ministry of Economy.*

During her opening speech, President Viķe-Freiberga told the audience that the issue of competitiveness and growth required a «hard-nosed» approach. This note will take this invitation as a requirement, as I believe the time has come to be straightforward. The tone used in this note is simply driven by the feeling of the author that the implementation of concrete and innovative actions is a matter of urgency in Latvia if the country wishes to succeed in building its future on knowledge.

### Comment 1: About speeches

A number of speakers, including the President, have insisted on the problems faced by this small country with no natural resources, a frightening neighbour, etc. Although these statements are true, my reaction is: so what? These facts should not impede Latvia's willingness and ability to become a knowledge-based economy (Latvia will probably not become bigger, it will probably not find mineral resources in its soil, and it will probably not have new neighbours) and these facts or analysis does not naturally lead to solutions. The Inno team\* has worked with over a hundred regions across the European continent and a number of them have succeeded in creating wealth through the exploitation of their knowledge base, although they had not much more to offer than Latvia. The keys to success in these areas that «*have nothing special to offer*» are always the same:

- A clear project champion. In Latvia, the President of the country definitely represents this asset. Not many places can claim to have the same.
- A long-term vision that is not impeded by political changes (see comments 2 on vision).
- Enough people able and willing to implement new approaches even after a number of failed attempts.
- An ability to use external financial resources in an intelligent fashion (see recommendations).
- A strong capacity to share the vision and the implementation strategy with the population and key stakeholders.

### Comment 2: About the vision

The vision presented by Professor Karnitis on the behalf of a group of people who have worked a long time on this issue has the great value of starting the process of preparing policy-makers, practitioners and others sharing a common view on how the country could (should) evolve in the coming years. The problem I felt during this very creative and successful presentation is that this was not leading to a vision that would create

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\* Inno AG, based in Germany

consensus and ownership for the population at large; neither would it help to develop the adequate strategy for the implementation of the vision. In other words a vision that makes proposals that have no opposite is difficult to grasp and implement. For instance, stating that the vision is looking for wealth is good but obvious. No economic development vision is based on creating poverty. In our understanding of successful economic visions, statements need to have a benchmark and results must be measurable; otherwise there is no chance to create the logical framework that goes from a vision to a strategy, from actions to results. Moreover, a vision of growth that is innovative needs to be endorsed by the population at large allowing the necessary changes to be understood and supported. Having a joint «target» is the only way to create not only the necessary momentum but also the credibility. Credibility is the key in a world where most citizens have a poor opinion of the capacity of policy-makers to implement policies that will, in turn, make them feel better off.

### **Comment 3: About the comments from the floor**

It was really good to see how much the audience was interested in the subject: «How to become competitive with knowledge in a world that is perceived as dangerous?» Moreover the questions spanning from the different attendees demonstrated a readiness to endorse changes that would ensure policies based on innovation, education and science would become the driving force of the economic growth of the country.

However, the comments also demonstrated – from my perspective – some important issues:

- Using the same words does not mean everyone understands the same thing and it was rather clear from a number of commentaries that people did not always have a clear understanding of what an innovation policy would mean *in reality*.
- It seems that the audience was very «ethno-centric». In other words, not taking into account that Latvia is not operating in a vacuum. It operates in a friendly environment (the Union) and a very challenging globalised world. The lack of understanding of this situation could lead to a disaster.
- A possible lack of understanding of the financial mechanisms allocated by the European Commission. For instance, the comment by the Ministry of Education about being proud of having enough co-financing for EU related initiatives could lead to the incapacity to use the available funds. On the same theme meetings held aside from the seminar clearly demonstrated a difficulty to cope with the opportunity of Structural Funds, this is especially demonstrated in the current Single Programming Document and the behaviour of the Ministry of Finance regarding spending (see recommendations below).

Finally it should be noted that the audience complained about the inability of politicians to attend the complete meeting. The feeling from the floor was that politicians/policy-makers will never grasp real needs if they do not allocate time to debate seriously with those that are in charge of implementing such policies.

### **A few recommendations**

The motto chosen for this note is about Latvia being a «sleeping beauty» in the Baltic regional environment. The reason behind this statement is that I firmly believe the country has all the necessary assets to become a knowledge-based economy. This view can obviously be challenged; nevertheless experience demonstrates that such a turnaround of the economy is feasible when policy-makers implement a serious, long-term strategy facilitating such

a move. A concrete example, often mentioned by the World Bank is that over 25 years ago Korea and Ghana had the same GDP. Korea decided – from nearly no basis – to develop its economy using innovation and technology. Everyone knows what happened with the great success of this country. Ghana has a lower GDP today than 25 years ago...

Some recommendations based on experience and our knowledge of the Latvian situation:

### Vision:

- Develop a vision that is based on an ambitious – but feasible – goal.
- Ensure this vision is disseminated to all necessary stakeholders and that they take ownership of this vision.
- A vision is a long-term approach. Stability of the vision must be guaranteed as far as possible.
- Elements already designed can lead to this. Simply more work and maybe more consultations of those that will have to implement the vision and those who will benefit from it.

### Strategy:

A vision with goals will naturally lead to a straightforward strategy that clearly describes who does what, when and with what resources. A strategic plan is not a «plan written in marble». It is a tool allowing stakeholders (policy-makers and practitioners) to adapt activities keeping in mind the vision. A monitoring system (not audits) based on fair and independent reviews is a necessary tool allowing policy-makers to adapt the strategy to real-life conditions.

### Teams:

People implement strategies. This sounds obvious but many very good projects/strategies fail because the investment in the right people at the right place has not been done. We suggest that all actions to be undertaken under the strategy are carried by the most efficient people available. If they are not in the country, try to attract people from the Diaspora or Europeans ready to deliver.

The key is to have teams that agree to be «liable for the results». In other words, people who will not systematically find external reasons for not delivering what was requested from them.

### Establishing the right support infrastructure:

Firms (existing companies, inward investors, start-up companies) need support to become more innovative and more competitive. The State has the duty to establish the correct legal and regulatory environment but it also has to facilitate the implementation of a support infrastructure that understands how firms operate and that can deliver the adequate support to those that wish to grow. (see also comments on competencies and teams).

### Money:

The success of an innovation strategy also implies access to sufficient public funding to establish the correct infrastructure and allocate funds to R&D organisations and firms that are innovation-driven. Key to this process is the necessary access to Structural Funds.



Our view is that, when considering the innovation theme, this public money should be considered as an investment and not simply as public spending. In other words, it is a philosophical shift, where the public sector invests and therefore expects a clear, measurable return-on-investment. These investments should follow the business planning path allowing the public sector to forecast the type of return it can hope for.

The next Structural Funds period allocates large amounts of finances to the so-called «soft measures». These measures are the most adapted tools for developing and implementing an innovation policy.

The Government should consider the best possible way on how to attract such funding and how to allocate it to the innovation infrastructure and to companies. A few European Regions have successfully designed new approaches towards the utilisation of Structural Funds. Lessons learnt could be of use for Latvia.

