The European Union at the New Crossroads?

Conference Contributions for
"The European Union: Imprint of the Latvian Presidency"

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On Domestic Crossroads

1990-ies among the European Union (EU) member states was characterized by 'competence dumping'. It was accompanied, however, by increasing suspicion of European institutions, with often damaging consequences. The EU is a hard headed and practical attempt allowing a collection of small and medium sized States to do things together they could not achieve when acting individually.

National parliaments must become genuine and obvious stakeholders in the European integration process. Only then will the incentives for them to treat the EU as cavalierly as they currently do decrease.

On migration, Member States are profoundly divided between the southern states desperate for help, the generous northerners who are taking more than their fair share, the countries of the East who have no desire to admit Muslims, and the free riders like Britain who simply turn a blind eye. With the benefit of hindsight one can argue it is impossible to maintain a functioning Schengen area of free movement for people when some of its members are not able (or willing) to control their external borders. If no effective solutions for border control are agreed upon and practically implemented by summer 2016, the risk of the Schengen area's disintegration will become very real.

The Monetary Union without effective fiscal integration has deprived Eurozone members of the tools they need to effectively confront the crisis. Similarly, when it comes to tackling the migration crisis, ultimate authority rests with Member States in the area of Justice and Home Affairs.

If the UK votes to leave the EU, this would unleash a powerful, dynamic EU disintegration. The growing publicly expressed concern of business actors in the UK regarding such a prospect indicates that the prospect of the UK leaving the EU could act as a strong shock for financial markets and economic development in the Union.

Policy makers and voters in the EU need to have realistic expectations regarding the completion of the Single market. Although the need for exaggerated announcements is present in the EU and national politics, it should be made clear the Single market will never be completed. Similarly to the never ending structural reforms in Member States, the regulatory situation in the Single market will regularly need reviewing in order to assess the changing technological environment, national norms affecting competition and possible new protectionist instruments introduced under pressure from domestic interest groups.

What is needed is streamlining the national regulatory environment to strengthen flexibility of national businesses, in particular the labour market, and further reduction of administrative burdens so companies are better prepared to deal with unexpected external shocks (whether geopolitical, financial or other), and reduce fiscal exposures to possible economic shocks.

On Foreign Policy Crossroads

Russia's annexation of Crimea and a war in Ukraine's Donbas were a shock not only for the region, but for the whole continent, qualitatively worsening the security situation. And this shock is far from being overcome. A conflict has become the new normal. When muddling through it, Europe should first of all hedge against the risks coming from Russia or produced by its policy, starting at home and applying EU laws and procedures in full to protect European internal value-based order.

Geopolitical factors will have to be reckoned with, but they should not be given preference in decision-making. First, because it has

to be admitted the EU structurally is not really the best-designed to deal with them. Second, because only if a country is genuinely transformed and embraces European norms and values, will it share Europe's security platform and be less vulnerable to external security risks. Moreover, EU's activity in the Eastern Neighbourhood should not be perceived as an elitist, "high-diplomacy" project, the risk of which is now apparent.

Moldova is facing a risk of no less than a statehood collapse, of oligarchic State capture and a total reversal of the country's pro-European course. Georgia is vocally criticized for "selective justice", which forced its former president, so praised in the West for their "most successful reforms", to flee the country. Ukraine, who wasted the decade after its Orange revolution of 2004, procrastinates with the necessary changes and suffers from oligarchic omnipotence and corruption now two years after the Euromaidan of 2013-14.

Another crucial case will be Belarus. Despite certain EU-friendly gestures and internally inconsistent rhetoric, the country is and will remain in the foreseeable future, a client state of Russia. The current normalization in EU-Belarus relations was made possible thanks to an asymmetric trade-off.

To deal with the challenging environment in Europe's neighbourhood, policy-makers will need to redraw and redefine one of Europe's most successful foreign policy instruments – enlargement. Export of the rule of law, democracy and the market economy across the European continent has been key to ensuring the peace and security of post-1989/91 Europe. It is also why shared core democratic and economic values with the US make this a relationship that needs to be maintained.

The new EU's Global Strategy for Foreign and Security Policy is very much a case of "rebuilding the ship at sea", with the European Union redefining its global role at the same time as the world around it is in this state of complex transformation. It is hoped the new strategy will be a "living document" that is regularly reviewed and brought up to date in order to address the inevitable new challenges that will emerge over time.

There is a clear need to move towards institutionalising security and defence cooperation. At one extreme this could entail the construction of a permanent planning capability within new EU military Headquarters (HQ). But the strategy should also address the increasing importance of crisis management, including civilian crisis management.

On Digital and Energy Crossroads

Digital Single Market (DSM) strategy is "too bright" and struggles with a lack of risk assessment. This leads to the challenge that DSM in the minds of Eurocrats is just a buzzword with no real evaluation of future risks when considering digital environment perspectives. From a critical perspective the DSM strategy is just a plan for other plans.

The Digital Single Market should emphasise more security and defence issues than just data protection. The DSM phenomenon proves that a complex and multi-disciplinary approach is crucial to guaranteeing an effective and safe environment in developing the field. Moreover, simply, to "get the DSM out there" the EU and its Member States will need to "invest it in". The DSM is not a magic stick for dealing with all development problems.

One can say that the European Energy Security Strategy and the European Energy Union strategy are both products of visionaries carrying out a wishful thinking exercise, but the consistency has always been there and legislation has always followed the vision and the strategy. Even if this were so, the EEU has apparently turned out to be a very good rebranding exercise allowing a pushing ahead of initiatives that used to fight for sufficient attention and popularity.

The European 'Project': Prospects and Challenges

Anand Menon[*]

"The leaders of the...European Union nations went home after a failed two-day summit meeting in anger and in shame, as domestic politics and national interests defeated lofty notions of sacrifice and solidarity for the benefit of all...the failure of the summit meeting laid bare the deep divide with the European Union."[1]

Criticisms of the EU's failure to effectively grapple with the myriad of problems confronting it are commonplace these days. Yet structural problems which conspire to hamper its effectiveness are of an older provenance. The lines above are not contemporary. Rather, they appeared in a *New York Times* article from 2005. The crisis of European integration, whilst more obvious than ever these days, is thus anything but new.

Yet it is arguably now more serious than ever. Challenges abound. From migration to the travails of the Eurozone, from terrorism to the rise of Eurosceptic political parties, 2016 may be the year when the terms 'EU' and 'crisis' come to be inextricably linked.

Any political system would struggle to deal with so many concurrent challenges at this scale. And the EU is arguably uniquely more constrained than any other such system in the developed world, fragmented as it is in Brussels between different institutions vying for authority, and between EU institutions and Member States anxious to preserve their prerogatives and power.

Such fragmentation has always existed. Indeed, it is programmed into the DNA of an institution whose genesis can be traced to the immediate post-WWII years and which was, as a consequence, explicitly designed to prevent a resurgence of hegemony by diffusing rather than concentrating power. Today, however, is different. Different partly because of the sheer scale of the challenges at hand. Different too, crucially, because of the impact of the past.

Swept away by a wave of Euro-enthusiasm peppered with references to their 'European project', drunk on talks of a political union, Member States in the early 1990s, resorted to what might be termed 'competence dumping.' Confronting problems to which, individually, they could find no easy solutions they turned to Brussels for solutions. Yet they did this at a time when their tolerance for EU intervention in what they considered were their own affairs was wearing thin. This arrogance, or ignorance – call it what you will – is now coming back to haunt them.

Integrate in Haste...

The roots of the current crisis lies in changes that came about in the 1980s and 1990s. Since its creation in the 1950s, the European Community had not impinged directly on either national publics or national politics. Integration took place under the radar, and progressed apace there. The single market changed all this. The Community began to

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[1] Elaine Sciolino, 'Summit Fight Shakes Europe', *New York Times*, 19 June 2005.

intrude more directly in evermore sensitive areas of national political and economic life. No longer could national political leaders sign up for European integration happy in the knowledge their electorates would neither know nor care. Henceforth, integration was news, of interest to the public, and therefore politically highly salient.

At the same time, the very successes of the Community ratcheted up expectations in Brussels. Commission President Jacques Delors began to cause consternation in national capitals with his ambitious rhetoric. In a widely publicized speech before European Parliament in 1988, he claimed that within ten years, 'eighty percent of our economic legislation and perhaps even our fiscal and social legislation as well, will be of Community origin.' Hardly words designed to reassure national political leaders or their public. Nor, for that matter, the last time a Europhile proved more effective than any Eurosceptic propaganda in inciting distrust of integration.

Rumblings of discontent about the apparent ambitions of 'Brussels' had been audible as early as the late 1980s, most notably in Margaret Thatcher's infamous Bruges speech of 1988. These merely increased in intensity as the Commission President became more outspoken and as the Court and the Commission became more assertive in enforcing EC law to open the market. In the UK, unease was best symbolised by the 'Up Yours Delors' headline gracing the front page of *The S*un on 1 December 1990. Yet such sentiments were not limited to Britain. Several Member States challenged attempted Commission interventions in sensitive areas, including culture, education and public health. And national politicians began to speak openly of the need to 'reign in' increasingly assertive EC institutions that were directly challenging them.

