Compass 2020

Germany in international relations
Aims, instruments, prospects

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Prospects for the future as a security and welfare union

Christos Katsioulis & Gero Maaß

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The Compass 2020 project represents the Friedrich-Ebert-Stiftung's contribution to a debate on Germany's aims, role and strategies in international relations. Compass 2020 will organise events and issue publications in the course of 2007, the year in which German foreign policy will be very much in the limelight due to the country's presidency of the EU Council and the G 8. Some 30 articles written for this project will provide an overview of the topics and regions that are most important for German foreign relations. All the articles will be structured in the same way. Firstly, they will provide information about the most significant developments, the toughest challenges and the key players in the respective political fields and regions. The second section will analyse the role played hitherto by German / European foreign policy, the strategies it pursues and the way in which it is perceived. In the next section, plausible alternative scenarios will be mapped out illustrating the potential development of a political field or region over the next 15 years. The closing section will formulate possible points of departure for German and European policy.

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European Integration

Prospects for the future as a security and welfare union

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Abstract

The European Union is no longer the most important reference point for German foreign policy alone. Its character has changed so dramatically over the past few years that it now acts as an interface between domestic and foreign policy: as a result nearly all German policies can only be conceived of in a European dimension.

This unique supranational and intergovernmental regulatory structure is currently facing immense challenges: the European Union now numbers 27 Member States, but the institutional architecture for this change is still far from adequate. Following the rejection of the Constitution in France and the Netherlands, the reform of the Union has been put on ice for the time being. Moreover, a deep rift is emerging between societies and the EU. This is linked, among other things, to the growing perception of Brussels as a vehicle for the advance of globalisation: the EU is increasingly being blamed for globalisation's negative effects on everyday life. The Union is looking for answers to this social deficit.

The European Union can develop in several directions. Given external pressure and the political opportunities afforded by European cooperation, a complete dissolution of the EU appears highly unlikely. Nevertheless, integration could be frozen in many areas. Existing mechanisms of European solidarity would then be dismantled and European cooperation would concentrate on the Common Foreign and Security Policy. We find ourselves in a situation in which "*everything's fine until you take the wrappings off* ". Alternatively, Europe could isolate itself from global political challenges and start becoming completely self-absorbed. In this scenario - "*the world's Switzerland*" - the European Union could focus its strengths on internal issues and tackle many economic, technological and social challenges. It would be a flourishing economic area with a marginal capacity to determine policy beyond its own horizon. A third scenario is based on more far-reaching integration in a few policy areas engineered by groups of pioneers. The current European Union would fray into different, loosely connected integration areas, but without a common goal: "*Europe à la carte*".

The goal of German policy for Europe should be to implement the positive elements of these scenarios and map out convincing and workable goals for the EU. This includes the common guarantee of external and internal security, a European economic area with major innovation potential, viable mechanisms for sharing out burdens, and equal opportunities for all citizens. Along the way, graded levels of cooperation are necessary, united by a common goal and avoiding moves towards disintegration. A European welfare and security union could develop this perspective in a Europe of different spheres.

I. The EU's main stages of development

"We decide on something, make it known and wait a while to see what happens. If there is no hue and cry and nobody kicks up a stink, because most people have no idea what the decision is all about anyway, then we move forwards step by step until there's no turning back". This modern interpretation of the Monnet method – formulated in drastic fashion by Luxemburg's Prime Minister Jean-Claude Juncker (Spiegel No. 52, 1999, p. 136) – became outdated in 2004/2005. The ten-country enlargement and the rejection of the Constitution in referenda in France and the Netherlands marked the end of "permissive consensus" in Europe on the future of European integration. Enlargement and transfer of sovereignty to the EU have thus come much more to the fore as issues of social conflict and (national) political debate.

The debate on the future of Europe cannot turn the clock back. We are not talking now about short-term strategic advantages for individual Member States or engaging in a philosophical debate on the meaning, purpose and finality of the Community, but about solving real problems in a world with new international power structures, for which the sphere of influence and the regulatory jurisdiction of European nation-states will prove inadequate in the future.

Hence the EU is also an expression of a structural transformation of the state, which will be obliged to fulfil duties with a more pronounced trans-national dimension in the future. We are witness to a form of statehood in transition, in the course of which the nation-state has forfeited its potential to act, enabling new forms of intergovernmental and inter-societal action to emerge. The EU can therefore no longer be measured merely in terms of categories that apply to nation-states. For long-standing observers such as journalist Gunter Hofmann, it is a structure that is neither a nation nor a Europe of native countries nor a federation, but rather a network of interlacing mechanisms for cooperation and compromise at many levels.

I.1 The interplay of deeper integration and wider membership

The Single European Act of 1987 set a process in motion which increasingly delegated areas of national responsibility to the European Communities and later to the European Union. The central landmarks in this process were the Treaties of Maastricht (1993), Amsterdam (1999) and Nice (2003), as well as the negotiated, though as yet unratified European Constitution. The quick succession of treaties reflects the great need to reform and adapt the EU's institutional structure, which always has (had) to be adapted to new internal and external circumstances, such as the number of Member States, institutional bottlenecks or a changing international context.

The EU's central achievements are still economic ones. The completion of the European Single Market in 1993, which was rigorously pursued and led to the introduction of a single currency for 300 million Europeans in 2002, is the most visible aspect of economic integration. In its Lisbon Strategy the EU set itself the target of becoming the most competitive and dynamic economic area in the world by 2010. This strategy was designed to boost innovation, advance the knowledge-based society and enhance social cohesion and environmental awareness. While the Euro can be regarded as an overall success, although public opinion would beg to differ, an increasing inconsistency can be observed between European monetary policy and the economic policies pursued by the Member States, which have remained national in character. Until now there has been no consensus in Europe in favour of an integration of macroeconomic instruments that might

prove capable of evening out this growing imbalance. Until such time, the "currency without a country" remains an incomplete structure, especially from the point of view of democratic theory, but also for economic reasons.

European cooperation in the areas of justice and home affairs has become increasingly important since the Treaty of Amsterdam. The most visible change has been the incorporation of the Schengen agreement in the Union's *acquis* and the resulting abolition of identity checks at borders within Europe. Linked to this are rules on checks at external borders, on entering the Schengen area, and the common Schengen visa. Further steps making deep inroads into Member States' sovereignty have been the creation of Europol and Eurojust - European authorities for police and judicial cooperation. Although these institutions are not comparable to their American counterparts, they are designed to improve cooperation between Member States in combating organised crime and terrorism. The remit of both bodies mainly relates to the exchange of information between Member States, which explains why governments are reluctant to cede these policy areas to the European Union. The same reservations are also to be seen in asylum and immigration policy, an issue on which the German government has stuck to the principle of unanimity, thus slowing down integration for the time being.

