



German-Nordic-Baltic Forum, 9/10 December 2010

## SUMMARIZING REPORT

### **Which design of future relations with Russia and our common neighbours?**

The first session focused on achievements, limits and future challenges in the European Union (EU)'s relations with Russia and the common neighbourhood. Numerous remaining challenges and difficulties were discussed: the EU's difficulties in defining a common position towards Russia, the multivectorialism of the Eastern neighbours, Russia's technocratic interpretation of 'modernisation' and the stable deficits in democratic and economic reform in both Russia and Eastern Europe. With commercial exchange remaining a successful but apparently insufficient instrument to cope more successfully with the complex challenges, the participants argued for a variety of other possible mechanisms to be used by the EU.

The presentations of the first panel's speakers provided a diagnosis of the status quo, crystallised the main challenges and set up a variety of recommendations on how to cope with them in the future. As regards the EU's relations with Russia, positive statements were made on commercial exchanges. The latter were seen as developing successfully and providing a useful basis for further cooperation, both with governments and non-state actors. The spread of 'Western rules' was considered as the main mechanism enhancing the relations in the EU's favour. Several positive trends in Russia were also recognised, e.g. a stable willingness to modernise its economy, the realisation of global interdependence in terms of energy and financial markets, increasing criticism from the academic and intellectual elite, just as a steadily growing Russian economy including a private sector as potential agent for reform.

However, the other side of the coin was pointed out as well. While a different understanding of the term 'modernisation' might lead to further misunderstandings between Russia and the EU, Russia's 'change' was also criticised as remaining purely on a rhetoric level. This counts especially against the background of Russia's power oriented and sometimes assertive foreign policy towards the common neighbourhood. Furthermore, the EU itself was also regarded as a problematic factor in the EU-Russia relations. Its incoherent and invisible

actions seem to strengthen Russia's tendency to use bilateral relations with EU member states and weaken the EU's inner coherence even further.

The speakers agreed that relying on the dynamics of commercial exchange will not be sufficient to cope with the various challenges in the EU-Russia relations. Thus, it was argued that fostering further levels of cooperation (e.g. academic, intellectual and cultural exchange) will be essential. Moreover, the EU's internal consensus on the rule of law and human rights should be the cornerstone of its relations with Russia in all policy fields, *inter alia* conflict management in the common neighbourhood (e.g. Transnistria).

Concerning the countries of the Eastern Partnership (EaP), a similar 'status quo in progress' was diagnosed. While these countries were assessed as being internally divided on core foreign policy questions – which counts for both the political elite and the respective society – they were neither pushed to a decision between Russia and the EU yet. Although conditionality was regarded as one of the strongest incentives for political and economic reforms, one important argument against the use of membership conditionality was the danger of 'desillusionment'. More concretely, membership is not very realistic given both the internal reform processes in the EaP countries and the political climate within several EU member states. Thus, the 'management' of expectations from all actors (EU, Russia, EaP and relevant third countries) was pointed out as a key future exercise for the EU.

Including Russia in the EU's relations towards the common neighbourhood was seen as crucial for both Brussels' relations towards Moscow and the success of the EU's neighbourhood policy. A representative from Finland pointed out clearly that "isolating a neighbour is never a question". It was argued that successful reform processes in some EaP countries may result in positive diffusion effects in Russia. Furthermore, German Foreign Minister Westerwelle's recent proposal for a "common economic community" with the EU's Eastern neighbours and Russia was taken on by one participant. By including Russia into rule-based cooperation, as was argued, the EU would be more successful in achieving its goals. The EU's efforts to encourage Russia's WTO accession or the agreement on the Energy Charter were mentioned as examples of this approach.. Similarly, including Russia in alternative formats and consultative meetings (such as the Weimar Triangle) was seen as beneficial, as long as they support the achievement of a common EU interest or political line.

In summary, the panel discussion on the first issues of the Forum provided a detailed review of current and future challenges to a successful EU foreign policy towards its Eastern neighbours. The concurrent recommendation was that the EU has to counter its own divisions and define a strategy to effectively make its neighbours stable, democratic and prosperous.

## **The Financial Crisis, the Eurozone and its Enlargement**

The second panel dealt with a topic that has been of great importance recently and is one of the most difficult challenges still confronting the EU: the financial crisis, the Eurozone and its enlargement. A vivid discussion evolved among the three panelists from Finland, Iceland and Germany, as well as the rest of the participants, who brought in their different perspectives about the topic. One recurrent theme was the existing danger that the difference between smaller and larger states as well as Northern and Southern states may become more and more openly pronounced. A European Economic Governance could help to solve the most severe problems, but there also remains the danger of growing dependency on financial assistance for some EU member states, provided by the Euro rescue package.

