AIIA Policy Commentary

No Eutopia: The European Union Today

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Preface

The Australian Institute of International Affairs (AIIA) was established in 1924 as an independent, non-profit organisation seeking to promote interest in, and understanding of, international affairs in Australia.

The AIIA provides a wide range of opportunities for the dissemination of information and free expression of views on these matters through discussion and publication. Precluded by its constitution from expressing any opinion of its own on international affairs, the AIIA provides a forum for the presentation, discussion and dissemination of a wide range of views.

The AIIA's series of Policy Commentaries aims to provide informed opinion and useful source documents on issues of topical concern to encourage debate among AIIA members, the media and the general public.

The Commentaries are edited by Melissa Conley Tyler, National Executive Director, in the AIIA National Office, Canberra. I hope that you will find the current commentary timely and informative.

Associate Professor Shirley Scott
Research Chair, Australian Institute of International Affairs
Series Editor 2011-2012

Editorial

Looking at Europe in 2011, Nobel Prize winning economist Paul Krugman asked “Is it possible to be both terrified and bored?” This aptly captures the mood of many Australians regarding Europe.

On the one hand, the spectacle of the continuing “Eurozone crisis” instils real fear. Australians are all too aware that the fallout from Europe’s financial instability has global effects. Every day there is another article that reinforces the sense of panic and imminent collapse. To intensify the anxiety, Australia has little or no ability to influence any of these issues.

At the same time, Australians seem surprisingly disengaged, even bored, with Europe. Perception surveys show limited knowledge of and interest in Europe as an evolving supranational entity. For a bloc that remains the world’s largest economy and Australia’s second largest trading partner, there is little of the buzz that surrounds China or India. ‘Civilian Power Europe’ has yet to impact on the Australian imagination.

This policy commentary shows Europe as important and even interesting.

Peter O’Shea argues that the current crisis, far from leading to the collapse of the eurozone, is already providing the impetus for renewed integration.
Donald Kenyon AM views the current climate for EU-Australia trade as one of the best in decades with re-engagement overcoming historical tensions. Professor Martin Holland sketches a vision of a European entity that is growing into its international role: somewhat hesitantly in some areas; more confidently in poverty reduction where Europe now provides over half of all overseas aid worldwide.

Together, the contributors suggest that while Europe is no utopia, it will continue to develop, including through crisis and conflict, in ways that have global impact. Europe should remain an area for active interest and engagement, however rocky the journey. Enjoy the ride.

Melissa H. Conley Tyler
National Executive Director, Australian Institute of International Affairs

"Shared Futures: Europe and Australia in the 21st Century"
José Manuel Barroso, President, European Commission
Australian National University, Canberra

6 September 2011[*]

[…] The modern links between the peoples of Europe and Australia are deep and well-known. 70 per cent of Australians have European ancestry and we host many of each other's largest expatriate communities, quite aside from our deep economic and political ties.[…]

Since the last official visit of a serving European Commission President, 30 years ago, our world has changed dramatically and at an increasing pace. From Communism's collapse to the rise of the global economy and spread of information technology, the backdrop to our relationship has transformed.

Amidst this transformation the European Union sees Australia a natural, solid and essential global partner. We see much to admire in Australia. With a diverse and growing population, and an economy reformed to meet the challenges of globalisation head-on, Australia shows it is possible to combine economic reform with strong social protections and progress. Australia's continued economic growth is testament to decades of policy innovation and discipline, helping Australia to its rightful role as significant actor in this dynamic region.

The European Union has responded to a different context and holds its own lessons for those who seek freedom, peace and prosperity. As Prime Minister Hawke noted in 1985, the EU is "a triumph of enlightened self-interest over self-defeating pursuit of the narrowest national interest".

[*] Available online (accessed 22 March 2012): http://www.eeas.europa.eu/delegations/australia/documents/press_corner/20111005_03_en.pdf

Though we are still building our Union, we have achieved a great deal. Since the fall of the Berlin Wall, for example:

• We have grown from 12 member states to 27, with more applying to join. Our Union today stretches from the Arctic to the edges of Asia and Africa.
• We have built the world's largest single market – some three times the size of China's – and we are its biggest trading bloc.
• We have created a common currency that increasingly acts as a global reserve.
• And today we are actively improving our economic governance and foreign policy capabilities to match the new global realities.

If you have ever travelled to Europe you have experienced the benefits of our Union; from the visa-free Schengen zone to the convenience and efficiency of the Euro. And if you have not had the chance to visit, you still receive the benefits; from six decades of peace to the stability gained from the spreading of democratic liberal values.