The lack of available co-financing from the Budget **should not be a barrier**. It should never be used by the Ministries to block the investments. If such an investment requires additional funding to be able to match the co-financing rules, we recommend the Latvian Government to look for additional resources from international Donors or lenders. This can only be done if the expectation of return-on-investment is clearly stated and studied.

*To conclude, Latvia is comparable to many European areas that «have little to offer» but have clear identifiable assets that need to be enhanced. We have full confidence that if resources move away from simply producing new reports and that all efforts and capabilities are tuned towards delivering results, Latvia will achieve its ambitions.*

### 3. The Rationale of the Lisbon Strategy and the Mid Term Outcome

*Ognian N. Hishow, SWP, Germany*

Back in the late 1990s the world economy was experiencing unprecedented prosperity with high growth rates in East Asia and North America, almost fading business cycle fluctuations, and the reduction of hitherto stubborn unemployment in a number of European countries. Economic optimism was at its peak, and there were economists calling to rip up the old text books in economics as a new era of limitless expansion was approaching. One major justification for the new optimism rested upon the positive experience with the newest technological revolution, especially the information and communication technology (ICT), which seemed to penetrate all parts of the economy and to boost productivity growth and the wealth of nations. Yet some differences remained: The European Union's economic performance trailed the United States and the new boom was unevenly distributed among the EU member nations. While some Scandinavian and Anglo-Saxon countries like Finland, Ireland and Britain did in terms of growth and employment well, the economies of the big Eurozone countries – Germany, France and Italy – still lagged behind.

The EU Commission identified that structural rigidities hinder Europe's potential dynamism and that education and R&D need to be improved for the economy to better exploit modern technological developments, first of all the rapidly spreading ICT (Tabellini/Wyplosz, 2004). In March 2000, the EU proclaimed what soon became the «Lisbon Agenda», a program to invigorate Europe and to make it the most dynamic, knowledge based economy in the world by 2010. The member nations were called upon to deliver appropriate policies to raise the pace of growth by speeding up technical progress, eliminating unemployment and by strengthening social cohesion.

Five years on, the conclusions of the mid-term review, which the heads of state and government unveiled at their summit on 22 and 23 March 2005, made disappointing reading, for the strategic objective set back in 2000 can no longer be achieved. Soon after the adoption of the Lisbon Strategy real economic growth started slowing. Indeed, the estimated average annual growth of 1.4% in the euro-zone between 2000 and 2005 has been particularly unsatisfactory. This average was dragged down by the results of some of the continent's leading economies – Germany, France and Italy – which contrast starkly with markedly better performances by other partners, in particular Ireland, Greece and Spain. The upshot of this is a further shift in the prosperity rankings, measured in per capita GDP in Europe, but also between the major economic blocs. One ominous sign is the dramatic slide by the Federal Republic of Germany in comparison to its western European partners and to the accession countries from Central and Eastern Europe. Whereas in 1995 Germany still boasted per capita income that was 10% above the average for the EU-15, by 2003 its performance had already dropped below that average and it is now close to the average for the enlarged 25-member Union. In other words, implementing a common EU-wide strategy for growth and employment has not helped Germany to reverse the current unsatisfactory trend (Becker/Hishow, 2005).

#### **Hitherto Performance of Member States**

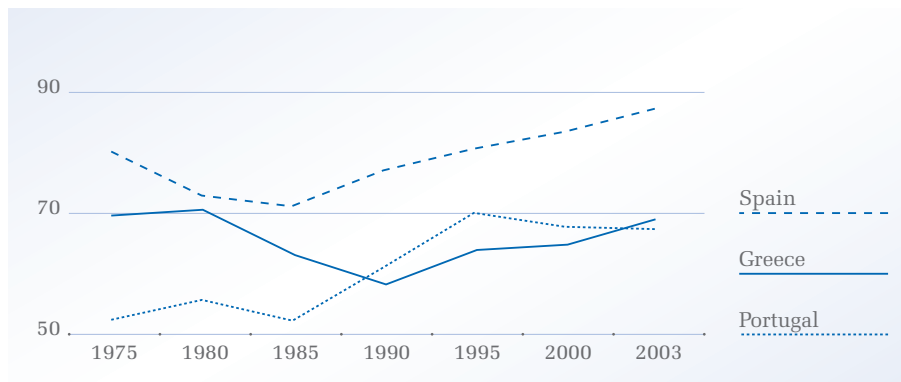
Growth theory predicts rapid economic convergence between advanced and «backward» regions or nations. The catch-up process is driven by the 'returns to capital' paradigm: The poor region is offering higher returns per additional unit of capital invested, whereas the capital-abundant region suffers low marginal product of capital.

While searching for better investment opportunities capital is moving from the rich to the poor region until the stock of capital per worker in both regions equalizes.

To verify such predictions empirical tests usually focus on the ability of the Central and Eastern European (CEE) economies to catch-up while opening up to capital flows, reallocation of input factors, and getting rid of long-lasting macroeconomic disequilibria. However, different income levels and returns to investment between regions alone are no guarantee for real convergence. During the last three decades and more some West European EU members (Sweden, Denmark, Germany) have been converging towards the Union's average by decline of their relative per capita levels. Others, like Austria have performed the opposite way, whereas the United Kingdom had been neither converging nor diverging, though it had been fluctuating heavily around the EU average. Besides Britain, other so called non-catching-up economies like France and Belgium have been performing neither better nor worse than the average.

Some of the cohesion economies, especially Ireland and Spain, did achieve remarkable growth which resulted in a per capita GDP above the average (Ireland), or in almost closing the gap (Spain). Nonetheless, Spain's catch-up process had not been straightforward. Rather, after some divergence in the wake of the transition from General Franco's dictatorship to democracy its economy had succeeded to switch to a more sustained convergence path. Portugal did better until the mid-nineties when the catch-up process became staggering under weak growth. Worse, Greece has almost not been able to converge in real terms yet (Figure 1).

Figure 1: **Per Capita GDP in Cohesion Countries, Percent of EU-15 Average**



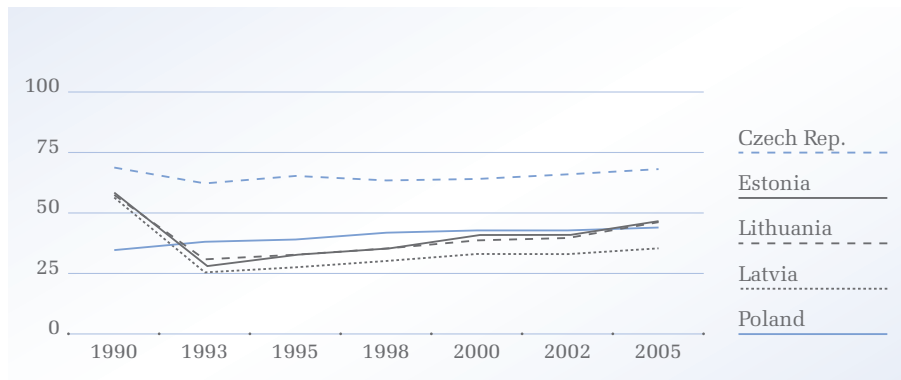
Source: European Commission

For Eastern Europe, the conclusion is that closing the income gap will not come automatically at the end of the day, i.e., just as a result of the opening up and integration into the EU-15 economy. It is important to keep cost in check, so capital inflow, growth, and real convergence will continue. A prerequisite is that market distortions are avoided, so market forces can bring about real per capita convergence of the East toward the EU-15 median

(Sinn/Ochel, 2003). Some authors link the attractiveness of a nation to foreign investment to differences in institution-building (Winiecki, 2004). However, others stress that even good governance sometimes may not succeed in pulling an economy out of growth crisis. This may be the case when foreign direct investment avoids a country with a poor infrastructure and weak human capital (Sachs et al., 2004).