The third and most noticeable area of integration in the 1990s was European foreign policy, which was developed after the end of the Cold War and in the light of increasingly complex international relations. The first signs of European political cooperation in 1970, set out in the EEA Treaty, led in the Maastricht Treaty to the second pillar of the European Union - the Common Foreign and Security Policy - and formed a cornerstone of the political union that was aspired to. After its inclusion in the Treaties it quickly became clear that the minimal consensus between the Member States achieved in Maastricht gave the European Union only limited capacity for action and that it was hardly perceived as an actor at all or, if so, then in negative terms. That is why this area of policy has developed in very dynamic fashion in the few years since its inclusion in the treaties. One contributory element here was the experience of Europe's inability to take action during the conflicts in the former Yugoslavia: "Europe's big moment" had come, although not in the way anticipated by Jacques Poos, who had used this ringing phrase to pinpoint the great expectations of the Union; the lack of a European answer to Yugoslavia's violent disintegration was viewed rather as the "zero hour" of European foreign policy. The CFSP's initially unsatisfactory structure was improved and expanded in the 1990s. Subsequently, the position of a High Representative was introduced in the Treaty of Amsterdam, the European Security and Defence Policy (ESDP) in 1999, and the option of "Enhanced Cooperation" for the CFSP in the Treaty of Nice, to single out just a few key aspects. The balance of military and non-military instruments and the need to follow a multilaterally determined policy remain characteristic of Europe. This requirement was made clear in the 2003 European Security Strategy.

Over the past few years, in particular, the CFSP and the ESDP have become driving forces for integration: the General Secretariat of the Council, which is responsible for coordinating these areas, has been given a permanent place in the institutional structure. Javier Solana has given the EU a face in foreign policy issues that can represent the Union. However, the financing of the CFSP/ESDP remains problematic. The budget for CFSP is nowhere near enough to finance its many substantial operations. Moreover, all military and defence policy measures outside the EU budget must be financed by the Member States. National interests or reservations dominate not only the decision-making processes of the CFSP/ESDP, but also its financing. Considering the pressure to act, it is astonishing how these developments, which were supported by the European public, have impacted on the process of European integration.

Although the EU enlargement debate was dominated by the big group which joined in 2004, enlargement itself actually began in 1995. There was never any doubt that the three countries which acceded in that year – Austria, Sweden and Finland – would satisfy the economic criteria. However, their tradition of foreign policy neutrality (with the exception of Finland) certainly introduced an important aspect into the Union, which was significant in the discussion of foreign policy instruments and, in particular, of the need for a balance between civilian and military resources.

Apart from this "small-scale enlargement" – the countries concerned being absorbed quickly and mostly without difficulty – the years between 1990 and 2004 were marked by preparations for the accession of eastern European countries into the EU. After the end of the Cold War, the EC/EU quickly made it clear that the community was open to all European countries. The Europe Agreements concluded at an early stage with the countries of Eastern Europe exerted a lasting influence on the transformation of these countries in line with the Copenhagen Criteria: they concerned democracy and the rule of law, a working market economy and the adoption of the *acquis communautaire.* At the same time the EU guaranteed wide-ranging assistance for the transformation by providing material and moral support for the complicated and painful efforts to introduce reform. The peaceful transition to economic prosperity can consequently be considered one of the European Union's most important achievements. The prospect of accession proved to be Europe's most powerful tool for shaping relations with its immediate neighbours after the demise of communism in Eastern Europe.

It was, therefore, only logical that the EU should also open up the prospect of accession to the states of the western Balkans, too, and thus fill in this "gap" in the map of Europe left after the recent accession of Romania and Bulgaria. Here again, the proven range of pre-accession assistance measures, Stabilisation and Association Agreements, linked with a clear prospect of membership, were designed to create long-term stability and prosperity and at the same time make Europe safer. The ongoing major challenge for the EU is posed by the accession negotiations with Turkey, which started in 1999. The accession of what would be the Union's most populous country, whose economic and institutional development is on the right track, although still far from meeting European standards, will be the litmus test for the EU's own ability to reform and win over its own peoples.

The Union's institutional architecture has fanned out even further in the wake of both geographical enlargement and the occupation of new policy areas and it now appears increasingly complicated. The decision-making mechanisms involving the Council, Commission and Parliament are still comprehensible to only a few insiders and the debate has focused more intensely on the democratic legitimacy of European regulations, one reason for which are the great deficits in the cooperation of national parliaments with their governments and the European Parliament. Governments are exploiting the increased room for manoeuvre they enjoy as a result of their access to information and their right to share in decision-making at the European level and are playing their policy balls off the "European cushion" to hole them at the national level. By contrast, the popular representatives ratifying the decisions are at a disadvantage, because they depend on the information provided by their respective governments (which they are supposed to control). The EU's democratic deficit is therefore attributable not only to a lack of transparency in decision-making, but also to extended leeway for the executive organs, which the legislative bodies can only catch up with later on.

Progress on developing the Union's contractual foundations – an opportunity, in particular, to remedy deficits in the institutional architecture, but also to reorganise respon-

sibilities – has ground to a halt after the rejection of the European Constitution. This document and the unique European Convention process involved in drawing up the text were designed to avert the increasingly self-imposed deadlock of the 27 Member States now in the Union. As the Nice negotiations showed, the "Europhoria" of Member State governments has diminished dramatically and national egoism has dominated the discussions between Heads of State and Government. This was also visible in the negotiations for the "Financial Perspective 2007-2013", in which progress on European integration was to a large extent pushed into the background and the debate focused on preserving traditional policies, such as the Common Agricultural Policy and the Structural and Cohesion Funds.

I.2 A survey of the EU: requirements versus reality

The completion of economic and monetary union and, in particular, the introduction of the single currency have led to a sharper perception of Europe as an economic player, both inside and outside the EU. The EU's influence in international economic bodies and in bilateral and multilateral negotiations has grown as a result. However, the negative economic cycles in large parts of Europe and the reforms implemented mainly in continental Europe, which in some cases were far-reaching, have also led to the EU being regarded as responsible for these negative developments or at the very least as supporting them. The EU is blamed by the population for the consequences of globalisation: the Union is considered to be unsocial and business-friendly. The unsatisfactory outcome of the Lisbon Process so far has also contributed to this perception. The European initiative in the areas of education, technology and the knowledge-based society is being held back by a crowded agenda, insufficient coordination, conflicting priorities and little resolute political action, according to the interim report by a group of experts led by Wim Kok. Moreover, the Process is situated outside the European institutional framework and therefore not integrated into the EU's routine business.