With exquisite irony, however, as national concerns about integration were coming to the fore, Member States found themselves increasingly tempted to use it more widely. The end of the Cold War was a seismic event, though its implications took many years to reveal themselves. Yet, from the need to deal with the newly liberated states of central and Eastern Europe, to violence in the former Yugoslavia, to the problems of illegal migration and the organised crime it spawned, the various policy problems to which it gave birth eluded a strictly national solution. Hence the lure of more collaborative action. The first indication of this was provided as early as July 1989, when Member States entrusted to the Commission the task of coordinating western assistance to the newly liberated states of Central and Eastern Europe. This decision was the first in a long line entrusting to the EC policy problems that Member States either could or did not want to tackle alone.

'Competence dumping' was accompanied, however, by increasing suspicion of EC institutions, with often damaging consequences. And it was in this context of growing dissatisfaction with the EC, coupled with a growing need for that same Community that Member States met at Maastricht. Both tendencies are apparent in the document that emerged from their discussions. On the one hand, the treaty significantly expanded the scope of integration to cover a variety of new policy challenges – including monetary unions, Justice and Home Affairs, and a Common Foreign and Security Policy.

On the other, however, the same document also reflected growing Member State unease. Hence the introduction of a new structure with the EC being supplemented by separate pillars for Justice and Home Affairs and the Common Foreign and Security Policy. This was explicitly intended to rein in supranational institutions and establish Member State control over policy formulation in new – and politically sensitive - areas. Decision making here would be by unanimity, with a minimal role for the European Commission.

The Maastricht Treaty was eventually ratified. However, initial defeat in a referendum in Denmark in June 1992, along with an uncomfortably close outcome in France ought to have alerted political leaders far more effectively than it ultimately did that their European 'project' was starting to impinge on their publics and concern them.

Nevertheless, whether due to a blind faith in their ability to convince, or a total lack of sensitivity to the popular mood, Member States continued to react to the challenges facing them with a raft of new European initiatives. Never mind that they couldn't agree on institutional reform. Never mind that they didn't want to spend more. Never mind that the public was increasingly disenchanted with the Union. The Amsterdam Treaty introduced the idea of the EU as an Area of Freedom Security and Justice and the first AFSJ action plan was introduced in December 1998. Following a Franco-British summit at Saint Malo in December 1998, the Union created its European Security and Defence Policy, involving European integration for the first time in the sphere of defence policy.

Member States were brewing a potent cocktail. The more they launched initiatives, the more sensitive the areas of national life were impinged on by the EU. The more they feared the power of Brussels, the less willing they were to give the Union the power necessary to act effectively in its new areas of competence. Meanwhile, rising stakes and necessarily inadequate European responses threatened to undermine the mutual trust that had allowed integration to proceed as far as it had.

...Repent at Leisure

The 1990s thus bequeathed a powerful and damaging legacy. The combination of competence dumping and growing opposition to integration spawned a potent cocktail of incomplete integration. The Union enjoys apparent control in policy areas over which Member States retain significant authority. This has been all too apparent in the major crises that have afflicted the Union of late. Incomplete integration has haunted the Eurozone since the start of the Eurozone crisis. The Monetary Union without effective fiscal integration has deprived Eurozone members of the tools they need to effectively confront the crisis. The lack of a centralised fiscal policy, of a Eurozone budget and of effective mechanisms for risk sharing are a direct result of the reluctance of Member States to do more than the absolute minimum when it comes to empowering the European Union.

Similarly, when it comes to tackling the migration crisis, ultimate authority rests with Member States in the area of Justice and Home Affairs. For all the attempts on the part of EU institutions to introduce measures aimed at dealing with the sudden and massive influx of migrants, schemes such as mandatory quotas suggested by the European Commission have fallen foul of profound divisions amongst Member States. Differing national approaches to migration, different arrangements for border controls, and, of course different levels of exposure to the massive flows of people from the south and south east mean that, absent of any effective enforcement mechanisms at a European level, rhetorical initiatives will remain just that. All that remains are bitterness and division. Thus, the Visegrad bloc opposes Juncker's relocation scheme, while Austria, Denmark, Germany, Slovakia and Sweden have re-imposed Schengen borders.

Finally, incomplete integration was also apparent in the foreign policy crisis afflicting the EU in its eastern neighbourhood. In the run up to the fateful Vilnius summit that saw Ukraine ultimately fail to sign up to the Deep and Comprehensive Free Trade Agreement on the table, European policies towards the region had been badly coordinated at best. Whilst the Union itself persisted with its technocratic approach to pacifying the Eastern neighbourhood, some Member States made little secret of the fact that they saw

the summit as marking another step on the road towards eventual EU membership for Kyiv. Meanwhile, the larger western Member States, preoccupied with their own problems, essentially left it up to others to deal with the East. From this mixture of conflicting approaches emerged a muddle, spiced up with the Union's now traditional geopolitical blindness and hubris. Clearly ultimate responsibility for the tragedy in Ukraine lies in Moscow and not Brussels, but the patchy nature of EU competence and the coexistence of several, sometimes competing, European foreign policies again played a damaging role.

EU responses to the Eurozone crisis, the migrant influx and its dealings with Ukraine, are illustrative of the way in which the impingement of European integration into areas of high political salience has eroded trust between Member States. The sense the EU works well for some whilst imposing high costs on others has merely been reinforced by the experience. As trust declines, so too does the prospect of effective collaborative action, while the temptation to play at populist politics, with the EU as the target, increases.

This sense of bitterness partly lies behind the dissatisfaction with European integration that led to the calling of a referendum on membership in the United Kingdom. Rightly or wrongly there are those in the UK who feel it has got a raw deal from membership. Yet whilst many of the factors that drive this sense are unique to Britain and its currently febrile politics, lack of enthusiasm on behalf of large parts of the population for European integration is beginning to be mirrored elsewhere. It is another symptom of the increasing gap between the EU and national politics, between the integration 'project' and its citizens.

Looking Ahead

What then of the future? The answer to all our problems is not simply more integration. Certainly a case can be made that further delegation of power to the EU would be more efficient. A more centralised economic policy, immigration policy and foreign policy would quite possible be more efficient. But politics is not simply about efficiency, and has never been the art of responding rationally to functional requirements. Many rational decisions are never taken, and many irrational ones are. Just because a particular solution promises optimal – or more optimal – policy outcomes does not necessarily make it desirable.

Let us bear in mind that neither fiscal federalism, nor an integrated immigration policy, nor a single European foreign policy are about to emerge anytime soon. For all the bluster that, as ever, characterises debates on the future of the EU, for all the fine rhetoric about solidarity, political union and the like, Member States simply could not agree on such ambitious steps. All Euro states want more integration but they want it in different areas and in contradictory ways. Debtor states want risk sharing. Creditors want safeguards to avoid future excessive spending by their spendthrift partners. On migration, Member States are profoundly divided between the southern states desperate for help, the generous northerners who are taking more than their fair share, the countries of the East who have no desire to admit Muslims, and the free riders like Britain who simply turn a blind eye. And on foreign policy, where do we start? The divisions are almost as numerous as the problems over everything, from how to deal with Russia, to whether military force is a legitimate tool of foreign policy.

But my point here is not about such political practicalities. Rather, it is that even if further integration were achievable, it would not be desirable. The public and their governments have reached the end of their appetite for ever more coordination over ever more policy areas at the European level. Eurosceptic political forces are on the rise in many Member States and an ambitious *fuite en avance* of the kind so favoured by European elites in the past will simply spawn more resistance and bitterness

about perceived unfairness in the distribution of costs and benefits.

One of the core problems here is the EU's lack of democratic accountability. The European Parliament is not up to the task of ensuring the legitimacy of the EU as evidenced by falling turnouts and the increasingly apparent decollage between a pro integration assembly and an increasingly sceptical and distrustful electorate. The idea that Brussels will take charge of ever more sensitive and totemic areas of political authority, buttressed only by the legitimacy provided by the EP is a recipe for disaster. It would shake the legitimacy of the system to its limits.

Rather than continual centralisation, the path to a more effective, and more legitimate, European Union lies in ensuring greater involvement of Member States in its activities. It is precisely the perception that 'they' in Europe impose things on 'us' the citizens that has contributed to the EU's malaise. And here David Cameron's much maligned 'renegotiation' of the terms of British membership throws up some interesting ideas.

First, that national parliaments play a greater role in EU decision making. The creation of an organic link between EU action and national parliamentarians would make more national politicians attack the Union with impunity. Eroding the separation between the 'European' and the 'national' is a necessary step towards including national politicians and national politics more fully in EU decision making. Member States, in other words, wield power without responsibility. And the only solution is to imbue them with a sense of responsibility. There is no point assuming that this will come about out of a sense of duty. Rather, it is necessary to foster a sense of ownership on the part of Member States. They must, in other words, become genuine and obvious stakeholders in the European integration process. Only then will the incentives for them to treat the EU as cavalierly as they currently do decrease.

Second, the idea the European Union is a one-way process of an 'ever closer union' needs to be challenged. Not via opting out by Britain or whatever other meaningless 'quick fix' is generated at the February Council to appease British government and ensure a "remain" vote in the referendum. Rather, political leaders, instead – as is too often the case – of chanting the mantra of more integration should engage in serious debate about where integration is functionally necessary and politically possible, and where it is not.

Maybe, too, we should stop thinking in terms of a 'European project'. European integration should not be seen as some great adventure embarked upon by our leaders in our name. It is a hard headed and practical attempt allowing a collection of small and medium sized States to do things together they could not achieve when acting individually. Let us welcome the prosaic, and with it a more rational, politically reasonable and ultimately more effective approach to European integration.