So far the former Central and Eastern European (CEE) nations have performed with respect to their growth rates better than almost any of the incumbent EU member states. Yet convergence of the CEE economies towards the average of the pre-2004 EU remains fragile because of currently small growth rate differentials between Western and Eastern Europe (Figure 2). Some of them, like the Czech Republic, have even been losing positions at the beginning of the new millennium. Poland performed better in the early nineties as it used to be the growth champion among the European countries in transition, but the country lost luster after its output started to expand only modestly since then. However, the Baltic countries recovered well from the transition crisis in the 1990s.

Figure 2: **CEE: Per Capita Income Relative to EU-15, %**



Source: European Commission

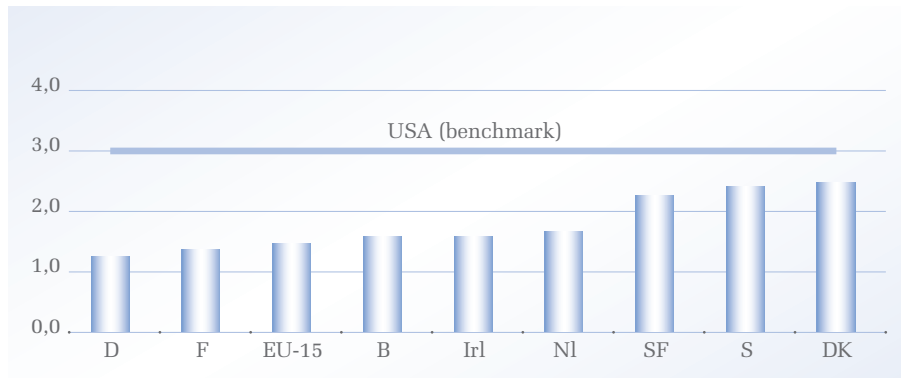
As of the mid 1990s, Estonia, Latvia and Lithuania have been outperforming the Lisbon growth goal of 3% by 2 1/2 points. «Knowledge based growth» in the Baltics has been so far achieved, as technical progress (TFP) here was between 1995 and 2004 faster than in Germany and the EU-15. But there are many caveats in the performance, too: So did spending on R&D trail the respective EU-15 figure of some 2 percent by now as well as the Lisbon goal of 3 percent of GDP. Moreover, high growth today may flatten out tomorrow, as economic history teaches.

Take Germany: Why is Germany's growth staggering while Finland's is more dynamic? One explanation is technical progress and education: While investment rate is equalizing across the EU at a considerably lower level than in the past, technical progress is vibrant in Scandinavia. The pace of implementation of innovations in

## 4. Baltic-German Dialogue, Vilnius, 20th May 2005

Northern Europe remains higher than in the «big three», not least because private sector R&D-spending is higher than in the most of the EU and in the US, which serves as the Lisbon benchmark. Higher educational attainment at the tertiary level and low elementary school drop-out rate produce the highly desired knowledge based growth in Finland, Sweden and Denmark. In these nations education really matters for growth (Figure 3).

Figure 3: **Public and private spending on college education, percent of GDP in 2000**



Source: European Commission

Yet technology is just one factor of growth. Another comparison between economic laggards (Germany) and better performers (Great Britain) may shed some additional light on the reasons: Why is Germany's growth staggering while Britain's is more dynamic? Economists believe that besides technology, labor, the other major input, contributes well to Britain's growth. But why?

Lower marginal tax rates and smaller payroll taxation make hiring attractive to firms with medium and low productivity, and so keeping unemployment rates at the low end of the labor market in check. A fairly flexible labor market (unionized in Germany) admittedly allows for Continental Europe the dreaded «hire and fire» practice. But in the business cycle a flexible labor market produces net gains in employment and thus reduces unemployment rates. The well quoted smaller size of government in the United Kingdom (i.e. less regulation and less GDP redistribution) ends up with greater labor growth, which facilitates further demand increase, and thus further growth.

Labor therefore matters for growth, so it is up to the right consensus on how to make labor attractive for business to hire workers. A glance across the EU and beyond is instructive: OECD nations who had pursued a policy of removing obstacles to hiring boast either a good GDP performance (Spain, Britain) or low unemployment (Japan, Denmark). Nations indulging in «leisure», i.e. in short working times, as a rule suffer an arduous output dynamic and layoffs. Gauged by the labor input index, which combines the employment rate as well as the working time indexes with respect to a benchmark, USA, Germany and France report 30 percent less labor input

than the benchmark economy, and still less compared to other EU partners (Table 1). Not surprisingly, these same countries struggle to invigorate their output and employment.

**Table 1: Labor Input in OECD-Economies in 2003**

	Germany	Denmark	France	UK	Spain	Japan	USA
Employment, %	64.6	75.1	61.9	72.9	60.7	68.4	71.2
Hours worked per employee p.a.	1362	1423	1393	1652	1745	1846	1777
Labor input index, USA = 1.0	0.70	0.84	0.68	0.95	0.84	1.00	1.00

Source: European Commission

### Which Economic Policy, then?

The answer is implicitly given by the central Lisbon goal of making the EU a knowledge based economy. «Knowledge based» refers firstly to better exploiting technical progress and innovation, which calls for improving education and vocational training. Secondly, it refers to better utilization of labor as the primer for accelerating growth.

According to the Lisbon experience of the member states so far, there are, as a rule of thumb, two models to revert to:

**Technology model:** Mind the technical progress: Invest in R&D and education if you stick to the Scandinavian social model with high taxation. You can survive only at the technological frontier.

**Labor input model:** Mind the labor input if you stick to the liberal Anglo-Saxon model with smaller size of government as a share in the GDP. Accept wage spread: it facilitates employment of low qualified work force. Beware minimum wages, since the mirror image is higher unemployment benefits. Shift budget spending from consumption to investment.

Other models, especially when combining sluggish technical progress with grand social strategies, have proved ineffective, as one can witness in Germany: Germany's economy ended up growing only disappointingly and suffers from nasty structural unemployment.