The growing divergence in Europe in the field of foreign policy became painfully clear shortly before the accession of the ten new Member States. The war waged by the USA against Iraq with the aim of bringing about a change of regime split the European Union. While some Member States, first and foremost Germany and France, vehemently opposed such an intervention and also deprived it of legitimacy under international law, others, most noticeably Great Britain and Spain, supported the Bush government's plans not only verbally, but in some cases also with substantial contingents of troops. Although the peoples of Europe were extensively united in rejecting the war, the behaviour of the governments of the new Member States, in particular, highlighted the central role that the USA plays in the security concept of individual elites, which are perceived differently by European governments. The rules of international law and the sovereignty of nation-states were also interpreted differently. The European Security Strategy, which was presented only a few months later, attempted to accommodate different ideas of the threats to Europe, of the way to deal with these risks and of legitimising this policy, while building a common foundation to guarantee that such a deep rift (and the subsequent harsh reactions) would not occur in Europe again. Nevertheless, the CFSP/ESDP must be regarded as a positive element of European integration both because of the institutional and political progress in this area and because foreign policy has increasingly become an area which gives the EU its identity.

The enlargement in 2004 emphasised what a stabilising effect the EU has on processes of economic and political transformation. The original "peace project" of the EC in Europe has therefore mainly exerted a positive influence, which comes to fruition with the pro-

spect of accession. This can currently be seen in the western Balkans and Turkey, where possible EU membership legitimises reforms while maintaining social cohesion. In addition, the EU's global profile has been sharpened thanks to the European Neighbourhood Policy, CFSP/ESDP and foreign trade.

In comparison, the Union is clearly in much worse shape as regards its internal affairs. Along with the above-mentioned institutional flaws, the 2004 enlargement, largely decided and implemented without the involvement of social actors, further deepened the rift between the EU and its societies. The "catch-up debate", which was mainly sparked off because of Turkey, influenced the referenda on the Constitution, but above all fomented people's fears about competition (e.g. from "Polish plumber"). This loss of faith led to a more intense debate on social aspects in the EU framework, which aimed to boost citizens' confidence in the EU and in its ability to support them in the process of globalisation. A ray of hope here is held out by the role of the European Parliament, since after the clashes over the appointment of the Commission and the Services Directive it is much more in the focus of public attention and is thus beginning to correct the perception of the EU as an institution "bogged down with bureaucracy". The rift between the EU and its citizens, combined with an opaque and cumbersome decision-making system (after accession and without a constitution), means the outcome of a decade of integration is mixed. In 2007, the EU is in a crisis regarding its legitimacy, its ability to solve problems and its capacity to integrate inwardly and outwardly. It cannot meet the steep requirements which are made in many policy areas.

I.3 New challenges for European policy

In view of this situation an intensive debate has begun in the EU institutions and Member States, which focuses on three questions:

Globalisation: How can Europe deal with the process of globalisation? What extra benefit does Europe offer countries? Who should organise this process - Europe or individual countries?

Democratic legitimacy: How can the process of European integration be conveyed to citizens? How can they get involved and shape the process to meet their interests?

Identification: How can identification with the European Union, which is increasingly being eroded in Member States, be reinforced? There is no shared goal which could help citizens identify more strongly again with Brussels, since the European peace project no longer offers sufficient attraction.

Four central challenges for the European Union in the near future can be derived from these questions and the aforementioned difficulties of European integration:

1. *Governability:* The EU of 27 still functions on the old rules of the Treaty of Nice, which basically still reflect the experiences of the community of 15. The many opportunities for individual countries to influence or block decisions and the complicated decision-making process permanently hamper the EU's development and contribute little to transparency. As the negotiations about the new 2007-2013 budget have shown, there is also no longer a way (as there was for Spain, Portugal and Greece) to facilitate a consensus by means of increased resources from the Structural and Regional Funds and the Common Agricultural Policy. The strained economic situation in the "old EU" stops a suitable policy from being implemented and thus exacerbates the conflict

over the (now limited) funds. After the failed Constitution and with limited funds for equally inflexible priorities and hardened national positions, it is not clear how Europe should be governed.

2. *Enlargement, absorption capacity and neighbourhood:* The promise of accession is the EU's most successful foreign policy tool. After the 2004 and 2007 enlargements and considering the long queue of new candidates (Croatia, Turkey and the western Balkans) as well as rising scepticism towards new members in European societies, the limits to enlargement and the possibilities for shaping neighbourhood are once again being discussed. A central aspect of the debate is the Union's "absorption capacity", which has been mooted as a criterion for further enlargements. An attractive half-way house in neighbourhood policy therefore needs to be found for all sides, something between "inside" and "outside", which develops stronger ties and gives the EU the opportunity to positively influence its surroundings in terms of increased stability and democracy, without making any promises of membership.

3. *Changes in the global context:* After the dissolution of the bipolar global system, which kept Europe in a foreign relations straitjacket for over forty years, radical global changes are currently taking place. Along with the one remaining military superpower (the USA), China and India are establishing themselves with increasing speed as global actors and Russia is looking for its place on the international scene. Competition between them, in particular for resources, has so far been witnessed in Africa, although it is likely to increase in many areas. The creative force of these three actors increases the likelihood of an increasingly multi-polar global system, within which the European Union still needs to find its place. All that is clear here is that the individual EU Member States can play no role in this on their own. The challenge for the EU will be to avoid a system of multiple unilateralism. It must try to incorporate China and India in a binding system of global regulations, especially in little-developed policy areas such as the environment, water supplies, etc. and get the USA back on board again as the driving force behind this venture.