Restoring Economic Growth during Times of High Uncertainty

Ramūnas Vilpišauskas[*]

Every human transaction is characterised by uncertainty. Asymmetries of information and the human propensity to transcend agreed rules, especially under conditions of accumulated power, are enough to complicate economic and social developments at any given period of time. However, recent years have witnessed especially high uncertainty regarding economic developments in European and global economies. To be sure, since at least the Great Recession of 2007-2008 the world has been characterised by increased uncertainty. For example, soon after the start of the Eurozone crisis in 2010 institutions of the European Union (EU) have regularly announced prospects for recovery which again and again failed to materialise.

But the last couple of years have been characterised by a particular combination of factors which contribute to higher than usual uncertainty making any predictions of economic development extremely shaky. These factors include technological development, financial market volatility, migration and especially political and geopolitical risks. The combination of these factors makes the current period of Baltic States and Eurozone economic developments especially difficult to forecast. Doomsayers looking for publicity or investors with their business agendas predict economic disasters. Official EU and Member States' institutions try to calm down market sentiments and step up rhetoric often only to pressure national policy makers into more cooperative behaviour. But looking beyond those motivated assessments the actual state of affairs of the European economy is just very uncertain. It is also likely to stay that way making it not a new, but constant normal. The text below briefly discusses the factors which contribute to the higher uncertainty making it the constant (not so new) normal, of the state of economic affairs. It then presents several recommendations for the EU and national policy makers for how risks might be managed to reduce their negative impact on economic developments in the nearest future.

Pressures for Change and Its Discontent

Anyone who follows technological developments is regularly reminded of the well-known concept of 'creative destruction' popularised by Joseph Schumpeter. Although it has been used and abused by different ideologues and analysts, it still presents a good description of how technological innovations and competition force change in the old ways of doing business. Uber, Airbnb, 3-D printing, drones, shale gas and other applications of mobile communications, the internet and other productivity increasing technological innovations are examples of shifts in the ways of economic activities.

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These changes force adaptation, which is often very painful and accompanied by fear and resistance. Although in our times the breaking of machines has been replaced by popular protests, trade union actions or public petitions, protests are still aimed at resisting the waves of innovation and competitive pressures, unleashed by a constant search for higher productivity in the global competitive environment. Although the term 'fourth industrial revolution' presented by founder of the World Economic Forum, Klaus Schwab, for the Davos Forum of 2016 might seem too sensation-prone, it reflects current thinking prevalent in business and academic circles.[1] One should not necessarily agree with the assertion of K. Schwab that 'in its scale, scope and complexity' this transformation 'will be unlike anything human kind has experienced before' in order to appreciate the importance of technological developments and their impact on the global economy.

Technological innovations increase productivity and accessibility of services and products that at one time were only available to the rich (mobile telephones and international travels are probably among the best known examples, although innovations increasing productivity in the agricultural industry and developments in the pharmaceutical industry might be less visible but much more important in terms of life-saving effects). In this respect they are increasing the welfare of society, poorer households in particular. However, these benefits would not be possible without the decline of uncompetitive industries and ways of doing business, and this usually is accompanied by the protest of those employed in such industries. A number of movements lobbying against the successful conclusion of the Transatlantic Trade and Investment Partnership (TTIP) are motivated exactly by such types of fear from stronger competition (or often simply misinformed about the potential scope and content of this agreement).

Depending on the political and legal environment, competition and technological change might slow to a larger or smaller degree. Public protests against TTIP have increased the transparency of these trade negotiations between the EU and US to an unprecedented degree. Still, despite the transparency and forecasted significant potential economic benefits of the ambitious TTIP deal to populations on both sides of Atlantic, negotiations have significantly slowed and may be postponed until after the forthcoming US presidential elections.

Social tensions and protests are a usual companion of structural reforms and are often the reason why such reforms slow down and turn into muddling-through processes which are diluted to such an extent that no significant benefits of reform are made tangible while at the same time discrediting the very idea of structural reforms.[2] However, although resistance could be sustained for some period of time, innovations are still likely to find ways to develop. Often it is those organisations and countries which are in the group of innovators, allowing an environment which is flexible and friendly to change, that benefit most from breakthroughs and economically gain enough to compensate the losers rather than resist change. It could be argued that despite mostly equal starting positions, Estonia's opening of its economy to international competition in the early 1990s has allowed it to gain a slight

[1] See Schwab, K. 'The Fourth Industrial Revolution: What It Means, How to Respond', paper presented for the World Economic Forum in Davos 2016, 14 January 2016, http://www.weforum.org/agenda/2016/01/the-fourth-industrial-revolution-what-it-means-and-how-to-respond.

[2] Structural reforms are defined as 'changes in structural policy settings directed at improing static or dynamic resource allocation in the economy' (Tompson, W., 'The Political Economy of Reform: Lessons from Pensions, Product Markets and Labor Market Reforms in Ten OECD Countries, Paris: OECD, 2009, p. 4).

advantage with respect to the other two Baltic States in terms of economic and social development which has been more or less sustained until these days. The international rankings of competitiveness, globalisation, innovations, economic freedom, quality of life and others also provide the basis to argue that economic openness, which facilitates industrial (structural) change, usually goes together with economic welfare and better quality of life.

Financial Volatility amid Divergence of Monetary Policies

The period which followed the Great Recession has been characterised by decreasing interest rates, other monetary measures to stimulate economic activity, initial fiscal expansion in many countries and gradual fiscal consolidation measures (or immediate consolidation though budget cuts and wage decreases in countries like the Baltic States). The initial economic decline led to a deteriorating fiscal situation in most European countries. The banking sector has been stress-tested a number of times but still seems to be at risk despite a number of well-publicised steps by the EU in advancing the creation of the banking union. Although stock markets picked up in recent years, particularly in the US, the mid-2015 and early 2016 fluctuations originating from China contributed to yet another factor of high uncertainty of what to expect in the coming year.

Therefore, it is no surprise that financial market volatility is indicated as one of the factors contributing to higher uncertainty of economic developments. It is also linked to the above mentioned factor of increasing productivity in which the energy sector allowed the US to become one of the biggest producers of oil and gas in a very short period of time as the shale oil and gas industries developed. This has been one of the factors on the supply side which contributed to the current level of oil prices of around $30.00 USD/barrel that was difficult to imagine a year or so ago. The slowing of China's economic growth rate acted as another important factor on the demand side that contributed to the decrease oil prices and increasing uncertainty.

The divergence of the US Federal Reserve and ECB policies in the second half of 2015 also contributed to higher financial market volatility and possible fluctuations in the nearest future. Although the financial markets seem to be less sensitive to the difficulties of Greece implementing reforms as part of the financial assistance conditionality, the issue of Greece staying in the Eurozone is by no means resolved. Although exposure of other Eurozone financial institutions to potential shocks from the financial system of Greece has significantly reduced since 2010, difficulties for reform might still revive debates about the sustainability of the Eurozone project under the conditions of such diverging economies. Again, as the experiences of other countries show, structural reforms are difficult to implement even when there are governments which declare a strong determination to initiate them and have the instruments in terms of public administration capacities.[3] In Greece, there is a lack of both – its government has been very critical publically of the reform package negotiated with creditors and the capacities of public administration are rather limited. Therefore, it is quite likely the subject about the integrity of the Eurozone will keep resurfacing in the course of 2016.

One against All, All against One?

The future of Greece in the Eurozone leads to another closely linked topic regarding the future of the Schengen area. In 2015, Greece

[3] See Nakrošis, V., Vilpišauskas, R., Barcevičius, E. ‚Let's initiate necessary changes: 'how political attention and leadership affect policy change under conditions of crisis', draft article submitted to a journal for the review, 2016.

and Italy attracted the attention of the media and EU policy makers due to unprecedented flows of refugees and other migrants from the Middle East and Africa trying to get into the EU, mostly to Germany, Sweden and other wealthy EU Member States. The EU and its Member States have been too slow to respond to the growing flows of migration from the South and when they responded in terms of policy decisions, those decisions have been implemented extremely slowly (suffice to mention the controversial decision to relocate up to 160,000 asylum seekers from Greece and Italy to other EU Member States has been implemented so slowly that by early 2016 only around 300 people have been relocated). Although EU institutions have been blamed again by many national governments, it was divergence of the perception of the need for EU-wide action, and differing notions of solidarity among EU Member States, that were the key factor slowing down a joint response to the refugee crisis.

With the benefit of hindsight one can argue it is impossible to maintain a functioning Schengen area of free movement for people when some of its members are not able (or willing) to control their external borders. Although initially EU officials and other Member States were careful not to point fingers at each other, in early 2016 increasingly more voices articulated the prospect of Greece leaving the Schengen area if it does not improve control of its external border and management of migration flows (with the assistance of the EU institutions and other EU Member States). Cold weather during winter helped to reduce migrant flows more than the decisions taken at EU summits, but as spring approaches those pressures are likely to increase again.

The issue of granting asylum to unprecedented numbers of refugees has become controversial even in Sweden and Germany where governments initially showed confidence in being able to welcome all those willing to settle in countries granted they had legitimate grounds to seek asylum. Both countries followed some others in Central Europe in introducing temporary controls of borders fuelling debate about the possible dismantling of the Schengen area. There is a growing perception among policy makers in the EU and many members of the Schengen area that drastic measures are required in order to protect the Schengen area from becoming hostage to one Member State and collapsing. To be sure, dramatic statements of the EU and some Member States' authorities on the possible dissolution of the Eurozone and the Single market if the Schengen area is dismantled are meant to act as instruments of pressure in order to increase the urgency to introduce effective controls of Schengen borders. However, if no effective solutions for border control are agreed upon and practically implemented by summer 2016, the risk of the Schengen area's disintegration will become very real.