This became especially obvious in the presentation of the participant from Iceland, who pointed out that his country still wants to join the EU and the Eurozone despite the recent difficulties of the currency. The reason would be Iceland's need for a stable currency as well for a strong central bank and institutional framework. In this regard, he pointed out the concept of political and economic shelter. The panelist emphasized that Iceland was in special need of this shelter due to recent developments caused by the financial crisis. The EU would be the only institution who could provide this properly. He explained this through the fact that, when the crisis hit in October 2008, Iceland's banking sector collapsed and the government had severe troubles to get external assistance. The panelist was of the opinion that this would not have happened had Iceland been a member of the EU and if it had adopted the Euro as its currency. As an example of a small state who had been saved by its EU and Eurozone membership, he referred to Ireland. He further stated that other alliances and rescue mechanisms were not optimal for Iceland. An attempted currency union with Norway had failed and help from the IMF during the financial crisis pressured Iceland to accept certain conditions, only resulting in the IMF delaying its assistance several times. Furthermore, in his opinion, Iceland's membership in the EEA exposed Iceland to instability since it increased growth and risk exposures and thus did not provide shelter of any kind. The EU is thus the only way out for Iceland as a small state in Europe. The panelist came to the conclusion that small states were more vulnerable to pressure and thus were in even greater need of allies than bigger states. Especially in an economic situation like the present one, economic and political shelter by a stable institutional framework and a strong central bank was absolutely necessary. While answering a question about the recent public opinion polls about the possibility of EU membership in the discussion, he explained that public opinion had been very unstable in recent years, being initially very positive about EU membership but that recently, two thirds of the population were for and one third were against joining the EU.

Pointing into the same direction, the Finnish panelist was of the same opinion that the EU was the only solution to tackle the financial crisis. Political instruments were necessary since there had been a financial crisis, a banking crisis and a debt crisis in a very short time. In order to solve this crisis, he quoted the Director of the IMF, Dominique Strauss-Kahn, who had said that the greatest challenges and goals for the EU were to provide growth, peace and social cohesion, factors which were closely connected and could affect the stability of the EU if the Union was unable to provide them. He pointed out that the biggest danger and challenge the EU was facing was the fact that the elites had to make difficult decisions at the moment, especially regarding Greece and Ireland, which might affect the goals of growth, peace and social cohesion. This was especially due to the fact that smaller states might become dependent on bigger states and that there existed the danger of a north/south divide, with money flowing from north to south. This would mean a situation which might be very dangerous since an upstairs/downstairs structure might evolve, affecting the equality of states in Europe. He further pointed out that Europe's competitiveness was weakened due to growing unemployment and problems of smaller and medium-sized companies. In order to solve the challenges that the EU is facing he suggested that more money should be invested in education and research and that young, gifted educated people were the answer to the current challenges. Closely connected to this were immigration policies, which had to be more effective and open in order to be able to find the people with the best education. He also pointed out that China, India and Indonesia were currently producing more industrial goods than Europe and that the European continent was facing an increasing level of competition that could, in his opinion, not be met with the Europe-2020-Strategy. According to him, an economic government was the only solution to the current challenges. The EU could only be a strong actor on the world stage if it had strong common economic policies. He was thus agreeing with the panelist from Iceland about the importance of the EU in economic matters, but also pointed out the dangers of the current situation. The speaker added that he would not see the possibility of not only an Economic, but also a political union, mainly due to the fact that the Finnish public opinion remains very suspicious about the Union's activities and any overtaking of national sovereignty. Thus the Union would need to gain legitimacy first.

The third panelist from Germany approached the topic from a different perspective: unlike his predecessors, who pointed out that a common economic governance was necessary and that small states needed the assistance of the EU, he underlined that the Union already would be a transfer union. He further criticised that the EU had come to a point where it had no other possibility than to save every member state. No country was allowed to go bankrupt, a fact, which, on the contrary, had happened in the past and had not caused heavy consequences. He argued that the recent policy would make member states dependent, a

fact, which has also been emphasised by his Finnish co-discussant. In the opinion of the German scientist, this policy was not going to change, and the transfer union would remain a reality. He emphasized that there was no way out of the transfer union anymore and that countries would have to apply for the rescue package in the future, a process which is dynamic but not to stop. As a future perspective for the economy of the EU, he pointed out that, according to a forecast by the IMF, China will continue with its export-oriented policies and that the Euro area has to go for more imports. His answer to a question from the audience, how the EU may be able to solve this problem, he stated that this would mean a process of enlarging consumption and that the Commission had made a scoreboard proposal to solve it, which had caused heavy discussion among the member states. He also pointed out that he was not in favour of Eurobonds since they would mean significant competition for national bonds.