4. *Lack of social acceptance of the EU:* The negative outcome in France and the Netherlands of the referenda on the European Constitution are just the tip of the iceberg of social distrust assailing the EU. The resignation of the Santer Commission due to accusations of corruption, the lack of involvement of societies in the enlargement process, and the tendency of national governments to take credit for success themselves and put the blame on the EU for unpleasant decisions have further damaged the EU's image. So, although the majority of citizens still identify with Europe, the Union – and in particular "Brussels" as the synonym for it – have a much worse reputation. This can also be attributed to the perception of the consequences of globalisation and the Commission's actions on this matter. While market liberalisation, the dismantling of trade barriers and the implementation of Europe-wide rules are leading to "negative integration" (in the sense of the common breaking down of rules), only a few minimal rules of "positive integration" (the common extension of rules) can be found, for example in industrial health and safety. This creates the impression that the EU is the "Trojan horse of globalisation", while only individual countries still provide protection. The social deficit prevents people from identifying positively with the EU and therefore remains one of the most important internal challenges for the Union.

After taking on the Presidency of the Council at the start of 2007, Germany is at the centre of the crisis-ridden Union. Expectations of Berlin are extremely high on all sides. Not only are trust between citizens and the Union to be reinforced, the Constitution revived and

the way paved for modernising the EU budget; the duo of Merkel and Steinmeier are also expected to produce a "new plan" for Europe, which will patch up the entire Union and revive enthusiasm for Europe. A proposal is due to be put forward for a way out of the constitutional crisis in the narrow time window after the French election and before the end of the Presidency – an undertaking rendered all the more difficult by the pending change of Prime Minister from Blair to Brown in Great Britain and the new coalition settling into government in the Netherlands.

II. A review of German European Policy

Germany's bond with Europe is a permanent feature in the country's foreign policy rationale. The strategy of integrating Germany into European and Atlantic structures, developed by the Allies after the Second World War, led to a specifically German understanding of its role, which was even more clearly defined in the Basic Law (German constitution) after German reunification. This understanding of foreign policy means it is taken for granted that national interests should be pursued in and through international organisations, that action should be taken in close consultation with the Allies and international rules applied as a yardstick for German operations. The clear westward orientation and the close ties with France, in particular, led to European unification not only being a German foreign policy tool, but also a goal that needed to be pursued irrespective of cost-benefit calculations. The attainment of lasting peace and stable prosperity in Europe was a task which countries were to fulfil by handing over sovereignty to a European community.

Germany and France played a leading part in this process, since the convincing reconciliation between the two European core states formed the basis of a peaceful European community and set an example for other Member States. The German-French "engine" was propelled not only by ideas and political figures, but by the anticipation and realisation of the European peace project in Franco-German relations. After 1990, this specific characteristic of European integration for Germany was also firmly rooted in the Basic Law, which states: "With a view to establishing a united Europe, the Federal Republic of Germany shall participate in the development of the European Union…"

German foreign policy is active both *in* and *for* Europe. The European Union forms the highly institutionalised framework within which German foreign policy operates. At the same time Germany also has an effect *through* Europe by pursuing national goals and interests, through this framework and the powers concentrated in it, in the traditional areas of foreign, security and development policy. The European Union therefore acts as a booster for German interests in nearly all policy areas and thus as a tool of German foreign policy. The Union's dual nature - as the goal and tool of German foreign policy - makes the workings of German European policy complex and often difficult to grasp.

II.1 Major German contributions to European integration

The EU's development in the 1990s was due in part to the fact that Germany, as one of the big Member States, actively supported it. The Schengen area, for instance, is the product of a bilateral German-French initiative; the design of the Economic and Monetary Union, especially the role of the ECB, was decisively influenced by Berlin; and the ESDP was launched during the German presidency in 1999. The change of government in 1998, moreover, confirmed that the commitment to Europe is a constant factor for all German

governments. Thus, the Red-Green government kept the Union on track during the difficult transition after the resignation of the Santer Commission; it achieved a result in the Nice negotiations; and it proposed the Charter of Fundamental Rights in the EU. In the negotiations at the European Convention, the introduction of "double majority" voting for Council votes was agreed, a procedure of which Berlin was a long-standing supporter.

Moreover, the Schröder-Fischer government continued the tradition of previous governments and gave the process of European integration an important intellectual impetus. Just as the 1994 paper by Schäuble and Lamers opened the debate on "intensified cooperation", Joschka Fischer's speech at Humboldt University paved the way for a debate on the European Constitution, which Gerhard Schröder in his speech to the 2001 SPD party conference linked to Europe's enlargement in an exemplary way. He emphasised the economic advantages for the EU as a whole and for Germany in particular, and called for citizens to be involved more closely in European decision-making. On the subject of anchoring citizens' rights more firmly in the Union he spoke about a European "society of citizens".

The Red-Green government helped to ensure that, in Germany and Europe, the EU's image of itself as being driven by strategic interests – an image supported by Great Britain – was reflected in accession and neighbourhood policies. This image can be summarised as follows: after the attacks of 11 September 2001, the EU should make security and stability in its own surroundings its top priority, the accession of Turkey being the first step to that end. The EU can thus show that it is not a Christian club, but rather an open structure, which can also accept a country which is extensively influenced by Islam. This would be interpreted as a positive sign towards the peoples of the Middle East, and Turkey as an EU Member State would provide direct influence over the regions of the Black and Caspian Seas as well as the Middle East. A preventive approach to the many conflicts in the neighbourhood would be made easier and necessary resources, especially energy, would be safeguarded in the long term.

II.2 German European policy with a different backdrop

Despite continuing a European policy of decisions for the good of the community and voicing its support for deepening the Union, a change took place in German European policy under the Red-Green government.

Firstly, financial resources for German policy decreased due to the extra burden of German reunification and weaker economic growth, combined with higher unemployment. This led to a reduction in Germany's opportunities for implementing new policies in the EU or obeying existing rules, such as the Stability and Growth Pact.

Secondly, the German Länder in particular, but also the parliament, increasingly (re-)claimed the room for manoeuvre the executive had gained through the transfer of sovereignty to the EU and the accompanying co-decision making powers. Now more actors are involved in European policy, and decision-making processes in Germany have become more complicated.

Thirdly, the cross-party consensus on pushing forward with European integration has waned. Turkey's membership application split both major parties: while the CDU uses arguments about geography and values to block Turkey's full membership, the SPD argues in favour of an accession policy geared more to strategic issues.

Fourthly, people take a more differentiated view of the EU. On the one hand, more than 80% of Germans support European foreign and defence policy and believe that the EU should also take on a more forceful role in fighting terrorism. On the other, the EU is associated with money-wasting, bureaucracy and unemployment. Even more significant is the fear of jobs moving to other EU countries due to wage competition and of the loss of social services, if a competition and single-market-oriented EU should gain even more power.