US out, Russia in, EU Disintegrates?

Finally, to add to this already long list of risk factors is another category of risks closely related to some already discussed above. This category includes political and geopolitical risks originating either from domestic politics or geopolitical shifts. One example of domestic politics impacting on the situation in Europe includes the United Kingdom with its approaching referendum on further membership in the EU under the potential deal currently negotiated by the UK government. Those negotiations are peculiar in the sense that most of the UK government's demands are already in place (i.e. differentiation of EU Member States) with the exception of the most controversial issue of limiting the rights of migrants from other EU Member States. This means the main point of the renegotiations is to make a deal between the UK government, the other Member States and EU institutions on how to help Prime Minister David Cameron act as a

winner during the presentation of this deal to the domestic electorate and his Eurosceptic side of the Tory party hoping that this will help win the majority for the 'stay in the EU' side. However, it is unclear to what extent the outcome of renegotiation with the EU might contribute to referendum results.

The latter might be influenced by unexpected events such as a worsening of the refugee crisis. The terrorist attacks in Paris in November 2015 and publicized assaults on women by immigrants in Germany and Sweden in 2016 are just a few examples of how such events might increase the heat surrounding national debates on the issue of immigration, and be exploited not just by Eurosceptic parties in EU countries but cause genuine concerns by mainstream political actors. External actors interested in weakening the EU might also contribute by elevating such politically controversial issues to a national agenda as the referendum approaches. If the UK votes to leave the EU, this would unleash a powerful, dynamic EU disintegration. It might also lead to another referendum in Scotland. The growing publicly expressed concern of business actors in the UK regarding such a prospect indicates that the prospect of the UK leaving the EU could act as a strong shock for financial markets and economic development in the Union.

Another case of domestic politics having particularly important global implications is the US' unwillingness to step up its presence in the Middle East in the context of the presidential elections approaching next November. A number of candidates in both parties are urging an even stronger inward orientation of the US, thus potentially leaving a power vacuum not just in the Middle East but also in Asia and Europe. Forthcoming presidential elections have already made many analysts doubt if the TTIP negotiations are going to continue in 2016 or be postponed to a post-election period. The latter prospect would further reduce the chance of reaching an ambitious deal and mean the potential impetus for the economic growth of the EU will be missed. Although radical inward reorientation of the US seems unlikely, the period up to the presidential elections will definitely contribute to a higher uncertainty about global order and the possible risks involved.

The main risks will be the same as in 2015. The conflict in the Middle East, the unpredictable behaviour of Russia in the EU's Eastern and Southern neighbourhoods, tense relations of China with its neighbours, and possible terrorist attacks in the EU or the US. Their presence will continue to affect market sentiments and be a potential risk for accelerating the EU's economic recovery. Russia's aggressive behaviour in the EU's Eastern neighbourhood in 2014-2015 and military exercises in the Baltic Sea region and the North has already made investors nervous. Its entry into the Syrian conflict, aimed at maintaining its influence in the Middle East by supporting the ruling regime of Syria, might motivate it to deescalate in Ukraine. However, a combination of demand (slowed by economic growth in China) and supply (increase in productivity by the shale industry in the US, entry of Iran into the oil market) factors is likely to make the price of oil remain at a rather low level, further contributing to the already bad state of the Russian economy. This means Baltic and other EU countries' companies will need to continue to rely on the EU market and domestic demand for their products. It also implies the possibility of new tactical surprises from Russian authorities motivated to keep mobilized popular support in the face of a deteriorating economic situation at home.

EU and National Policies to Address the Risks

The previously discussed combination of factors is likely to make the year 2016 very volatile and highly uncertain in terms of

economic developments in the EU and beyond. The main question, having this in mind, is whether and how the EU and Member States can manage those risks and mitigate their effects on economic development in Europe.

At least several policy recommendations can be provided which, if implemented practically and not just advocated rhetorically, might improve the resilience of EU Member States' economies. First, the EU should focus on improving the regulatory environment for business competitiveness and flexibility in the EU. To be fair an EU official or a national policy maker are rarely heard publicly opposing the goal of increasing competitiveness. That is why the demand of the UK in its renegotiations with the EU to increase the competitiveness of the EU economy is applauded by all Member States and EU institutions. However, while this objective causes little debate, it is the practical implementation of concrete measures aimed at improving the competitiveness of EU businesses that usually get stuck in the daily bureaucratic routines of EU decision making and national protectionist interests' power play. One just has to remember how many times EU institutions announced the completion of the EU common market (from the Treaty of Rome to the Single Market program in 1992 and beyond) and later rediscovered yet again that 'in many areas the Single market is far from being completely in place', to quote the Report of the Mario Monti presented in 2010.[4]

Policy makers and voters in the EU need to have realistic expectations regarding the completion of the Single market. Although the need for exaggerated announcements is present in the EU and national politics, it should be made clear the Single market will never be completed. Similarly to the never ending structural reforms in Member States, the regulatory situation in the Single market will regularly need reviewing in order to assess the changing technological environment, national norms affecting competition and possible new protectionist instruments introduced under pressure from domestic interest groups. The fact that technological change and competitive pressure will continue to drive structural change, as discussed in the beginning of this essay, means structural reforms and regulatory alignment at an EU level will also be a constant exercise. Still, the cost of 'non Europe' in the sense of a still incomplete Single market seems to be important enough to provide a potential source for demand which might contribute to stronger economic growth in the EU.[5]

Another method to contribute to stronger economic growth is facilitating trade with the main partners of the EU. The US is among the most important ones and conclusion of TTIP negotiations would send a very important positive signal to markets. Faster trade liberalization with Eastern partners would be another positive step. Although talks in some EU capitals about official entry into talks on improving economic relations with the Eurasian Economic Union regularly resurfaces, under the current regime in Russia and continuation of its policies it would prove to be a mainly symbolic move without any tangible benefits. Recent years exposed the actual trade policy decisions of Russian authorities which are aimed at import substitutions (for example, the decision to impose embargoes on food products imported from the EU in 2014) and show strong resistance to embrace the benefits of liberalized trade and stronger

[4] Monti, M., 'A New Strategy for the Single Market. At the Service of Europe's Economy and Society', Report to the President of the European Commission J. M. Barroso, Brussels, 2010, p. 3.

[5] For a recent set of proposals how to move ahead with the removal of barriers to the EU Single market see Pelkmans, J. 'What strategy for the genuine single market?' CEPS Special Report, Brussels: CEPS, No. 126, January 2016.

competition (as witnessed by the decision to abolish the preferential trade agreement with Ukraine in response to their entry into Ukraine-EU DCFTA provisions on trade liberalization). Therefore it is difficult to imagine a return to credible talks on the common economic space 'from Lisbon to Vladivostok' which is unfortunate since such a prospect could provide further benefits to economic growth in Europe, which in the case of the Eurozone is expected to slightly increase this year but still remain at below 2.0 percent.[6] Even more beneficial would be a global deal concluding the Doha round with a major new step removing trade barriers among all WTO members. However, this is a very distant prospect, especially if the economic situation in the world remains complicated or even deteriorates. Economic problems usually strengthen protectionist pressures which in turn complicate the further removal of barriers to economic exchange.

Finally, on the level of EU Member States, the main recommendations could be limited to two directions: streamlining the national regulatory environment to strengthen flexibility of national businesses, in particular the labour market, and further reduction of administrative burdens so companies are better prepared to deal with unexpected external shocks (whether geopolitical, financial or other), and reduce fiscal exposures to possible economic shocks. The latter implies the need to accumulate fiscal reserves during times of economic growth. Although there is a lot of talk of 'austerity fatigue' in the EU, the need to reduce huge debts is not going to suddenly disappear, meaning the need to balance public finances will remain for years to come. The Baltics States returned to relatively high rates of economic growth soon after the economic crisis of 2009. Unfortunately, as illustrated by the example of the current Lithuanian government who twice postponed balancing the national budget in 2014 and in 2015, when an economic situation improves and national elections approach recent past lessons can be quickly forgotten. In the context of political behaviour motivated by political cycles, it is much more difficult to expect appropriate measures to be adopted which would then deal with long-term issues such as demographic challenges.

[6] European Commission Autumn 2015 economic forecasts.

EU Policy in the Eastern Neighbourhood: More Ambition, Stricter Conditionality, Less for Less

Arkady Moshes[*]

An honest attempt to understand whether EU policy in its Eastern Neighbourhood has or has not been a success and what changes might be needed at the moment would necessarily require looking back and answering one straightforward question. Is the region now more stable, more secure, more prosperous and better integrated with Europe than it was a little more than a decade ago when the then new European Neighbourhood Policy (ENP) was conceived?

It would be of course fair, but also simply *bon ton* to cite all the achievements, the biggest of which are the Association Agreements (AA) and Deep and Comprehensive Free Trade Agreements (DCFTA) between the EU and Ukraine, Georgia and Moldova. Yet, the reality on the ground does not allow for any complacency.

The ENP was making its first steps in the east of Europe in the atmosphere of 2004's enlargement euphoria, the perception of an unprecedented level of security around the EU, the declared "strategic partnership" with Russia and the promise of incremental rapprochement with it through four "Common Spaces", as well as democratic revolutions in Georgia and Ukraine that were expected to bring about positive change. Today's outlook is a lot gloomier.

Although Europe had been used to see frozen conflicts in the Eastern Neighbourhood for almost a quarter of a century, Russia's annexation of Crimea and a war in Ukraine's Donbas were a shock not only for the region, but for the whole continent, qualitatively worsening the security situation. And this shock is far from being overcome.