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#### 4. The Lithuanian view

*Neringa Majauskaitė, Department of the EU Policy Analysis and Inter-Institutional Coordination, Office of the Prime Minister*

It is possible to mention a few potential divergences in terms of implementation of the renewed Lisbon strategy. I would like to focus on prosperity-related, ideological, political and institutional constraints.

**1. First of all, there are diverging interests between prosperous and catching-up countries as well as a certain risk of further mismatch in terms of real economic convergence and global competitiveness.**

One may split up the EU-25 into three broad groups:

- **Fast growing countries with a low starting position, which are lagging behind in terms of prosperity, real productivity and availability of resources.** The key interest of these countries is to sustain fast growth potential and to catch up. These are basically new member states.

To catch-up they need to secure certain competitive advantages (that is not always easily accepted by old member states) such as, for example, favourable business environment. Moreover, to enhance their catching-up capacity and speed up the convergence, these countries struggle to absorb sufficient levels of the EU financial solidarity (structural funds). However, the sense of the solidarity is rapidly diminishing in many old member states (due to protracted internal economic and social constraints).

- **There are also countries in the «phasing out» regime** (Spain, Greece...). They are eager to sustain their possibilities to benefit from the EU solidarity, and in this sense they are competing with the new entrants, especially taking into account that the forthcoming financial perspective (2007-2013) is probably the last chance for the both groups.
- **Finally, prosperous countries with low growth and stagnant economies** (trying to enhance their own growth potential and in the new financial perspective looking for better possibilities to channel both national and EU resources towards their own centres of excellence or competition pillars. They are showing more reluctance towards solidarity with the new member states.

There are some potential risks that could possibly lead to distortion of real economic convergence in the EU-25: for example, too relaxed state aid rules for so called horizontal objectives, the reformed stability and growth pact, which enables states to justify excessive budget deficits. In this respect, it should be mentioned that the members wishing to enter the euro zone are, however, bound by a strict budget discipline regime, as the rules for joining the club remain firm.

A short and medium-term challenge would thus be sufficient convergence of the above-mentioned divergent interests and a well balanced roadmap towards the common target of becoming successful knowledge-based economies able to compete in the tense global arena. I did not mention «the most competitive»; as in my opinion it seems to be rather too ambitious.



**What is an official Lithuanian view?** It is emphasised that the Lisbon agenda should contribute to the economic-social cohesion and by no means hamper the speed of the convergence. Otherwise, the EU (with its internal disparities and constraints) would not be able to reach its global competitiveness. This co-relation of the Lisbon priorities and real cohesion has to be adequately reflected in the new financial perspective 2007-2013. Financing under competitiveness related headings should not contribute to prolongation of the remaining disparities within the EU.

### **2. Secondly, there are ideological constraints, i.e., the social model vs. the liberal model.**

There is a rather common view that the main factors of the EU gap (in comparison with the US) is its weak labour utilisation and low productivity growth (the EU has lower employment rates, shorter working hours and a technological gap). In the past 30 years the length of working hours diminished by 17% in the EU, but has not changed in the US.

Longer hours seem to be incompatible with the European social model, especially taking into account the latest discussions on the working time directive. Europe wishes to rely on high efficiency and less work, a some what «capricious» and highly protected labour force. In general, there is huge reluctance (to the certain limit it can be justified by competing values and targets) to adjust the European social model towards bigger efficiency and long-term sustainability.

It seems that the renewed Lisbon strategy tends to concentrate on education, professional development and technology but it is premature to judge how new actions and a doubled budget for research and development in the new financial perspective can contribute to the internal convergence and global competitiveness.

In general, there is a certain mismatch of a huge number of competing priorities in the economical, social, and environmental domains. The latest Spring Summit made a good attempt to focus the Lisbon strategy on growth and employment priorities but this focus is still rather vague.

### **3. Thirdly, there are constrains in domestic policy circles as well as interference with domestic interest groups.**

Structural reforms are politically sensitive and their roadmap is shaped by domestic politics and national election cycles. Even commonly (at the EU level) agreed «constitutional» targets related with the functioning of the common market, such as liberalisation of services sector, can easily become a highly politicized issue, for example, the case of the directive on services. Results of a number of international studies have shown that there can be a significant positive impact on all member states and that the new member states are by far the biggest beneficiaries. The issue has been, however, artificially politicized due to excessive emphasis on the risk of social dumping from the new member states and damage to the European social model. The directive is to be further debated, but who knows for how long.

There is a certain objective reluctance of the member states to away from less productive but traditionally important and politically sensitive sectors (for example textiles, agriculture). The challenge is to achieve a sustainable trade-off of further liberalisation and its impact on domestic sectors.

### 4. Finally, there are some institutional aspects, the open method of coordination vs. harmonisation.

Deepening EU integration, and the reluctance of the member states to further transfer their competences to the EU institutions, gave the start for an open method of co-ordination. Actually, the Lisbon project in 2000 gave an explicit impetus for the use of this non-classical tool.

However, at the mid-point of the implementation of the Lisbon strategy, there is certain scepticism from some member states about the efficiency of this method. The outcome of the latest Spring Council in 2005 gave an impetus for a streamlining of this type of coordination, among other things by strengthening capabilities of the European Commission to monitor and shape the implementation process. In practice that could mean a rather tight surveillance recall the preparation process to the EU accession, when new member states were rather tightly guided by the European Commission.

The open method of coordination looks however more feasible at the moment (in comparison with the further harmonization alternative) in terms of subsidiarity, but practice will show how the countries will benefit in the frame work of the renewed Lisbon agenda, which sustains a rather significant freedom for flexible interpretation.

## 5. The Estonian view

*Mailis Pukonen, Deputy Director, European Union Secretariat, Estonian State Chancellery*

First of all, to reflect on what has been said by Dr. Hishow from Germany: I was very surprised to find out that the Lisbon strategy was built in order to make enlargement happen in the EU. I thought that the main aim of the Lisbon strategy was to boost the EU economy and to make it more competitive with that of America and the rising Asian economic giants. When the process was launched by Mrs. Maria Rodrigues in 2000 in Lisbon it was agreed by the heads of states and governments that this will be the aim of the EU for ten years, and that it will be the cornerstone of success to ensure growth.

What are the means to ensure this growth? Any economist would say that the engine of growth and economical success is competition. I'm not talking only about competition vis-à-vis America or Asia – I'm also talking about a healthy competition between the member states themselves. The professor raised the question on why Germany is less wealthy today than it was in the past and why, for example, the UK has been able to boost its economy in such a way that today it is almost the greatest power in the EU. He also answered the questions by saying that Britain carried out a great deal of reforms. They had courage enough to have those reforms done in their country.

I think that's the key word for the countries which face the problem of zero or some few percentage points of growth to undertake the necessary reforms however painful they would be – to really make political commitments for reforms. First, a political commitment for the necessary reforms, then a flexible labour market, and flexible and open market. Nowadays, we are talking about four freedoms, but we only have two freedoms for – capital and goods. For Estonia, I might say that goods are free and we can talk about an open market there. We have maximized that, but two of them – services and labour – are not open at all. We are not talking today about a single market which is functioning properly.