The harsher internal debate over Europe provides an indication of the level of European integration that has been achieved: battles over resource distribution, previously waged exclusively in the national context, are now extending to European policy, because this increasingly has a direct influence on national policies and social conditions.

These developments have led to Germany's European policy becoming more conditional. Hitherto, short-term German interests were subordinated to the progress of European integration and Germany also boosted the willingness to compromise in the Union in financial terms by assuming additional responsibilities. This changed under Schröder and Fischer; German European policy was now also designed to achieve measurable results in line with German interests and was viewed much more in terms of a cost-benefit analysis. This new style was demonstrated in the conflicts with France over the Agenda 2000, the majority rule in the EU Constitution and the Common Agricultural Policy, as well as more recently in the watering down of CO_2 emission limits for cars. Berlin, together with France, also acted as a blocking force in Europe, for instance for the End-of-Life Vehicle Directive, the safeguard clauses after the 2004 enlargement and above all the weakening of the Stability and Growth Pact.

III. Scenarios for the future of the EU

In our view, the aforementioned developments in the EU to date and the successes and conditions of German European policy lead to three possible scenarios for the EU of 2020. The core factors for drafting the scenarios were the following:

1. the capacity of the European economy and societies to innovate and preserve Europe's outstanding economic position in a changed global environment;

2. the interpretation of inner-European solidarity in the light of a growing community with greater differences in terms of performance, social traditions and identities;

3. the anchoring of the EU in its neighbourhood; to what extent the EU is in a position to shape its neighbourhood to suit its purposes, whether it be by means of accession instruments, neighbourhood policy, strategic partnerships etc.;

4. the embedding of Europe in changing global surroundings and the EU's ability to exert a regulating influence on this changing structure;

5. the way the European decision-making system works, including criteria such as efficiency, speed, impact of decisions and transparency;

6. the willingness of societies to take part in European integration, to become involved and accept it as a natural part of everyday politics.

III.1 Scenario "Everything's fine until you take the wrappings off"

The European Union has over 30 members following the accession of the countries in the western Balkans and Turkey. The Union's increasingly strategic approach and rationale has led to these accessions taking place largely without any fuss or problems. The only major disagreements were over the accession of Turkey due to the shift of power in the Council, but Ankara's contribution to the Common Foreign and Security Policy finally convinced even the sceptics. Economically, Europe is increasingly divided into regions, some of which are successful, while others lag behind. There is no longer any desire to even out these disparities, the measures in the Structural and Cohesion Funds have not been adjusted since 2008, and the Stability and Growth Pact has been watered down considerably. The Common Agricultural Policy has also hardly been reformed, it is still used to subsidise European agriculture - though now only at a minimal level. The insistence of some countries, especially France, on keeping the CAP almost caused the breakdown of negotiations on the 2014-2020 budget. The outcome was a drastically reduced EU budget, since Great Britain, Germany and the Netherlands, in particular, as well as some net contributors from central Europe, such as the Czech Republic, were no longer prepared to finance this backward-looking policy.

The EU Common Foreign and Security Policy is thus also suffering from financing problems. Indeed, the Union's *battle groups* have been installed and proved effective in crises throughout the world. European interventions are largely reduced to military components, since closer cooperation with civil capabilities would require too many resources. The EU Security Strategy developed along these lines has proved an effective and successful tool, since UN authorisation for crisis prevention and management is the exception rather than the rule. The global actors - China, Russia, India, Brazil, South Africa and Indonesia - although involved in global climate protection and energy saving systems, pursue strictly national or regional goals in security policy. This also applies with restrictions to the USA, which in questions of intervention and fighting terrorism is increasingly looking for a close alliance with the EU.

Societies accept the EU's external protection; it is considered a necessary evil in an increasingly unstable world, protecting national efforts for prosperity against vicious attacks from outside. In all other areas, however, the value of national sovereignty and independence is considered more important than multilateral attempts at a solution. Due to the widely-held perception of the EU as an accelerator of negative economic developments and a bloated Brussels bureaucracy, national parties supporting a zero-sum model of the EU have got into government and consistently withdrawn responsibilities from the Union. This movement was further accelerated by many independent initiatives on the part of governments in the EU, which clearly aimed to satisfy the interests of subgroups and boost their own prosperity at the expense of European solidarity. Serious cases of subsidy fraud and corruption round off this negative picture. The European institutions were extensively stripped of their powers in the course of this process and the EU presents itself as an intergovernmental structure in which national governments take the decisions. Although this provides transparency and efficiency, there is no longer a noticeable sense of community.

On the whole, the EU presents itself as a Union of external security: this is the only area where Member States can still reach a consensus. Although Economic and Monetary Union still exists, the differences between Europe's regions are so large and the mechanisms to balance them up so weak that it is no longer possible to share out the burdens.

III.2 Scenario "The world's Switzerland"

China, India and the USA are competing economically for global leadership. In addition, Brazil, Russia, South Africa and Indonesia are trying to establish themselves as leading powers in each region in changing coalitions with one of three world powers. While the armament of these countries is proceeding apace, the USA still retains its lead. "Problem states" like Pakistan, Iran and North Korea, which have nuclear weapons, are trying to build up a regional potential for blackmail. This rivalry makes the UN unworkable as a problem-solving body. Its function now is merely to ease the most serious tensions between the rivals through dialogue. That apart, the UN has become a stage for rhetorical skirmishes.

The EU does not participate in the arms race and is turning in on itself. The nuclear shield provided by Great Britain and France together with the cutting-edge *battle groups* fulfil Europe's defence requirements and satisfy crisis prevention and management needs. The requirements in this regard have been reduced noticeably. The EU's aim is therefore to have a well-coordinated range of civilian and military measures for the long-term stabilisation of regions in its immediate neighbourhood only. The EU's global regulatory options are very limited; to a large extent the EU follows in the wake of the USA.

External pressure, especially through economic competition from Asia and the potential nuclear arming of problem states, has persuaded the Europeans to give up many reservations about relinquishing any more sovereignty. The reforms of the European Constitution have been implemented; a further treaty has also been adopted. The institutional structure now strongly resembles that of a government: the Commission functions as an executive authority, the Parliament monitors it and the Council only comes into play for enlargements, amendments to treaties and military issues. At the same time, the EU has a much higher budget, financed by a fixed percentage of a Europe-wide VAT, which is used for areas placed under the responsibility of the Community in the fields of internal and external security, development cooperation, fostering research, university education etc. A large part of the existing redistribution procedures has become obsolete and the European regions benefit instead from the equalization mechanisms in a common budget. The EU is a politicised structure, the President of the Commission is both the front-runner of European party alliances in the elections to the European Parliament and is confirmed by the Member States. The Member States regulate their social policies by themselves within the framework of existing European agreements; however, their standards and methods have become much closer. The areas of cross-border crime, terrorism, crisis prevention and intervention, and development cooperation are coordinated at European level. There is also an anti-terror unit of public prosecutors and investigators with far-reaching jurisdiction which can take over proceedings.