Did the financial crisis finally have any impact on the question of an Euro-area enlargement? On the hand, the financial crisis had shown that small states were not able to overcome it alone and that a shelter from bigger member states would be needed. Thus, an extension of the euro area was necessary. Similarly, the Finnish participant emphasized that a liberal economy had come to an end and that the EU had a growing role in regulation. The financial crisis thus had shown that other structures were necessary and that the euro area should be enlarged. On the other hand, the German participant stressed the need for a solid insolvency procedure, which may help in the end to manage the extension of the eurozone.

### **The Implementation of the Lisbon Treaty in CFSP/CSDP – an ever growing common foreign policy?**

The third panel of the German-Nordic-Baltic Forum did offer the possibility to discuss the recent adaptations of the Common Foreign Affairs and Security Policy (CFSP/CSDP) of the EU. Especially the impact of the new institutions and personalities such as the High Representative on the role of the member states and as an instrument to foster coherence in the common external policy were debated. Though seen as a positive element in principle some rightly pointed to the fact that new institutional arrangements were only recently set by the Lisbon Treaty and are not yet fully operational. The nominations of the staff members have been dominating the EU-agenda for long time while a discussion on the substance of the CFSP remained modest in 2010.

At the beginning statements by the panelist pointed to the fact that the hopes, which were formulated when negotiating the Lisbon Treaty should be seen somehow more realistic against both the interests of the member states and the challenges of international politics. Much has been achieved with regard to Permanent Structured Cooperation, the mutual

assistance clause and the new solidarity clause, it was argued. However, whether and in how far the EU might move towards greater consistency would very much depend on the political will of the signatory states and their ability to define and promote common values (such as democratisation, human rights and the achievement of political stability in the European neighborhood). According to several speakers this region, and in particular the Western Balkans could be seen as the test ground for the success or failure of the Leitbild of the 'EU speaking with one voice'. Through concrete projects the EU should demonstrate its ability to conflict prevention and peace building, it was argued. Others mentioned the most recent collective presence of the EU and its strong negotiating role in the OSCE framework as recently shown in Astana as a positive sign of the CFSP after Lisbon.

From several interventions it became obvious that the new institutional set up in Brussels is helpful to improve the CFSP profile though the danger of inefficient structures and competing actors. Though it was argued that the enhanced role of the European Parliament, as well as the one of the national parliaments, is decisive for greater legitimacy of the CFSP, it would have complicated the decision-making at the same time. The negotiations on the External Action Service are one recent demonstration. Since the member states continue to play a key role in CFSP the question whether or not the new "toolbox" of the CFSP will work largely would depend on their willingness to support it and to refrain from insisting on national interests. Similarly the new CFSP actors would have to accept that they are but mediators and that they cannot function when they perceive themselves as being decoupled from the national capitals. The panelists agreed that both sides would have to undergo learning processes and take ownership of the new system which will continue to be based on the consensus principle.

Another challenge the CFSP will have to face are the unknown risks of world politics ahead, a panlist underlined. A common policy will not only have to be efficient and coordinated but it would always be forced to prioritise tasks and to act flexible on new problems. A solution should be found for a sustainable policy which is not too focused on certain areas of interest, as risks in world politics alter frequently and the interests of the EU are global. As the present financial and economic crisis revealed other areas may have spill over effects on the foreign and security policy of the EU and the EU's credibility as a major international actor.

To conclude participants saw a growing foreign and security policy of the EU though towards an open or yet unknown end. A final judgement about the current stage of the development would be too early as the implementation of the new provisions just has started. However, it could be stated that the EU will need further efforts to create not only a new Service but real policies which combine common values and which may also offer different paces of

realisation under certain conditions. With Lisbon a first step has been made, but others will have to follow, the panelist agreed.

### **How to manage the external aspects of European Energy Security?**

The fourth and last session of the 2010 German-Nordic-Baltic Forum addressed the external dimensions of European energy security and was particularly concerned with the issue of a European external energy policy. Especially within the German-Nordic-Baltic context questions of energy security and their implications for the external relations of the EU and its member states have been identified as an important, albeit at times controversial topic. The session, which was chaired by Severin Fischer, research associate at the Berlin Institut für Europäische Politik (IEP), provided a platform for a constructive discussion among the participants.