While raising the questions, you are also answering them in that healthy competition is good for the benefit of the whole EU and today, by closing down your own markets to the labour force coming from new countries like Estonia, Poland or others, you will not be damaging us but you will be damaging yourselves. Your competitors are not in the new member states. Your competitors are in Asia and America – let's face it! We are talking a lot about the Services Directive. It is seen as not a Bolkestein Directive but Frankenstein Directive because it is something everybody is afraid of. There are some kind of rumours going around in France that hundreds of thousands of people, entrepreneurs, will be coming from Poland in order to take everybody's job in France. That's how we communicate issues in the EU back to our citizens, and that will hit yourselves. That will hit your economies more often. Today we have reached this mid-term point in Lisbon. We still have five years to go in order to reach these goals, and if the understanding of competition is bad in the EU and will not be changed, I would be rather pessimistic about achieving this goal.

# Further dynamics of European integration

## 1. Introduction

*Ramūnas Vilpišauskas, Institute of International Relations and Political Science*

I think the most interesting issues which could be approached, of course, from different points of view – more or less theoretically – are, first of all, how we see the future of the enlarged EU, the future of EU 25+ in terms of internal dynamics of co-operation and integration: perhaps we will see enhanced co-operation in certain areas or a slowing down of integration in general, the issue of economic versus political integration, and maybe on social policy issues, foreign policy issues and so on.

A good starting point is the current debate about the EU Constitution which is politicised and raises issues which have been debated before, mostly in academic circles, but now they have become more public because of the ratification of the EU Constitution, in particular in countries like France. For well-known reasons these referendums are quite important and different scenarios are being debated: what if the referendum fails in France as well as in some other countries, for instance, in the Netherlands? What are the possible further scenarios of dealing with the EU Constitution and with integration in general? Is it going to slow down further the process of deepening or is it going to push for enhanced co-operation in certain areas, or is it going to create some other dynamics – maybe, let's say, further liberalization if political forces in France change due to a possible negative outcome.

What if the outcome is positive? Then again there are different possible scenarios and all this is good in a sense that it raises the importance of integration which, I think, was too limited to academic discussions, and also the issue of dealing with diversity in the enlarged European Union and the still enlarging European Union as the most crucial issue. What are the best instruments that would combine all the criteria, I mean, legitimacy, economic efficiency, costs of certain decisions, democracy, transparency and so on? What would be the best way to move forward?

## 2. The German view

*Heinz Kramer, SWP, Germany*

Looking for further dynamics of European integration is equal to the question of the future systemic development of the EU. This is no easy task because of the still unsettled character of the EU system. Modern integration research tends to label the EU as a multi-level system of governance in which national and EU level actors and processes interact according to legally fixed institutional and procedural rules and established informal practices. One result of EU research is that one cannot establish an overarching method of policy-making across the various fields of EU policies. Decision-making procedures vary in dependence of policy fields and so do the factors or dynamics that determine policy results including the development at the systemic level. What is clear is that the EU-level and national level interact in EU development but we cannot identify a clear pattern of that interaction that would be applicable to all situations at all times. This makes the analysis of further dynamics of European integration a highly speculative undertaking.

In the more recent past, EU developments have mainly been driven by two factors: enlargement and the evolving CFSP with its strong emphasis on ESDP. Both these factors have tended to broaden diversity in the EU instead of enhancing integration in the sense of creating an «ever closer union». This led to a public debate, especially in Germany and France, about where the EU is going, if the Union is about to lose its coherence, if it is facing the danger of «overstretch» by further enlargements, especially by accepting Turkey as a member. As a consequence, for many of the European public the meaning of «political union» or «European integration» has been blurred.

In this situation, many politicians put strong hope on the «constitution» as a new element that would be able to provide the necessary cement to keep the EU together and going. However, as the actual developments in France, the Netherlands and other member states clearly reveal, this hope could falter quickly if the «constitution» would be rejected in some member states. But even if this would not happen, one cannot be sure that the document would really produce all the positive effects that are somewhat prematurely attributed to it. One indicator that gives reason for caution is the relative unenthusiastic manner with which the «constitution» has been welcomed by the general public in the EU despite the strong political efforts to present it as a historic leap forward in the EU's development.

This relatively noncommittal public reaction is well-founded because the «constitution» is nothing but another step in the process of adapting the founding treaties to new political circumstances. It fits into the evolutionary manner of EU development and is by no means a qualitative leap towards a *finalité politique*. It is not even a constitution, i.e. a political document by which the people of a political entity lay the basis for the future functioning of their polity. The «constitution» is nothing but another adapted version of the founding treaty by which the sovereign entities of the EU, the member states, define the basis and the rules of their integrative cooperation. The quality of the integration process has not been changed by this treaty nor has the role of the sovereign of the process been transmitted from the member states to the people.

Hence, the correct name of the document «Treaty on a Constitution for Europe» is also a clear indication that the further dynamics of the process will, to a large extent, be provided by the governments of the member states and not by its people. The «system of multi-level governance» as the EU is correctly described by modern integration research will continue to develop in a very complicated and cumbersome political process in which

the basic allocation of power takes place at the national level in national elections which are conducted according to national issues and which will produce national rulers who pursue politics at the EU level with always having their national power base in mind.

These remarks should not be misunderstood as belittling the Constitutional Treaty. It is an important step forward in the development of the EU even if it is not that qualitative leap leading politicians like to name it. Thus, a failure would have serious consequences for the development of the Union. First of all, it would lead to a severe psychological backlash for the whole endeavour if, for instance, the people of founding members and cornerstones of past integration like France or the Netherlands would reject the Treaty. The process of European integration would be further delegitimized in the general public which already expresses a declining support of the EU if we can rely on Eurobarometer data.

Much would then depend on the reactions of the national political leaders to such a development. Just a repetition of the referendum after some time has passed is out of question. The Irish or the Danish model is not applicable in the case of France where a rejection of the Treaty cannot be interpreted as an accident. More fundamental crisis management would be necessary. The most likely reaction would be to continue with the EU in its actual shape and to try to cautiously adapt the European Union Treaty in its Nice version to the enlarged EU with taking some provisions of the Constitutional Treaty as guidelines for adaptation.

A more fundamental reaction such as the creation of a «core union» by some states or changing the treaty base of the EU into the direction of a stronger differentiated integration according to the ideas of a «Union à la carte» does not look very likely.

A «core union» would lack a clearly defined project around which it could be built. It would, furthermore, need even more courageous steps of its participants in the direction of ceding national sovereignty to the Union than most EU members have been inclined to go during the debates on the Constitutional Treaty. It is unconceivable that, for instance, Germany and France would come to an agreement about a real transfer of national competences to the Union in the highly sensitive area of economic and social policy making. A certain common sympathy for the model of «Rheinland capitalism» notwithstanding, the national traditions and ideological bases of economic policy thinking are still too much apart to enable the political elite in both countries to transfer decisive elements of economic sovereignty to a supranational level neither could be sure to control. The same holds true for a stronger integration of foreign and security policy that would really transgress the threshold of enhanced intergovernmental cooperation, including, for instance, a broad merger of military capabilities.