Cohesion within the region erodes. Whereas the three above-mentioned AA countries view their future as integration with the EU, Armenia and Belarus are pillars of the Russia-led system of economic and security alliances, and Azerbaijan retains its distance from both. Geography and the Soviet past is what these countries have in common, but these features hardly suffice for creating regional synergy.

European rules and values have not taken root even in countries which express their willingness to develop close partnerships with the EU. Moldova is facing a risk of no less than a statehood collapse, of oligarchic State capture and a total reversal of the country's pro-European course. Georgia is vocally criticized for "selective justice", which forced its former president, so praised in the West for their "most successful reforms", to flee the country. Ukraine, who wasted the decade after its Orange revolution of 2004, procrastinates with the necessary changes and suffers from oligarchic omnipotence and corruption now two years after the Euromaidan of 2013-14.

The immediate future will certainly not be benevolent for the EU's regional effort. Regardless of whether or not Brussels and the Member State capitals will view it as a zero-sum game, struggle for influence in the EU-

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Russian shared neighbourhood will continue. Furthermore, military power, once used as a political instrument, will be from now on overshadowing many other aspects of policy, and threatening to nullify any progress made simply because the EU by definition does not have the symmetrical means to counter it.

Meanwhile, the EU faces many other challenges, like the refugee crisis, terrorism, a possible exit of some Members and sluggish economic growth, which shake the very core of a united Europe, and compared to which the eastern periphery of Europe will appear as much less of a priority. Consequently, fewer resources will be allocated for the neighbourhood policy, and providing specific incentives for change will be more difficult.

In these circumstances it may seem reasonable to scale down EU involvement in the Eastern Neighbourhood, to choose the path of least resistance, to concentrate on what *can* be done rather than on what *has to* be done, to emphasize "mutual ownership" and thus inevitably give partner countries and their leaders a decisive say in defining the content of the partnership.

Yet, to do so would be a mistake, however well-intentioned. Minimalistic agenda, partnerships in name only, smoothly-run (and even less so if unproductive) summits producing declarations would not be worth the effort. Diplomatic resources and EU taxpayers' money would only then be well spent if they resulted in a deep transformation of the region bringing it closer to Europe's system of economic and legal norms. Only then would the partnerships be sustainable, less dependent on the choices of individual regional leaders with all their individual preferences and vulnerabilities, and could become institutions of their own.

No doubt, minimalism is both unavoidable and highly appropriate in relations with those countries and regimes which are not interested in Europeanization, if this is their choice. Furthermore, here the EU could be advised to punctually follow the "less for less" approach, taking it to the logical end - "nothing for nothing" - and wait until the partners are ready. There is nothing wrong in developing trade and other ties that come naturally, but there is little point in offering privileged conditions or providing assistance while knowing that it could indirectly benefit corrupt clans or repressive machineries rather than contribute to a better future for the people. The rhetoric of partnership which many local actors mastered a long time ago should not be exchanged for cash.

Instead, the EU should concentrate all resources in interacting with those partners who say they have chosen for themselves a European future. And here the ambition should be far-reaching. Clearly, since the current Member States refuse to offer AA countries a membership perspective even in the long term, the biggest hypothetical incentive for transformation will be absent. But it would be extremely important to seriously consider the possibility of an economic area and full energy market integration with DCFTA countries, as indicated in the November 2015 Review of the ENP, and explain to partners the benefits this status would imply.

But in relations with more willing partners strict conditionality will be no less crucial. The negative example of Moldova where the EU has been either unwilling or unable to signal the unacceptability of non-transparent corrupt schemes within ruling circles – apparently out of fear of destroying Moldova's image as an emerging "success story" – until it was too late and $1 billion or 15 percent of the country's GDP was taken abroad and disappeared, should not be repeated elsewhere even on a smaller scale. For such "friendliness" can undermine trust in the EU, both in partner countries and among citizens of Member States alike.

Geopolitical factors will have to be reckoned with, but they should not be given preference in decision-making. First, because it has to be admitted the EU structurally is not really the best-designed to deal with them. Second, because only if a country is genuinely transformed and embraces European norms and values, will it share Europe's security platform and be less vulnerable to external security risks. On the contrary, geopolitical balancing opportunistic behaviour, in attempts to bargain along geopolitical lines in order to secure temporary economic benefits, cannot create a long-term allegiance.

EU activity in the Eastern Neighbourhood should not be perceived as an elitist, "high-diplomacy" project, the risk of which is now apparent. As a forthcoming Dutch referendum on the ratification of the DCFTA with Ukraine reveals, many EU citizens are not convinced about the gains of deepening partnerships with neighbours. This is worrying. But EU decision-makers should also be cognisant of the risk that the soft power of Europe in partner countries, and for that matter – in Russia, which has been taken for granted since the collapse of the Soviet Union, is under stress. Europe, whose economic performance has not been impressive for more than a decade, is viewed as sometimes pushing partners to abandon certain traditional values of theirs and cannot even guarantee personal safety of the people can no longer automatically be perceived as a success worth being part of. Stepping up respective information campaigns to dissuade the most dangerous stereotypes will be necessary, although, obviously if Europe turns out to be unable to resolve its inner problems, no image-making will help.

When it comes to individual countries, Ukraine will self-evidently occupy a key position. The conflict in Donbas is a terrible human tragedy and a heavy economic burden for Ukraine, and efforts especially from German and French diplomats to bring peace should be fully supported and commended. But a lesson should be learned. As compared with a preceding document, the Minsk-2 agreements granted better conditions to the side of the conflict which started a new phase of escalation – the separatists, thus creating a temptation to escalate again, if necessary. An inventory of European tools has to be ready to serve as a deterrent against that, and the sanctions on Russia objectively form part of that inventory.

But Ukraine is bigger than the conflict in Donbas. And while staying firm on Ukraine in relations with Russia, the EU should also be firm with Ukraine's leadership, persuade it to carry out necessary reforms and to comply with the legal commitments the country has taken already. The problem, however, is the Kiev administration is hardly able to push through parliamentary and executive structures the reformist laws and constitutional amendments that are expected from it in the context of Minsk-2. Western pressure to achieve both at the same time is likely to result in failure on both accounts. Either because the government will collapse and political destabilization follow or, because a visibility of settlement, bought with too many concessions by central government, highly unpopular inside Ukraine and, therefore, fragile, will be coupled with cosmetic rather than fundamental changes. Instead, the order of priority could be changed. Provided that another major escalation is prevented, Ukraine should be able to cope with the effects of the on-going conflict, whereas EU conditionality could be used primarily to secure progress in reforms which will definitely pay off in the future. Extension of the Minsk-2 agreement beyond its original deadlines is fully compatible with this suggestion.

Another crucial case will be Belarus. Despite certain EU-friendly gestures and internally inconsistent rhetoric, the country is and will remain in the foreseeable future, a client state of Russia. On the one hand, its ruling regime is allergic to political and economic

liberalization and shares with Moscow the view of the West as being a sponsor of "colour revolutions" and regime change. On the other hand, the EU does not have any appetite to replace Russia in its capacity as a provider of massive economic subsidies to Belarus.

The current normalization in EU-Belarus relations was made possible thanks to an asymmetric trade-off. The EU *de facto* lifted the sanctions introduced in response to brutal repressions in the aftermath of the 2010 presidential elections in exchange for the release of several political prisoners, not followed by their rehabilitation, let alone a general prospect of moving towards a more competitive political process in the country. There should be no illusions. Very little is currently possible in relations with Belarus, but conditionality should still be used to enlarge the space of freedom to the greatest extent possible and to increase technocratic compatibility with Europe which can be helpful in the future. Also, the EU should place its weight behind pro-reform conditionality of international financial institutions. Brussels, of course, cannot prevent European companies from using Belarus, a member of the Eurasian Economic Union, as a channel to export goods to Russia and thus avoid its counter-sanctions, but this fact should not be a reason to "award" Minsk either financially or otherwise.

Russia may not formally be an addressee of the EU Eastern Neighbourhood Policy, but in reality it is its central element. Unfortunately, the EU-Russian "strategic partnership", a figure of speech before, now firmly belongs to the past. Mutual trust has been destroyed. A list of conflicting issues in spheres ranging from human rights to energy was simply too long even before the conflict over Ukraine broke out. Whereas the non-sanctioned economic exchange goes on, Russia's recession gradually decreases its attractiveness for European business. In turn, Europe ceased to be a role model not only for the Kremlin, but for millions of its supporters as well.

A conflict has become the new normal. When muddling through it, Europe should first of all hedge against the risks coming from Russia or produced by its policy, starting at home and applying EU laws and procedures in full to protect European internal value-based order. It should certainly explore the possibilities of cooperation where interests correspond, but avoid "grand bargains", especially at the expense of other neighbours. Most importantly, it should be free from any illusions that a "quick fix" is possible. Neither easing sanctions, nor coordination of policy in the Middle East, and definitely not direct dialogue between the EU and the EEU or any other communication could restore a cooperative posture at once.

To conclude, challenges in the Eastern Neighbourhood can only be tackled if the EU has a policy based on a clear formulation of Europe's interests and end-goals and by concentrating resources on their pursuance. A process rather than result-oriented course, accommodating the requests of partners for the sake of keeping appearance will not do the job.