The EU's enlargement policy continued along the lines established in 2006; the western Balkans joined, while in Turkey there was a negative outcome to the referendum on EU membership. Since then Turkey has been a close partner, especially in neighbourhood stabilisation and energy security policy; the goal of membership remains, but has been postponed until 2030.

In economic respects, too, competition from China and India has brought the EU closer together. Most of the goals of the Lisbon Agenda have been reached following their integration into the EU institutional structure. Europe, with its lead in research and technology, has worked hard to achieve an outstanding position in promising growth markets such as climate protection, energy efficiency and biotechnology, which provide a large

number of highly-qualified jobs. A broad network of free-trade agreements with the largest economic area in the world ensures both a constant demand for European products and stable growth rates.

The sound economic basis fuels a well-developed network of incentive measures in Europe, all of which are designed to enhance the capacities of the European knowledge-based society. They do not privilege individual groups or regions and are therefore broadly accepted. The measures include a fund for the maintenance of rural areas, which has superseded the CAP, as well as a European programme of training schemes for the unemployed. The EU enjoys broad popular approval and constitutes an attractive model for states in the neighbourhood.

III.3 Scenario "Europe à la carte"

European integration operates at different levels: the most comprehensive level is still the Single Market, which comprises all the members (the current 27 plus the western Balkans, Turkey and Moldavia). Then there is the Schengen area, a CFSP group, the Eurozone, the European social area, the Justice and Home Affairs group and several smaller groups of countries, which coordinate their affairs and integrate among themselves. As in the Schengen model, all these groups know that they could at some time be integrated into the Union. However, the will to integrate the groups in the common area is very weak, since the decision-making mechanisms in these subgroups continue to rest on consensus and the admission of new members would therefore increase the potential for conflict. Member States work out their own maps of Europe based on political preferences and national characteristics; they arrange European integration according to their individual needs.

In the area of classic European responsibilities from the first pillar (foreign trade, the Single Market, freedom of movement) there was a reform of the institutions, which resulted in a disentangling of the decision-making processes, limited the responsibilities of the Commission, Council and Parliament, made the relationship between them clearer and generally led to majority decisions being taken in the Council. However, the areas of the second and third pillars were differentiated quite extensively, thereby enabling countries willing and capable of integration to join forces. A European army was created with troops from Member States as well as a pioneer CFSP group, which closely coordinates its foreign policies and gives a High Representative for foreign affairs greater responsibilities. In the European social area, countries targeting closer cooperation on economic and social policy issues form an alliance and, as a first step, standardise their employment agency structures. The economic divergences in the EU thus remain in place, because the principle of European solidarity now only affects selected subgroups. A common budget to even out inequalities no longer exists; as hitherto, the equalization functions of the common currency areas extend only to the existing Eurogroup. The principle of unanimity applies within the individual groups so that it remains in the interest of those involved to keep the group to a manageable size. The co-decision rights of the Commission and Parliament in the respective groups remain vague; they are kept informed on a regular basis and can intervene in potential conflicts between individual groups. Nevertheless, the European Union operating at so many different levels of integration becomes less and less transparent and must prove its legitimacy by means of results alone. Progress towards integration through pioneer groups is thus hampered.

The external face of the EU is more clearly defined; it has a sharper profile in the areas of foreign trade and development cooperation, because the Commission's work and its

experience are reflected in a coherent policy stretching over several years. By contrast, the crisis intervention capacities of the CFSP group are based on the willingness and capabilities of a small group of countries. An overall concept for crisis intervention cannot be drawn up, therefore, because it is impossible to plan capabilities and resources for the long term. Europe is perceived as an inconsistent player which cannot take a unified stance on important issues of global governance. For the outside world it is even more complicated to understand the structures in Europe and engage in political dealings with them. Consequently a dense network of bilateral and special relations is formed. Positive examples of cooperation are provided, on the other hand, by EU initiatives for climate protection and improving energy efficiency, which decisively shape global management in these areas.

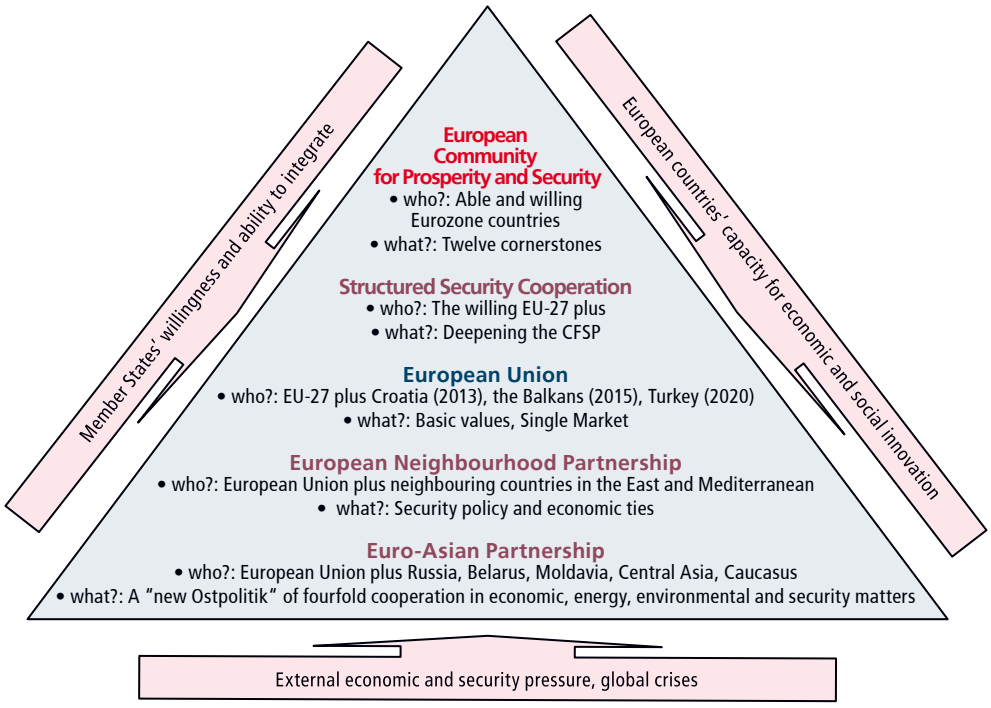
IV. Germany's European policy: Prospects for action

IV.1 A transition to flexible cooperation without disintegration

The goal of German European policy should be to create a community which guarantees prosperity and security for its citizens. In the light of the increasing number of international crises, world economic developments and negative global trends, there is a need to make cooperation in Europe more flexible, in line with the model of a future common welfare and security union. This model is necessary to thwart the moves towards disintegration which emerged in Scenario C. Taking the current level of integration as a starting point, Germany should form an open pioneer group with willing and able partners to cooperate more closely in economic and social policy and internal and external security.