In addition, such a move would bear the danger of further disintegration of the EU because the outsiders to such a development would feel relegated to the periphery of European integration or being downgraded to «second class» Europeans. In view of the existing substantial differences between member states with regard to fundamental economic policy and foreign policy orientations, those EU members who would be left behind organized on the basis of the Union Treaty in its Nice version could organize themselves into a rival integration endeavour instead of seeking at all costs to become members of the newly created «core union».

Further disintegration into the direction of an «EU à la carte» is also rather unlikely. At least, the overriding interest of the majority of member states in sticking together and not being divided into a multitude of sub-groups

with different degrees of integration would be a strong impediment to engage into a conscious policy of that kind of EU development. «Pick and choose» as integration philosophy is favoured only by very few member governments. Another question, which I will not follow more intensely now, is whether the situation of an «ever growing Union» would, more or less automatically, lead to a more differentiated EU with a growing number of «opt-outs» or «structural cooperation schemes».

To sum up, I think that there are good reasons to believe that a failure of the Constitutional Treaty will not lead to a process of a fundamental re-thinking of European integration with a consequent totally new approach of whatever kind. Instead, the «law of inertia» which governs the development of complex and international organizations will prevail. Most member states will opt for a continuation of the existing EU system and will simultaneously continue with the well-known process of piecemeal political, institutional, and procedural improvements.

Such an approach will not necessarily be doomed to failure as a consequence of rapidly deteriorating public support for a so-called non-performing or underperforming EU. It is true that most political leaders of member states and many of the leading opinion makers in the media have done a lot to create a public understanding that without the Constitutional Treaty the Union of 25 and more member states would no longer be able to function properly. However, as the rather unenthusiastic public reactions to the Treaty show, a majority of the European people seem to see this document as what it really is: an improved version of the existing legal framework of the Union. Hence, it should also be possible to convince them that a failure of the «constitution» does not mean the end of European integration but another crisis in the well-known series of integration crises through which the Union has gone in the course of its past development.

Such an argument would, however, become more convincing if governments and other politicians alike would stop talking about the process of European integration in their well-known unrealistic manner by presenting it either as a way to the construction of some kind of European state or as just another form of international cooperation. The striking discrepancy between the public presentation of the European Union and its underlying political process and the reality of the EU system of dynamic multi-level governance is an important reason for the creation of the public misunderstanding of the EU that lies behind the actual critical situation of the Union.

There is no way for understanding the process of European integration and its result, the European Union, by recourse to well-known conceptions and ideas of European statehood since the 19th century. It does not make much sense to underline, on the one hand, that the EU is the only promising answer to international developments that are ever more characterized by globalizing phenomena, a growing permeability of national borders and a general lessening of the meaning of the nation state concept and, on the other hand, to try to imitate that very nation state on a European level. Multi-level governance, effective and lasting transfer of growing parts of national sovereignty to supranational decision-making procedures plus the persistence of the nation state as the place of the final competence create a political system that is not very much open to effective and simple ideologization.

Consequently, there is a strong likelihood that the dynamics of European integration in the form of European Union building will remain very much the same that we know from the past. EU development is strongly path-dependent especially since the process has successfully transgressed the narrow limits of

economic integration. The substantial, institutional and procedural degree of political integration since the beginning of the 1990s has reached such a level that unravelling this fabric would be a very costly undertaking for all participants.

That is not to say that the enlargement of the EU and the broadening of its scope will continue unlimited. Both of these developments will remain the result of conscious political decisions of the member states and, thus, open to limitation. Furthermore, as long as the member states remain the «masters of the treaty», i.e. as long as the final competence lies with the national level, national governments will tend to keep a sufficiently important amount of political issues at the national level just for the sake of the legitimization of the national competition for power as the basic political game in the European Union. The dialectic between the fundamentally national process of allocation of power and the growing tendency of multi-level, supranational policy-making will remain the basic dynamic of EU evolution for a long time to come.



### 3. The Lithuanian view

*Jurgis Vilčinskas, Institute of International Relations and Political Science*

When talking about future dynamics, I very much share the phrase that former commissioner Chris Patten said reflecting on European Union integration when he finished his job as commissioner. He said: «I wonder that the whole thing works at all.» Let me start with the critical question which, I think, today is: How can we deliver prosperity, security, stability and, I would say, social justice to the European citizens? The answer possibly lies in a three-dimensional matrix, containing three things: the question of leadership in the European Union, the question of economic reforms – I would even stress more regulatory reform in the European Union – and the question of how Europe will position itself in the international scene, first of all, in ENP. Until now the EU has in this regard responded to crisis, what Javier Solana is doing is a kind of preventive action but not a real vision on how to create joint governance regimes with the neighbours, how to involve them into European integration.

I think most of you will agree that in reality the European Union is an economic giant but a political pygmy, and this is very obvious when we talk about the Constitutional issue. Dr. Kramer mentioned this but I have one major point about how the European project started and how it is likely to end. It started as a common European project. It might not be a project of European citizens but it was a project of European governments and what we now see in the debates on the European Constitution is that they are really becoming national debates which are very different in different states. The arguments that we see in France – on the Constitution, on ratification, on the social model – are very different to the issues that people in the Netherlands or Poland, or in the Czech Republic will raise. We have a rather uneasy situation when B plans and scenarios are coming up and everyone is thinking what is going to happen if the Constitution is not in place in a year or a year and a half.

I perfectly agree with our presenter that it's not the end of history if we haven't got the Constitution. We will keep rolling the logs – the process will keep going. But let me come back to those three issues that I mentioned – leadership, economic reform and joint governance in the neighbourhood. I don't have an answer as to how to make the EU into an economic and political powerhouse. Many people tried to find the answer in the course of history and the end result is probably an incremental step-by-step approach to European integration. The Constitution is not giving the answers as well – that's quite clear. It's not there to solve the question of leadership. We don't have a vision for effective, for democratic leadership that will drive the Union forward. It's more, I would say, a temporary solution on how to install a system of government over the system of governance that exists now in the European Union. But it's a very temporary solution – I don't see it going further.

With regard to the economic reforms the major issue is how we manage to integrate the widening of the European Union with the deepening of the union at the same time. These two tasks do not cancel each other out – they can be combined. They can be combined on a very practical level – on the level of regulatory reform.

The third issue is the issue of the EU opening up and involving its neighbours. Here, of course, the developments are not as good, at least from the Lithuanian point of view, because we are, and probably also the other Baltic States, the leading group, the radicals in the EU which, of course, are very much interested in at least very strong and solid political dialogue with the countries that are close to the EU. This is in a way our security guarantee and is very much influenced by another factor that we haven't mentioned: What to do with Russia in this global context? The solution to this question will be very important to how we solve the dilemma of neighbours.