The Digital Single Market: Complexity beyond the Single

Mārtiņš Daugulis[*]

The rules of current global competition are simple - to stay in the headlines, and there are only two ways to do this: compete with cheap sources of production (including working hands), and/or to compete with high additional value at a high price. Because of this simple truth, research and development as a basis for boosting the European Union's economy has been a top priority for decades. Hand in hand with the idea of the single market, the EU is maintaining the deconstruction of obstacles for market, and, without a doubt, "four freedoms are becoming freer" from year to year.

At the same time, tension is inevitable - all players in a global market are living according to those mentioned realities. Even so, the badly infamous Euro crisis according to many analysts was a totally misnamed phenomena, and, in fact, was a crisis of competitiveness among various Member States, which is still ongoing. From this perspective, the idea of a Digital Single Market is a perfect exit strategy and path of development for Europe. Of course, "going digital" is happening around the globe, but only the EU can implement a digital boost in its own and quite unique way because of several reasons:

Firstly, the digital environment from a legal and regulatory perspective is an absolutely new phenomena. While other States have to struggle with classical market regulation adaptations to a digital one, the EU is in a wonderful position - it can create "fresh regulation for fresh phenomena". This means even deeper integration of Member States in the EU because there is no need for distinguished Member States to struggle with digital regulations on their own, but deal with this at an EU level. It is an important aspect because digital solutions, like digital challenges, are mainly beyond national borders - so a systemic EU approach for new regulations and legislation is the most effective approach.

Secondly, for innovations in the digital field market, size and diversity are equally important – the creation of new services and goods within the digital environment demands a "creative crowd" (various experts admit crowd sourcing, crowd-funding, creative commonalities are just the beginning of various types of crowd-functioning in the digital age; anyway, the crowd - educated, active, and developed from a human and social capital perspective is what you need for boosting a digital field). The EU market is the biggest compared with the US and China, and other previously mentioned factors are largely fulfilled within the nations of Europe.

Thirdly, the EU has a systemic approach to policy building, recognising potential for the EU to see the entire complex picture within the Digital Single Market, not only focusing only on start-ups and businesses, but also on security and defence issues in this particular field.

Fourthly, because, as mentioned before, the digital environment is "beyond national

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borders", the only way for effective regulation and a harmonisation of the field, is in fact the "way of union".

Taking everything above into account, because the starting position for the EU is reasonably good, if we compare it with other players in the global market, there is a huge potential for expansion of the Digital market in the EU, and to be driven by the Union. The European Commission initiative fully proves the EU acknowledges this fact. The EC has identified the need for a Digital Single Market (DSM) as one of its political priorities. According to the EC's definition, a Digital Single Market is one in which the free movement of persons, services and capital is ensured and where individuals and businesses can seamlessly access and exercise online activities under conditions of fair competition and a high level of consumer and personal data protection, irrespective of their nationality or place of residence. Principles of the EU approach to development of the DSM is included in the Digital Single Market Strategy, adopted on 6 May 2015, and includes 16 initiatives to be delivered by the end of 2016.

Opportunities the DSM will bring are well tailored - according to the EC: "...the DSM can create opportunities for new start-ups and allow existing companies in a market of over 500 million people. Completing a Digital Single Market could contribute €415 billion per year to Europe's economy, create jobs and transform our public services. An inclusive DSM offers opportunities for citizens also, provided they are equipped with the right digital skills. Enhanced use of digital technologies can improve citizens' access to information and culture, improve their job opportunities, and it can promote a modern open government." The DSM is based on three pillars:

1. Access - with consumers and businesses at the core and their ability to access digital goods and services across Europe.

2. Environment - with conditions and a "playing field" in the core that defines frameworks where innovative digital goods and services can flourish.

3. Economy and Society – along with other conditions (like education and other market parameters in synergy with digital, etc.) at the core.

At the same time there are several risks and challenges which should be kept in mind when speaking about the movement of the EU toward a DSM.

1. From a strategy drafting perspective, various analysts outline that a DSM strategy is "too bright" and struggles with a lack of risk assessment. This leads to the challenge that DSM in the minds of Eurocrats is just a buzzword with no real evaluation of future risks when considering digital environment perspectives.

2. From a critical perspective the DSM strategy is just a plan for other plans. For ordinary policy making in the EU there is a well-known approach about how to draft policies. The only issue here is that this time, considering the speed of Digital area development, the speed of Europe could be too slow. A recommendation here would be dividing the strategy in two parts – a "first things first" part, and a strategy with an already outlined timetable. First, a fast track strategy would be mainly for harmonisation and deregulation of the field. But how do you maintain targets in "fast mode"? The answer lies in maximising the inclusion of field experts (for instance open standard issues for digital programming around Europe should not be included together with strategic plans that are less important). This goes hand in hand with the assumption that the DSM, despite its title and output as "Single", should not be based on a single strategy but rather on a complex approach including risk avoiding-based strategies.

3. From a verbal perspective the digital strategy should be based more on Internet and Communication Technology (ICT) field perspectives. This minor change - ICT usage instead of Digital - broadens the prospect of understanding that information circulation is closely linked to "just business" in the digital age. However, by only using "digital" in the description, information issues are excluded from being an important focus. But without them - without the full spectrum of ICT, the Digital Single Market is impossible.

4. The Digital Single Market should emphasise more security and defence issues than just data protection. *Data protection is crucial*. It should be taken as an alfa for all digital aspects - to be a focus for businesses, clients, organisations and providers. At the same time data protection is mostly associated with owning data and using it with proper reason. In reality, according to the warning information of various internet security analysts, data protection is mostly under threat for reasons of infrastructure, and almost all players do not know their data is vulnerable. This goes hand in hand with issues of ICT infrastructure. After providing it to a client it is no longer the responsibility of the producer, usually; the client is not focusing on additional security measures for his digital infrastructure changing the internet security environment. So ICT infrastructure's lifetime security should be regulated, and in close relation with educational issues for ICT security matters.

5. The International Dimension should form an angle where the EU and the EC in particular are paying more attention. According to the EU formulation in the DSM, "...the scale provided by a completed Digital Single Market will help companies to grow beyond the EU internal market and make the EU an even more attractive location for global companies. The openness of the European market should be maintained and developed further in the digital sphere. The EU should continue to press for the same openness and effective enforcement of intellectual property rights from our trading partners. Barriers to global digital trade particularly affect European companies since the EU is the world's first exporter of digital services. To that end an ambitious digital trade and investment policy should be further developed including by means of the EU's free trade agreements..." This formulation skips a chain of issues that can touch EU entrepreneurs in ICT businesses. These issues are:

- Copyright issues of goods outside the EU, etc.

- The balance of regulations within the EU and outside - ICT field mobility is much higher than in other fields so, EU balances with regulation of other players in global competition is crucial. If the EU over regulates the field (even with the purpose of harmonisation), digital field players will migrate to other markets. And the opposite – the power of attraction to obtain businesses from outside the EU to within the EU is an important issue to increase competitiveness.

- The Digital Single Market phenomenon proves that a complex and multi-disciplinary approach is crucial to guaranteeing an effective and safe environment in developing the field. This means it is worth considering strengthening the link between the Digital Single Market and cyber-space defence from an attack perspective (or so-called "hybrid-threat" perspective). The issue of cyber-defence has been on the agenda since the creation of cyber infrastructures as such, but only since merging technologies from the twenty first century together with hybrid-warfare methods, have "cyber" and "hybrid" received new meanings and forms, creating new challenges for public and State security. It is not completely possible to understand the character of cyber-defence without

analysing the motivations of actors within hybrid-warfare, and the means for expressing these motivations via new cyber communication channels are extremely expanded. Thus, counter activities to cyber-threats and hybrid-warfare from a State perspective are under pressure to expand and also extend. In particular now State and defence structures should review their politics and implementations so they are "on the same page" with new threats. Particularly important is the question on how to broaden the ability to defend – which means discussions on broadening defence skills, abilities and rights to other policies, because a defence policy cannot solely cover all fields under threat. Theorists of communication science admit the Digital Single Market as a new phenomenon includes threats we cannot foresee at this particular moment. So acknowledging all threats including hybrid-threats is a "should-be", if not "must-be", within discourse of DSM development.

6. Finally, conclusions on DSM strategy say that, "...The strategy for a Digital Single Market is about transforming European society and ensuring that it can face the future with confidence. The Commission invites the European Parliament and the Council to endorse this Strategy to complete the Digital Single Market as soon as possible and to actively engage in its implementation, in close cooperation with all relevant stakeholders..." Here, from a purely large picture angle one should emphasise that those who drive changes are private businesses, and, in the case of the Digital Single Market and ICT, even more. The EC should be cautious with defining its role in the development of society in the digital age. It is possible to speak in similarities with the philosophy of medical history and that famous doctor slogan in relation to patients: "*Primum non nocere*!" (From Latin: First, do no harm!). Indeed, towards the DSM all aspects of a classic market are even more intensified - it should be freer, clients have to be protected more, market infrastructure has to be defended more, etc. Speed is crucial, transparency, and inclusion of all stakeholders even more. The same time risk assessment is on the other side of the mirror.

Summing up, the Digital Single Market has huge potential but at the same time for it to be "Single", there is a need for complex actions, and a complex/multi-disciplinary approach to keep ICT moving toward development and not running away from the EU. Simply, to "get the DSM out there" the EU and its Member States will need to "invest it in". The Digital Single Market is not a magic stick for dealing with all development problems - it is, most probably, the field with the biggest potential today - but to reach its potential without any negative consequences – an active, cautious and complex approach is a necessity.