Finally, forms of deepened cooperation have been developing since the Treaty of Rome, which mean that the EU now has a dense network (often informal, although none the less effective for that) of various degrees of cooperation ranging from the regional cooperation of the Benelux countries (recognised in the 1957 EC Treaty), the Élysée Treaty (1963), participation in the EMS exchange rate mechanism (1979), the Schengen Agreement (1985), the extra meetings of the euro finance ministers with a permanent chair of the Eurogroup (2004) to the many regional and town cooperation agreements and councils.

The basis of this European community for prosperity and security should remain that of the "EU 27 plus" level of integration shaped by basic values and the Single Market, which at the same time can be enlarged outwards by means of graded partnership models (neighbourhood association, Euro-Asian partnership). This differentiated integration would take into consideration the different interests in the Union and give states aiming for integration more room for manoeuvre. The overlapping spheres of integration within the "EU 27 plus" would offer upward permeability – initially in line with a structured security community – and would therefore promote a continuous deepening of European integration. Our concept consists, therefore, of an amalgamation of the positive elements in scenarios B and C, in which the time frame for the European edifice extends beyond 2020:



IV.2 Twelve cornerstones of a European welfare and security union

The centre of the overlapping spheres in the EU should be a political community for prosperity and security. With its sights fixed on a common welfare and security union, the EU is capable of developing a clearer vision of a Europe of social solidarity, which incorporates the population's social, economic and security expectations. At the same time the EU's regulatory role in regional and global policy is strengthened.

The prospects for the EU as a welfare union are linked to the European social model. It is based on the awareness that social justice and social cohesion promote economic development and should not be regarded as mere cost factors, just as increasing competitiveness and economic growth must also contribute to social redistribution. Sustainable development offering long-term stability in the social sphere depends on a parallel development in the economic sphere. The two are mutually dependent.

The social security systems and much of the government toolkit for economic and financial policy intervention will remain a national responsibility in the future, although the national room for manoeuvre will be hedged in by existing European regulations such as the Stability Pact and measures to promote competition, etc. Given that global and European developments have impacts on the economies, social systems and societies which are no longer controllable at the national level, there is a need for additional European adjustments.

The gradual development of EU core areas for a welfare and security union would be based on twelve cornerstones:

I. *Lisbon II Project for Innovation after 2010*: Concentration on a few core areas such as innovation capacity (training, technology support), demographic change (gender, family and child policy), social cohesion and environmental compatibility;

II. *European social monitoring*: This consists of three elements: the setting of minimum standards, the introduction of "social compatibility tests", which assess the social effects of EU policies and laws, and the development of the non-binding "Open Method of Coordination" through the introduction of indicators;

III. *Safeguarding of national responsibility for regulations on provision:* This should be ensured by substantiating the role played by the provision of basic public services; by coordinating – and in some areas of the common currency area – also harmonising budgetary, economic and wage policies; and, in view of the eroded national tax base, by introducing a European tax policy to safeguard state capacity for action at the national and European level (this would not mean a European tax, but the harmonisation of tax rates as well as of the bases for assessment, particularly for corporation tax);

IV. *Development of a European culture of economic democracy*: By reviving social dialogue, introducing a European Works Constitution Act (linked to the European Works Councils Directive) and extending the so far merely advisory responsibilities of the European Economic and Social Committee.

In security policy, the Union should heed the following guidelines, since a disconnection from global risks, as in scenario B, appears somewhat problematic:

V. *Credible and integrated intervention policy*: The EU missions for conflict management, prevention and peacekeeping must be carried out in line with clear criteria based on the Union's values (here the concept of *human security* is apt) and taking due account of the EU's capabilities. Along with a close interlocking of military and civilian tools this includes coherent incorporation of development cooperation and foreign trade (see below).

VI. *Coherent shaping of foreign policy instruments*: The EU's many instruments for organising regional or global policy must be based on clear criteria (European values and interests) in order to ensure transparency both inside and outside the Union and to avoid needless friction. This includes development cooperation, CFSP and ESDP, foreign trade policy, neighbourhood policy and the development of membership prospects. At the same time Europe should aim for a seat in multilateral bodies (UN, IMF etc.) to provide the necessary coherence in these areas.

VII. *Common defence policy*: The duplication of military capabilities within the European Union is resource-intensive and prevents the EU from carving out a stronger identity in the field of global intervention. A High Representative for European Defence could be the first step towards a common supreme command, which would pool defence resources in the EU, gearing them to current trouble spots and thus releasing potential for better equipping *battle groups* and the range of civilian measures available as well as releasing resources in national budgets.

VIII. *European dimension of internal security*: Even today, terrorism and crime are perceived as cross-border phenomena. They should therefore be combated on the European stage by means of common tools which can be used to exchange information (Europol and Eurojust) and by cross-border investigations and task forces, which also show the public how Europe operates in this sensitive area.

Further central pillars for such a Union are to be found at the interface between prosperity and security:

IX. *Intensification of European migration policy:* Migration to Europe should be organised by means of a sustainable migration policy aimed at meeting future demographic challenges in the labour market; it should be geared to the needs of European societies as well as European values with regard to a credible policy on refugees. The goal cannot be a "fortress Europe".

X. *Development of a European energy security policy:* A functioning union for prosperity and security is based on a stable energy supply. This requires common European agreements with countries supplying energy, a harmonised approach to energy reserves at a high level and a European initiative for energy efficiency. These measures, combined with a European research initiative in the field of renewable energy, should safeguard Europe's energy supply in the long run.

XI. *Avoiding a "Europe à la carte":* Easing the path to more flexible cooperation in Europe must be linked with a clear direction for the integration process. This must be aimed at continuing integration and should not allow a "pick and choose" approach by the creation of different groups of Member States unwilling to engage in integration. The common aim must be a union for prosperity and security based on the 2007 level of integration.