### 4. The Latvian view

*Atis Lejiņš, Director, Latvian Institute of International Affairs*

I would first like to remind you of the wisdom of the ancient Greeks, who surely found the answers to most of the problems of the human condition. The meaning of «crisis» in Greek is «decision.» This means that if you make the right decision when confronted by a problem, you solve it and move on. No need to elaborate on the consequences of a wrong decision. It is up to us to generate a positive outcome from the present crisis in European integration.

It would be wise to lift our gaze up from our navel and look at the horizon. At the conference on a revived Transatlantic relationship organized by the Center for Strategic and Studies (CSIS) in Washington last month American participants portrayed a scenario for the future quite unlike that we are accustomed to. Mainly, the greatest economic power will be China followed closely by India. The USA will be down to third place and the EU will be number four. Japan or Brazil could come fifth.

It would be very wrong to dismiss this scenario even though it may prove to be wrong. After all, Japan never became number one as predicted. But it is quite likely that the American scenario does prove to be right after fifty years – and then what? The implications and ramifications for the international system and Europe in particular are tremendous. Hence it is better to be on the sure side than wake up too late. Clearly, the international community will have a new quality and new rules of the global game will apply.

Obviously the European project cannot afford to unravel. The European countries will need to stick together. For the Baltic countries the worst nightmare is a return to the Europe of the 1930's when, due to national and state rivalry, the second European civil war known as World War Two broke out and the Baltics lost their independence for half a century. It therefore was not that difficult, after just breaking out of one «Union» that we were quite willing in all haste to join another «Union».

Today only a united Europe can cope with the truly frightening issues pressing upon us on the world stage. They are easy enough to identify: the challenge of a nuclear Iran and North Korea, the uncertain future of Iraq, the possibility of war between China and Taiwan, and the perennial Israel-Palestine conflict. Then, of course, come the «usual suspects»: global terrorism, organized crime, global warming, overpopulation (except in Europe), depletion of natural resources, failed or failing states, global poverty – you can find all this in the American and European security strategies.

Shall each «little» country in Europe deal with these issues independently? Looking ahead, Germany's size and the size of the Baltic states after fifty years will not mean that much when talking to China and India. Already the middle class in India is bigger than the whole population of Germany. When you translate this into purchasing power, brain power, services and goods provided, and the number of soldiers you can field you get an idea how big India has already become. The USA, for example, in addition to discovering suddenly that much of the bookkeeping in the country is outsourced to India is developing a strategic relationship with that country, including joint naval patrols of the Indian ocean. Both countries fear that poverty-ridden and overpopulated Bangladesh can become the new «Taliban Afghanistan.» On the other hand, Russia is seeking a strategic triangle together with China and India to offset the present lone superpower. Where is Germany

and the Baltic states in all this? Only if all the EU member states come together they can make a difference in global politics.

At the same time the EU is exerting a tremendous influence on other regions of the world as a model to emulate. The EU is the biggest peace and security project in the world, it is quite successful, especially in overcoming peacefully the division of Europe. The EU continues to be a magnet for the countries involved in the ENP process, both in the eastern and southern dimensions. If it becomes impossible for Turkey to become a full member of the EU, cannot Turkey with a number of Arab states and Israel form a core that would gradually build a Middle Eastern EU that has a strategic relationship with the European EU? Already there are a number of regions in the world which are trying to learn and copy the EU model.

We see this in parts of Latin America and efforts were made toward this end in South East Asia. However, there is also keen interest further up north in Asia. Professor Ludger Kuehnhardt from the *Zentrum fuer Europaeische Integrationsforschung* (Center for European Integration Studies) in Bonn has moved to South Korea at the invitation of the government to teach European integration as a model for that part of the world. It would be a major blow to the development of global regional politics toward a more peaceful world if the EU model should stagnate and collapse. Needless to say, for Europe itself the consequences would be devastating. The lessons of history should not be forgotten. If we cannot remember the 1930's anymore, then surely we can remember the very recent Balkan wars.

The evolution of global politics toward an evolving multipolar world should bring together the Atlantic community once again based on common values and interests. This is now widely recognized by old and new members of the EU and the USA. Soon after his inauguration in January President Bush almost dashed off to Europe but did everybody notice the significance of his first call – Brussels, the EU capital? He asked Europe for advice.

Think tanks on both sides of the Atlantic have engaged themselves with the challenge of the crisis in Transatlantic relations that arose with the war in Iraq when Europe found itself once again divided. A number of contributions to a revived European-USA relationship have already been made and more will be made.<sup>12</sup> But if there is to be a political content in the EU-USA-NATO triangle, a structured dialogue must be developed within the framework of upcoming change in the global system as briefly outlined. This is impossible if the EU countries all pull in different directions. In other words, global politics will be the motor for further EU integration, but this integration cannot be made simply at the lofty heights of strategic planners. It must be made also at the grass roots level involving the people of Europe, which will force us to answer two very basic questions: the identity of Europe and, if we remember our history beginning with Alexander the Great and the Roman empire, the riddle of «empire overstretch.»

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<sup>12</sup> *The USA, the EU, and NATO: After the Cold War and Beyond Iraq*, Center for Strategic and International Studies, Washington, D.C., June 2005.

### 5. The Estonian view

*Mailis Pukonen, Deputy Director, European Union Secretariat, Estonian State Chancellery*

First of all, I dislike the naming of the Constitutional Treaty as a Constitution. I think that there are major differences in between those two wordings and that's exactly what Dr. Kramer said: «This is not a Constitution – it's a Constitutional Treaty we are talking about». And this actually was the only and possible step to take – further integration as much as possible now while enlarging the EU. I don't think that this step should be diminished. Future enlargement of the EU and this last enlargement of the EU has not been easy and even today here we can feel this tension of enlargement fatigue. EU is, if you want to put it, actually seeking its soul in a way. I don't think that when the Convention on the Future of Europe was concluded and the declaration signed nobody was saying that if some of the member states will oppose the Constitutional Treaty and 4/5 of the member states will be voting «yes» that one of those member states would be France. I think there's a major difference between which country will be opposing the Constitutional Treaty. If we think back in time who proposed the Constitutional Treaty? – the French. Giscard d'Estaing himself was driving events forward to what we have today. To see his work – the work of France basically – to be diminished or actually thrown out would be very unfortunate for the whole integration of the EU or integration process of the EU.

I think new countries and small countries are *a priori* more integrationalist than older member states. We don't have any opt-outs by now – we are *a priori* in the EMU; we are *a priori* in Schengen. We are integrated fully into all policy areas of the EU. Therefore, I think, that this fact should also be taken into account that there is a certain willingness towards integration from new member states. I'm not saying that in some certain areas or in some certain points intergovernmentalism could prevail and I don't think that this is illogical or a bad thing because we have also seen this in previous enlargements, for example, the first enlargement with Denmark and UK. We have already experienced that, for a while, intergovernmentalism prevails. There are several reasons for that. First, a new country does not know which way to go and, on a political level, how to say it, a political need to present themselves to the public back home... i.e. they have gained something from the EU at the expense of others. When Greece joined in 1981, there was an unfortunate economic downturn which also in a way boosted this intergovernmentalism. It doesn't mean that the integration process itself has been stopped. Integration will continue at its own speed if there will be basically two options on the table – whether to slow down integration or to choose between enhanced co-operation or a two-speed Europe. I would rather say: «Slow down!»