During the discussion the panel participants elaborated on some major issues linked to the external dimension of European energy security. Diversification was a key concept in this regard and was presented as encompassing diversification with respect to producing and transiting countries of energy sources as well as to the forms of energy. With respect to the energy mix one participant claimed that while climate change needed to be taken into account when thinking about energy issues, renewable sources of energy should nevertheless be complemented by gas, so as to maintain a stable energy supply. Another important issue of energy security, raised during the session, was the search for alternative transport routes, especially for gas. However, questions relating to the European energy infrastructure more generally demonstrated another focal point in the discussion. As one Estonian participant emphasized, diversification needed to be complemented by an upgrade of the energy infrastructure within the EU in order to thoroughly unfold its positive effects for European energy security. Apart from that, cooperation in the energy sector within the EU and between producing and consuming countries of energy sources was seen as another important prerequisite for lasting energy security and long-term security of supply for Europe. In this respect, a German participant introduced the notion of global energy governance, referring to fora such as the International Energy Agency, the G-20 or the Energy Charter Treaty, in which this kind of energy cooperation would be substantiated.

Whereas the proposition that cooperation was needed in order to ensure Europe's energy security was not challenged as such, the question of whether a European external energy policy was needed to achieve this goal was more controversial. While the majority of the participants argued for a coordinated approach to deal with external partners in the energy sector and a common European voice on energy matters towards non-EU counterparts, the counter-argument was raised by others. Arguments brought forward to underline the need for

a European external energy policy included the plurality of interests among EU member states and the difficulty this entailed not only for the consistency of the European energy policy but also for the external partners of the EU entering into dialogue with a fragmented polity. Apart from that, all panelists contributed to the EU's need to develop a common external energy policy and to increase its leverage in this regard - as was pointed out by one of the speakers competition for scarce energy resources by other countries, the growing importance of producer countries relative to the EU, the rising dependence of the EU on energy imports from unstable regions as well as the fact that some producers see the energy issue through the lens of security and politics could be mentioned in this regard.

A long-term strategy for exporting the European energy regulations would thus be needed. In addition solidarity among EU member states vis-à-vis their external partners and a common voice presenting two crucial preconditions in this respect. In fact, the proponents of a common external energy policy repeatedly endorsed the export of the European energy acquis to the energy partners of the Union, the expansion of these regulations to the Energy Community being a case in point. One opponent to the notion of a European external energy policy argued that until now there was no European external energy policy in the first place. In the future, the need to develop such an approach would even diminish. Referring to the EU's 2020 energy and climate goals the hypothesis was made that the accomplishment of these goals would put the EU in a position of more self-reliance and would thus reduce the need for such a policy. Instead it was argued that priority should be given to the energy agenda within the EU. It would need to encompass the full integration of national energy policies in a single competitive European energy market since this would contribute to energy security within the Union. This aspect was subject to broad consensus again, since all the participants stressed the importance of the "EU doing its homework". The completion of the internal energy market marked merely one of the issues raised in this regard. The need for a solidarity or crisis mechanism, the establishment of the appropriate regulatory frame and the expansion of urgently needed energy infrastructure (such as smart grids and interconnectors) would represent further challenges at hand.

The discussion on the latter aspect of necessary energy infrastructure again revealed some controversy among the participants. Referring to the Nordic electricity exchange network launched at the sidelines of the latest Energy Council one participant stressed the primary responsibility of private companies in advancing energy infrastructure projects. He claimed that these actors not only inherit the expertise necessary to do so but also have the responsibility to finance them. However, this argument was contested by various other participants who argued that a certain degree of intervention on the national and European level would be necessary to bring about change in the energy sector. Alluding to the current



planning and construction of LNG-terminals in the Baltic region one panelist exemplified this point and maintained that dialogue and multilateral consensus on the political level would be necessary to provide for the necessary energy infrastructure and to avoid inefficiencies. In this respect the Baltic Energy Market Interconnection Plan was brought to the discussion and one panelist used this example to illustrate the need for macro-regional energy structures in Europe. They would contribute to end the energy isolation of some regions necessary to accomplish the single European energy market.

Finally, while the question of whether the European energy policy should be endowed with an external dimension might be subject to a some disagreement, the completion of the internal energy market is broadly considered to form the prerequisite for European energy security.

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