XII. *Clear pre-accession strategies with attractive preliminary stages:* Accession to a union for prosperity and security must rest on clear criteria, which take into account the economic as well as the institutional controllability of the Union. Applicants can first be included in the EU-27 plus; however, it must be made clear under what conditions they can move upwards into the deeper political community. Turkey represents a precedent and, after its accession, would fundamentally change the power structures in the Union (weighting of votes, seats in the Parliament). A diversified Europe offers more opportunities to fulfil the Turkish wish to belong to Europe. As regards the growing Turkish scepticism about the loss of national sovereignty involved in EU membership, a Europe of different spheres would offer advantages if in Turkey itself there were no longer a consensus for full integration into the "EU-27 plus".

IV.3 Actively designing Europe

The outlines of a practical agenda for the Union's work in the years ahead are already apparent. Germany could use these to map out the path to an economic and security union within the framework of flexible cooperation groups.

By 2009 (European elections) a Constitution or an adequate substitute must consolidate the Community internally (institutionally) and offer clear perspectives for new legitimacy structures. Only more democratic structures for legitimacy can create the conditions for meaningful leadership by individuals (foreign minister etc.) and starting points for a differentiation of the Community. After the European elections, the position of a European foreign minister could be established as part of a new EU Commission and in the following years a common foreign office could be created and developed. In their security policy "Headline goals 2010" Member States committed themselves to set up a rapid reaction force of 60,000 soldiers with full operational capability. The continuation of the Lisbon Process must be dealt with in the same year, which will allow the first steps to be taken towards a union of prosperity. Moreover, by 2013 at the latest a consensus

on an innovation-oriented EU budget must be reached which will create new room for manoeuvre by significantly reducing agricultural spending. In these budget negotiations the foundations can be laid for a European tax policy. Only after this can there be a new round of enlargement from 2015 onwards, initially including Croatia and later the countries of the western Balkans. A final decision about Turkey's accession must then be reached around 2020, in which it will be necessary to weigh up a further differentiation of economic, social and cultural standards within the Union against the added value in geo-strategic terms (which would be judged by progress in the Middle East peace process and by developments around the Black Sea and in Central Asia).

From the very outset, therefore, the achievement of a welfare and security union in Europe requires continuous support and promotion from the most important and largest Member State. This entails a stable basis for trust between all European partners. German European policy should document the country's willingness to address integration in terms of both content and method: firstly, by assuming the role of a pioneer in selected spheres of the prosperity and security union and, secondly, by resorting to the tried and trusted measures involving preliminary negotiations and institutional rules designed to integrate as many actors as possible.

This means that Germany should use its exposed position as the largest Member State more forcefully within the Union and legitimise the core areas of a prosperity and security union by means of a broad-ranging public debate. This includes German contributions to European crisis management mechanisms, the European coordination of economic and social aspects, and the EU's enlargement and neighbourhood policies. The "net contributor debate" should be given a new positive interpretation. After all, this position means that Germany is the leading economic power in the Union and has opportunities to shape it. At the European level, the German government should continue with and strengthen its initiatives for a more intensive neighbourhood policy and for civil-military cooperation in the CFSP as well as insist on the EU developing a comprehensive and credible procedure for crisis management that includes development cooperation.

The self-propelled integration of France and Germany and their close cooperation will remain a priority in the future. However, it is important that Germany should involve the small Member States much more in the European processes and make decisions together with them. While Great Britain, Poland and Spain remain key partners along with France, the impression of a European directorate of big powers must be avoided. This will be all the more important once the small countries of the western Balkans have acceded. Berlin should continue its consistent policy of support towards them and at the same time insist that the EU should be capable of absorbing them institutionally by then. Only this dual effort will guarantee an "accession dividend" for German European policy in the form of coalitions and majorities after accession. That is why it is also essential to avoid further negotiations of specific clauses concerning the free movement of labour.

The pull exerted by pioneer groups can be used by Germany within broad coalitions. As the example of the Schengen countries has shown, groups of countries which launch and successfully implement an initiative exert a powerful attraction on the Union's remaining members. This process would, therefore, be perfect for speeding up integration, if the treaties do not provide sufficient opportunities for consensus-building. Indeed, the pioneer group project should be geared to a common vision of the Union in order to avoid "integrationist proliferation". The instrument of "increased cooperation" set out in the treaties can then become the driving force for integration it was initially conceived to be.

Even if Europe's current design gives governments considerable leeway, it is in Germany's long-term interest to design the EU in a democratic way. Stable support from societies can only come about by politicising institutions through the direct election of the President of the Commission; by visible European party alliances in a European Parliament with more responsibilities; and by the increased involvement of national parliaments in European policy. National parliaments will play a key role in the democratic legitimisation of this process, particularly if there is increased differentiation of integration spheres in Europe. At the same time, common structures should be created throughout Europe, making it possible for national parliaments to help shape decisions and have a more direct involvement with Europe. Thus the creation of a European Affairs Committee in the German *Bundestag* along the lines of the Danish model would be conceivable, with far more consultation rights and veto rights vis-à-vis the government than hitherto.

The integration of Europe is ostensibly a technical process which concentrates on expanding institutions and drawing up regulations and thus often makes governing more complicated. However, from the very beginning it also always implied an identity-creating dimension, i.e. it led to the creation of common perceptions in Europe as well as common perspectives and ultimately to the creation of a common, albeit rudimentary, identity as the basis for a European public. The emergence of a prosperity and security union in Europe, with transparent structures and decision-making mechanisms, will strengthen this European identity, accelerate the knitting together of societies in Europe and deepen reciprocal basic trust in the ability to take on responsibility. This is the key to future European integration, the foundations of which were always mutual trust, making European rules for the benefit of all acceptable and thus binding.

Only if Europe proves itself capable of action in the internal arena has it any chance at all of meeting global challenges and exerting an external effect in the framework of the newly forming worldwide power structure. Even with a new surge in European integration, deeply rooted differences of interest and national and cultural identities will mean that, for all the structural changes in (nation-) statehood, Europe will remain a Europe of individual countries. Open-ended integration would meet with a lack of understanding on the part of the citizens. The inroads into national sovereignty connected with European unification can only be explained if it is clear why this happened. The prospects of a security and prosperity union are, therefore, as much in the interests of the political elite as they are of the Union's Europe-weary citizens.

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