# Management of diversity in the EU: External challenges and internal constraints

## Workshop

Organised by Friedrich Ebert Foundation and  
Institute of International Relations and Political Science, Vilnius University  
Conference Hall, Hotel «Radisson SAS Astorija», Didžioji str. 35/2

**19 May**

### Arrival to Vilnius

Hotel «Radisson SAS Astorija», address: Didžioji str. 35/2

18.00–20.00

Discussion about the further cooperation with SWP and ENP  
Supper, Restaurant «Ida Basar», Subaciaus str. 2

**20 May**

### Opening session

09.00–09.30

Prof. Raimundas Lopata, Director, Institute of International Relations and Political Science  
Mr. von Rom, Ambassador of Germany in Lithuania  
Dr. Elmar Römpczyk, Representative in the Baltic States, Friedrich Ebert Foundation

09.30–10.40

### Session I. Political Management of the new neighbourhood of the EU: further enlargements and the ENP

Moderator: Dr. Klaudijus Maniokas, Institute of International Relations and Political Science

- Mr. Kai-Olaf Lang, SWP, Germany
- The Ukrainian view: Mr. Michail Tolstanov, Senior Consultant, National Institute of Strategic Studies, Ukraine
- The Lithuanian view: Mr. Jonas Daniliauskas, IIRPS, Vilnius University
- Estonian view: Mr. Viljar Veebel, Lecturer, University of Tartu
- **Discussion**

10.40–11.00

Coffee Break

## 4. Baltic-German Dialogue, Vilnius, 20th May 2005

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- 11.00–12.00    **Session II. Problems and perspectives of CFSP/ESDP**  
Moderator: Prof. Andres Kasekamp, Estonian Institute of Foreign Policy
- Mr. Volker Heise, SWP, Germany
  - The Lithuanian view: Ms. Margarita Šešelgytė, IIRPS, Vilnius University
  - The Latvian view: Mr. Kristaps Misāns, Desk Officer of Security Policy Department, MFA of Latvia
  - The Estonian view: Mr. Viljar Veebel, Lecturer, University of Tartu
  - **Discussion**
- 12.00–13.30    **Lunch** (Radisson SAS Astorija)
- 13.30–14.40    **Session III. Current cleavages in the EU regard to a successful Lisbon-Strategy**  
Moderator: Mr. Atis Lejiņš, Director, Latvian Institute of International Affairs
- Moderator: Peter Lindholm «From Knowledge to growth» – Seminar
  - The Lithuanian view: Ms. Neringa Majauskaitė, Department of the EU Policy Analysis and Inter-Institutional Coordination, Office of the Prime Minister
  - The Estonian view: Ms. Mailis Pukonen, Deputy Director, European Union Secretariat, Estonian State Chancellery
  - **Discussion**
- 14.40–15.00    **Coffee Break**
- 15.00–16.20    **Session IV. Further dynamics of European integration**  
Moderator: Mr. Ramūnas Vilpišauskas, Institute of International Relations and Political Science
- The German view: Dr. Heinz Kramer, SWP, Germany
  - The Lithuanian view: Mr. Jurgis Vilčinskas, Institute of International Relations and Political Science
  - The Latvian view: Mr. Atis Lejiņš, Director, Institute of International Affairs
  - The Estonian view: Ms. Mailis Pukonen, Deputy Director, European Union Secretariat, Estonian State Chancellery
  - **The Discussion about the perspectives of the Baltic–German Dialogue**
- 17.00–19.00    Reception (Radisson SAS Astorija)

# List of Participants

Dr. Alexander von Rom Prof. Raimundas Lopata	Ambassador of Germany, Lithuania Director, Institute of International Relations and Political Science, Vilnius University
Dr. Elmar Römpczyk	Representative in Baltic States, Friedrich Ebert Foundation
Mr. Kai-Olaf Lang	SWP, Germany
Mr. Volker Heise	SWP, Germany
Mr. Ognian Hishow	SWP, Germany
Dr. Heinz Kramer	SWP, Germany
Mr. Martin Kremer	Counsellor, Policy Planning, Federal Foreign Office, Germany
Mr. Joachim Schemel	Embassy of Germany, Lithuania
Mr. Matthias Waetjen	Ministry of Foreign Affairs of Germany
Mr. Johannes Voswinkel	Journalist, «Die Zeit»
Dr. Mikhail Tolstanov	Senior Consultant, National Institute of Strategic Studies, Ukraine
Mr. Rihards Muciņš	Head of Russia and Cis Countries Division, MFA of Latvia
Mr. Kristaps Misāns	Desk Officer of Policy Department, MFA of Latvia
Mr. Atis Lejiņš	Director, Latvian Institut of International Affairs
Prof. Andres Kasekamp	Estonian Institute of Foreign Policy
Mr. Viljar Veebel	Lecturer, University of Tartu, Estonia
Ms. Mailis Pukonen	Deputy Director, European Union Secretariat, Estonian State Chancellery
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Mr. Jonas Daniliauskas	IIRPS, Vilnius University
Ms. Margarita Šešelgytė	IIRPS, Vilnius University
Ms. Neringa Majauskaitė	Department of the EU Policy Analysis and Inter-Institutional Coordination, Office of the Prime Minister
Mr. Ramūnas Vilpišauskas	Institute of International Relations and Political Science, Vilnius University
Mr. Jurgis Vilčinskas	Institute of International Relations and Political Science, Vilnius University
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Mr. Ramūnas Misiulis	Counsellor, European Union Department, Ministry of Foreign Affairs of Lithuania
Mr. Matthias Kolb	Journalist
Dr. Algirdas Gričius	IIRPS, Vilnius University
Dr. Vaidotas Urbelis	IIRPS, Vilnius University
Mr. Audrius Grikielis	Attache, European Union Department, Ministry of Foreign Affairs of Lithuania
Mr. Gediminas Rainys	Sekretary of Ministry of Economy, Lithuania
Mr. Vaidotas Rdavičius	Lithuanian MFA, Foreign Policy Analysis division



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The FES is engaged in projects in the fields of socio-political development, sustainable development and international cooperation.

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The Estonian Foreign Policy Institute promotes a deeper understanding of international affairs and of Estonia's role in a changing world by providing a forum for informed discussion, analysis and debate.

**Institute of International Affairs, Riga**  
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The Latvian Institute of International Affairs (LIIA) is charged with the task of providing the people of Latvia with information about international events and Baltic security issues.

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The IIRPS conducts research in the area of domestic policy, governance, international relations, foreign policy and diplomacy of both Lithuania and other countries.

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