The European Energy Union: A Story about the Possible

Reinis Āboltiņš[*]

The fact is, nobody can live and function without energy. Attempts are ongoing by the European Union to ensure there will always be affordable energy for everyone. The task is not at all simple and easy, but the price of the failure to succeed is too high for things to be left alone in their progress. Europe had the Coal and Steel Community, and more recently experienced the functioning of the Energy Community. The time has now come to explore what a European Energy Union (EEU) might offer to all consumers of energy.

A European Energy Union is a complex animal, but not a unicorn. A unicorn is, to a large extent, a mythological creature possessing supernatural powers. The EEU might also be in possession of certain powers, albeit not supernatural, but possibly supranational, once it comes to the implementation of principles enshrined in EEU strategy. Solidarity might be one of the key supranational powers, but we should not forget the ideology behind energy solidarity – the consumer is above all else. Article 194 on the Treaty on the Functioning of the European Union (TFEU) speaks of a spirit of solidarity.[1] The energy market, security of energy supply, renewable energy and interconnections are not new concepts for the EU. The EEU framework strategy reiterates and further develops what has already been said.

Quick statistical research shows EEU strategy[2] refers to solidarity eight times. The consumer is referred to 25 times, and security 36 times. The presence of these notions so important to Europe's energy policy in the EEU strategy is not coincidental as it in a way consolidates what has been written in preambles and articles of directives and regulations not referring to policy strategies.

The success of the EEU is based on an assumption that the key element in the structure of the EEU is the consumer whose interests have served as the leitmotif in many a piece of energy directive and regulation. A full list of the EU energy legislation includes several dozen different titles that all have preambles speaking about protecting the interests of consumers.

Again, a brief statistical look at a few most important pieces of legislation constituting the Third Energy Package (TEP) speaks for itself. There is an abundance of references about consumers in the EU Electricity directive[3] – 59 times. The EU Gas directive[4]

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[1] Treaty on the Functioning of the European Union, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A12012E%2FTXT

[2] A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52015DC0080

[3] Directive 2009/72/EC of The European Parliament and Of The Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC, http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex%3A32009L0072

mentions consumers 50 times, mainly referring to consumer rights and the protection of interests of consumers. REMIT regulation[5] mentions consumers six times. The Energy Efficiency Directive speaks of consumers 26 times. This is not a coincidence, this is clearly part of a common approach and ideology. Perhaps there is a need to remind oneself that in EU energy law the consumer is indeed the central stakeholder.

Paragraph one of the Preambles of Electricity and Gas Directive embodies the essence of what the European Union economy is about: the internal market in natural gas (and electricity), which has been progressively implemented throughout the Community since 1999, aims to deliver real choice for all European Union consumers, be they citizens or businesses, new business opportunities and more cross-border trading, so as to achieve efficiency gains, competitive prices, higher standards of service, and to contribute to the security of supply and sustainability.[6]

The idea for the EEU did not appear from nowhere. It has a list of solid predecessors that paved the way for the currently most up-to-date energy policy frameworks: Energy 2020 strategy (2010), EU Energy roadmap 2050 (2011)[7], EU Energy Dependence – An Indicator-Based Assessment EU Energy and Climate Policy framework for 2020-2030 (2014)[8], and last, but not least – EU Energy security strategy (2014).[9]

A few key thoughts from those documents are very refreshing. When the 2010 Energy 2020 strategy for competitive, sustainable and secure energy was adopted it stated quite bluntly the price of failure is too high[10] when it comes to ensuring energy security and successfully tackling all related challenges. The strategy concluded that due to the long time it took for fundamental energy system changes, taking action today does not yet guarantee that structural changes needed for low-carbon transition will be completed in the period up until 2020, which the Energy 2020 strategy covers. The strategy therefore goes on to further emphasise it is necessary to look beyond the timescale of the Energy 2020 strategy to ensure the EU is well prepared for the 2050 objective of a secure, competitive and low-carbon energy system. The Commission promised therefore to follow up the Energy 2020 strategy with a complete roadmap for the year 2050, which would set the measures covered in the Energy 2020 strategy with a longer perspective and consider further and additional steps.[11] No doubt the Energy 2020 strategy set a firm basis for further elaboration of a European energy policy, including clearly

[4] Directive 2009/73/EC of The European Parliament and Of The Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC, http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32009L0073

[5] Regulation (EU) No 1227/2011 of The European Parliament and Of The Council of 25 October 2011 on wholesale energy market integrity and transparency, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32011R1227

[6] Directive 2009/73/EC of The European Parliament and Of The Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC, and Directive 2009/72/EC of The European Parliament and Of The Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC, para (1).

[7] Energy Roadmap 2050, http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011DC0885&from=EN

[8] A policy framework for climate and energy in the period from 2020 to 2030, http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex%3A52014DC0015

[9] European Energy Security Strategy, http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52014DC0330

[10] Energy 2020: A strategy for competitive, sustainable and secure energy, p.2, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52010DC0639

stating core values behind the thinking about how to deal with the challenges ahead.

The EU Energy roadmap 2050 highlights the EC's thinking about challenges posed for delivering the EU's decarbonisation objective, while at the same time ensuring security of energy supply and competitiveness of the European economy. Again, it puts the consumer at the centre by stating that people's well-being, industrial competitiveness and the overall functioning of society are dependent on safe, secure, sustainable and affordable energy.[12]

The study on the influence of energy prices EU Energy Dependence – An Indicator-Based Assessment acknowledges that EU economies have been exposed to energy price increases leading to adverse effects on consumers and industries over recent years[13] and concludes that EU Member States' vulnerability to energy related risks should be minimised as much as possible considering the large variety of situations and differing energy portfolios.

EU Energy and climate policy framework for 2020-2030, among other important issues, speaks of issues prioritised by Article 194 in the TFEU – strengthening regional cooperation between Member States to help them meet common energy and climate challenges more cost-effectively while furthering market integration and preventing market distortion. It does not at all forget that improving energy security while delivering a low-carbon and competitive energy system through common action, integrated markets, import diversification, sustainable development of indigenous energy sources, investment in the necessary infrastructure, end-use energy savings and supporting research and innovation, is of paramount importance.[14]

When reading through policy documents the European Commission has produced over recent years it becomes obvious there has always been a plan. Consistent use of particular wording, references to the interests of energy consumers, the principle of closer cooperation between Member States is always there. Less than a year before the European Energy Union strategy was announced the European Energy Security Strategy (EESS) was adopted. In terms of its content the EESS has served as the final stepping stone for tabling the EEU strategy. Both the EESS and the EEU strategy were drafted and adopted under difficult international circumstances. The Russian Federation, one of the key energy suppliers to the EU, engaged in activities incompatible with international law and a hindrance to regional security.

Ideologically the Energy Union strategy builds heavily on EESS's eight pillars[15] to make possible the seemingly impossible task of promoting closer cooperation and solidarity between all Member States while respecting the sovereignty aspect of Article 194 of the TFEU protecting national energy choices:

1. Immediate actions aimed at increasing the EU's capacity to overcome a major disruption during the winter of 2014/2015;

[11] Energy 2020: A strategy for competitive, sustainable and secure energy, p.20, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52010DC0639

[12] Energy Roadmap 2050, p.2, p.19., http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011DC0885&from=EN

[13] Member States' energy dependence: an indicator-based assessment, European Economy. Occasional Papers No 145, May 2013, Brussels, p.1., http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp145_en.pdf

[14] A policy framework for climate and energy in the period from 2020 to 2030, pp. 3-4.

[15] European Energy Security Strategy, p.3.

2. Strengthening emergency/solidarity mechanisms including coordination of risk assessments and contingency plans; and protecting strategic infrastructure;

3. Moderating energy demand;

4. Building a well-functioning and fully integrated internal market;

5. Increasing energy production in the European Union;

6. Further developing energy technologies;

7. Diversifying external supplies and related infrastructure;

8. Improving coordination of national energy policies and speaking with one voice in external energy policy.

It is not difficult to compare the eight pillars of the Security Strategy with the five dimensions of the EEU strategy. Although narrowed down into five realms the EEU's content clearly and logically stems from the very basic elements of an energy system - production, transmission, storage and trade of energy:

- Energy security, solidarity and trust;
- A fully integrated European energy market;
- Energy efficiency contributing to moderation of demand;
- Decarbonising the economy;
- Research, Innovation and Competitiveness.

The vision is strengthened and developed in further detail through 15 action points[16] as well as cemented by a roadmap which speaks of specific projects, and timelines and indicates who is responsible for the implementation of the roadmap. It can always be argued whether the roadmap is the result of already existing practical solutions, or if specific solutions follow the roadmap, but there is probably a two-way causality.

One can say that the European Energy Security Strategy and the European Energy Union strategy are both products of visionaries carrying out a wishful thinking exercise, but the consistency has always been there and legislation has always followed the vision and the strategy. When the EEU initiative was formally announced at the beginning of 2015 scepticism was not unusual. Even the optimists were saying this project is nothing new and just puts all key activities and policy directions the EU has already been pursuing in the energy sector under one roof. Even if this were so, the EEU has apparently turned out to be a very good rebranding exercise allowing a pushing ahead of initiatives that used to fight for sufficient attention and popularity.

The European Energy Union is real and possible because it is built on the need to tackle real-life situations and the consumer is at the centre of its ideology. The good thing is the energy industry seems to have embraced the EEU fairly dearly, which is a good indication that key industry stakeholders see the benefits for business too. A preamble is always important.

[16]A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy, pp.19-21.

Towards a European Global Strategy

Daunis Auers[*]

The 2003 European Security Strategy famously kicked off with the assertion that "Europe has never been so prosperous, so secure, nor so free" going on to state that the strategy's aim was to create "a secure Europe in a better world".[1] This document reflects the idealism of a very different time – a European Union of fifteen Member States (although the Big Bang enlargement was only a year away) in a world still dominated by Europe and the US. Europe's neighbourhood was largely peaceful and all the BRICS – not just China – appeared to be booming as the world headed towards an increasingly multipolar order.

It is an obvious thing to state, but the world has seen enormous change since then. The EU is now comprised of 28 Member States. And these Member States are more heterogeneous and with a wider array of often conflicting national interests than at any other point in EU history. At the same time, the financial and euro-zone crises saw the EU understandably focus on domestic issues in order to try to get its own economic and fiscal house in order. Alas, this meant foreign and security policy was neglected as the EU marshalled intellectual and material resources away from external actions towards domestic engagements in order to keep the European project together.

At the same time the world outside Europe has experienced equally rapid change. The spread of democracy has stalled as "competitive authoritarian" regimes strengthened their grips in Russia, Venezuela, Ecuador and elsewhere in the world. China, its recent economic slowdown notwithstanding, has continued its relentless growth, leveraging rising wealth into a more assertive foreign and security policy. As a reaction to this, the US has increasingly "pivoted" to Asia. While the US-European partnership remains close, ties between the two have inevitably been gently loosening, although Russia's actions in Crimea and Ukraine may well serve as a catalyst to renew the security side of the relationship. Indeed, Europe's immediate neighbourhood has also been transformed. Russia's annexation of Crimea in 2014 and its continued support for separatists in Eastern Ukraine has seen geopolitical competition return to the borders of Europe. The southern Mediterranean region has lurched towards confusion and disorder as the initial elation of the Arab spring turned into the terrifying chaos of failed States, civil war and a return to strongman rule. These events directly touched Europe in 2015, as a fast-growing number of migrants and refugees surged into Europe and threatened the Schengen regime of open borders between European States. Policy differences opened up between different Member States.

Clearly, the contemporary global environment is increasingly turbulent, complex and challenging. The next decade is likely to be

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[1] European Council, *A Secure Europe in a Better World. European Security Strategy*, Brussels, 2003, http://www.consilium.europa.eu/uedocs/cmsUpload/78367.pdf

equally, if not more, dynamic. India will move towards fulfilling its economic potential and other South East Asian States – particularly Malaysia and Indonesia – will also likely experience vigorous growth. As has been the case with China, economic success will be accompanied by a more assertive international presence. Continued innovation in the energy sphere will see new forms of renewable energy, as well as cheaper ways of extracting fossil fuels, forcing oil producing nations in the Middle East and elsewhere to adjust to a new economic reality of lower energy prices. Globalization and the internet have also continued to penetrate and interconnect the world. Indeed, it is an increasingly polycentric world where international organizations and sub State actors – such as cities, corporations and powerful civil society groups – are increasingly growing in influence, undermining the traditional power of States.

As a result, the June 2015 European Council was well counselled in requesting that High Representative of the European Union for Foreign Affairs and Security Policy, Federica Mogherini, continue to prepare "an EU global strategy on foreign and security policy".[2] This is a challenging proposition and very much a case of "rebuilding the ship at sea", with the European Union redefining its global role at the same time as the world around it is in this state of complex transformation. Nevertheless, this is also an opportunity to prepare a forward looking strategy. One that is not just a knee-jerk reaction to the immediate challenges the European Union faces but also addresses future trials.

What Challenges Does the Future Hold for Europe?

Clearly the EU's primary aim for the global strategy should be to address potential major military threats Member States face. The security environment today, and in the future, is far more complicated than in 2003. First, the EU's near neighbourhood poses immediate tests to European security policy. Towards the north and the east, the Russian Federation regularly breaches the sea and air borders of the Nordic and, especially, the Baltic States. The Russian military organises annual military exercises close to the borders of the Baltic States. Some of these exercises have even simulated invasions of Estonia, Latvia and Lithuania. At the same time Russia has bank-rolled a number of new media targeting Russian-speakers living in the Baltic States, as well as created and financially supported a plethora of NGOs – such as the World Without Nazism network – that purport to represent the interests of Russian-speakers in the Baltic States. Thus the Baltic States face very real *hard* as well as *hybrid* security threats to their borders. Russia's actions may well signal a return to geopolitical competition on the fringes of Europe.

The migration crisis that began escalating in 2015 is a result of conflict in the Middle East and North Africa (MENA). This is an issue that is not going to go away. Even if a diplomatic or military solution brings order back to Syria it will take many years to reconstruct the State's infrastructure and economy. There are further entrenched conflicts in Iraq and Libya as well as the more fluid threat of ISIL. Moreover, as Europe continues to age and grow economically, while MENA has a booming demography but stagnant economy, there will be increased push and pull migration pressures connecting the two regions. In other words, the southern Mediterranean is likely to remain an arena of conflict and chaos for quite some time and the EU's military and diplomatic capacity will have to grow accordingly.

[2] *European Council Conclusions*, EUCO 22/15, June 2015, https://europa.eu/globalstrategy/en/european-council-conclusions-june-2015

There are five other global trends that should shape the writing of the European Security Strategy. First, Asia's economic rise will continue. Not only will this strengthen multi-polarity it will also shatter the west's liberal democracy/market economy consensus that initially drove the globalisation process. International organisations and laws that govern global trade and the economy will be reframed and rewritten to reflect these changes in the balance of power. Confrontation may increasingly replace consensus in resolving disputes. Second, energy policy will be ever more tied in with foreign policy. Technological developments in the energy field as well as the recent deal with Iran will give the EU a great opportunity to diversify supply of oil and gas into the Union into the medium term. However, in the short-term energy will remain a part of the geopolitical 'great game' for the EU's neighbours. Third, these geopolitical changes will be accompanied by ever more rapid technological advances that quickly spread across the globe. Technology represents particular challenges to the EU as a region that has embraced technology in business, public administration and with some States – Estonia – even holding elections on-line. Fourth, the EU will have to deal with a US that gradually not just pivots to Asia but, as a result of demographic change within the US and growing economic ties, also increasingly focuses on developing relationships in South America. However, shared core democratic and economic values with the US make this a relationship that needs to be maintained. Finally, power will increasingly become more diffused – away from *Westfalian* nation States and towards larger, ever more mobile multi-national businesses, cities and regions as well as individuals empowered by the internet. This calls for new forms of communication and diplomacy.

How Should the EU Respond?

This complex future requires a minimum of four actions.

First, to deal with the challenging environment in Europe's neighbourhood, policy-makers will need to redraw and redefine one of Europe's most successful foreign policy instruments – enlargement. Export of the rule of law, democracy and the market economy across the European continent has been key to ensuring the peace and security of post-1989/91 Europe. However, the era of European Union enlargement has come to an end. There is little appetite or consensus to offer full EU membership to any more than a small handful of Balkan States. This has particular salience for the post-Soviet space where countries such as Georgia and Ukraine continue to eye potential EU membership. While the economic benefits of a closer trading relationship with Europe can be great, this does not have the same transformative lure of full membership of the Union. Indeed, it seems many countries are currently forced into a zero-sum game of choosing to enhance economic and trade relations with Europe or Russia. However, this choice is never simple for post-Soviet States with deep and established economic, political and cultural relationships with Russia – as has so painfully played out in the ongoing crisis in Ukraine. A more nuanced policy should build on the successes of the European neighbourhood policy to construct a clear framework of closer economic, political and cultural relationships with Europe's neighbours that stop just short of membership.

Second, there is a clear need to move towards *institutionalising* security and defence cooperation. At one extreme this could entail the construction of a permanent planning capability within new EU military

Headquarters (HQ). At a minimum, Europe's rapid reaction forces, first responders in any crisis, need to be enlarged. Indeed, the strategy should also address the increasing importance of *crisis management*. Globalization has meant that natural disasters, terrorist attacks, pandemics and other crisis swiftly sweep past the borders of the States in which they occurred. Europe needs more cohesive and flexible military forces which can be achieved by more cooperation in defence planning and procurement.

Third, in order to be able to deal with regional and global challenges the EU also needs to narrow the gap between EU actions and participating Member States. The EU has large and small Member States. However, not even the larger ones are capable of defending all their vital interests without cooperation with NATO or European partners. As a result, there needs to be a clearly defined division of labour between Member States and European institutions. Second, and more complicatedly, the strategy should clearly express the shared foreign policy interests of the 28 States. In all truth, Member States' interests are understandably so diffuse and deep that a single document that clearly expresses European interests is unlikely to emerge from this process. Nevertheless, this is the logical point to begin the process of moving towards the formulation and definition of a common European interest.

The fourth action is perhaps the most difficult. How will all this be paid for? The EU budget for external activities declined from 6.4 percent of the overall EU budget in 2013 to 5.8 percent in 2015. This trend needs to be reversed if the EU is to tackle the notable global challenges outlined above. Lack of financing at the European level can be addressed by increased cooperation and cost-sharing, particularly military, among Member States. For example, funding mechanisms should be reviewed so the cost of military interventions are borne by all Member States rather than by just the States that supply the troops and hardware.

Finally, it is hoped the new strategy will be a "living document" that is regularly reviewed and brought up to date in order to address the inevitable new challenges that will emerge over time. The external challenges that the EU faces are likely to be ever more complicated and unfamiliar. If the strategy is to remain relevant it must be able to change and adapt as new.

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