Europe's global interests

To put that in an overall strategic context, the 27 member states of the European Union are sharing sovereignty. We do this because it is clear to us that in order to secure our social market model and global interests we must act as more than the sum of our parts, and be an effective participant in multilateral fora. Indeed, that is why we value our relationship with natural partners like Australia, not only bilaterally but through forums such as the United Nations and G20. In a world as inter-connected as ours, we reject utterly the notion that geography might influence who our friends and partners are.

It is certainly true that the world is experiencing a great rebalancing of power, mostly centred on Asia. It is also true that Australia is ahead of the global pace in embracing this shift. We view favourably Australia's increasing economic links and participation in Asian regional fora, and want to connect with your experience in the region. Let me assure you that the European Union affirms the rise of Asia as a win-win situation for the world, which Europe wants to be a part of. These shifts do not mean

Europe is irrelevant, either to Australia or global affairs. In fact the rise of Asia and other emerging economies is also directly linked to the policies of open economies, free trade, stability and development assistance that the European Union has championed over the years.

Geopolitical power and challenges need to be seen from increasingly broad perspectives. While the European Union's geo-political power is not military in nature, it is not limited to soft and economic power. Foreign policy today goes well beyond trade and peace. It stretches from climate change negotiations to migration flows to counterterrorism to food, development and aid. On issues as diverse as competition law, industrial standards and privacy, Europe's influence spreads virally in a way that tends to encourage a global race to the top rather than a race to the bottom.

What is relevant to the European Union's relationship with Asia and Australia is that these are all areas where the European countries have chosen to delegate all or part of their sovereignty to the EU institutions. The European Union is as deep and real as its Member States. And so the EU's relevance as a global actor is increasing, even as the relative influence of countries in Asia and groupings such as ASEAN is rising also.

Recent substantial overhaul of our structures and institutions, primarily through the Lisbon Treaty, allows us to increasingly act with the coordinated and united voice that the world seeks from Europe. In coming years and decades this will enable the European Union to increase its global footprint - extending beyond its place as an economic superpower.

This does not mean that the solutions to Europe's challenges can emerge overnight. The basic legitimacy of the EU comes from our Member States. This involves political constraints, and the obvious complications of co-ordinating 27 nations using more than 20 languages. We aren't a super-state and we never will be. But at the same time we are much more than an inter-governmental forum.

This visit is an example of how the European Commission is determined that the current crisis will not force the European Union into an endless cycle of introspection. Europe's future lies in adjusting its engagement and role in world affairs, not in internal squabbles. To that end we are moving towards convincing medium and long term approaches to both national budgets and Eurozone governance; the full impact of this progress becoming apparent over the next three years.

A new chapter in EU – Australian relations

The European Union is fully aware that Australia is also adjusting its global engagement and is not content to play a narrow regional role. As an active middle power and an essential partner in international forums such as the UN and G20, and events from Afghanistan to the Arab Spring, the EU and Australia stand together on the global stage.

Let me underline my strong belief that our relations are on a firm footing. We appreciate that Australia is taking a pro-active approach to its relationship with the European Union. And we deeply appreciate working together around the world to defend and promote our fundamental values. These are values that Australians have twice come to Europe to secure, at severe cost.

Since the economic relationship between the EU and Australia began to take shape in the 1960s and 70s, the old notions of Fortress Europe and Fortress Australia have disappeared. In recent decades our collaborations have been ever closer and fairer across a growing number of fields. From higher education to science and technology; aviation security to development cooperation – even in agriculture where some differences remain. In fact, Australia and the EU have no fewer than 10 separate dialogues running.

Through our Partnership Framework, a welcome step forward in 2008, we are already giving significant emphasis to our shared global challenges in our formal relationship.

Building on this momentum the Commission, like the Australian Government believes it is time to go further - to open a new chapter in the relationship.

This is why I welcomed Prime Minister Gillard's proposal to upgrade relations, made during the Asia-Europe summit last October. The European Commission has responded positively by recommending to EU Member States that we open negotiations with Australia for a treaty-level Framework Agreement: to govern and give impetus to our relationship.

Yesterday I had very productive exchanges with Prime Minister Gillard in this regard. We agree that we must anchor our relationship for the long term, and our challenge is now to transfer our shared interests into shared treaty-level commitments and action.

These processes naturally take time, but I believe if we can reach agreement on the far-reaching exchange of highly classified information, as we have done in July 2011, then we have good hopes of progress. I believe we have a lot to learn and gain from each other.

Such an agreement would provide a basis for closer cooperation on a wide range of sectoral policies. From education and science through to counter-terrorism and also the fight against proliferation of weapons of mass destruction.

The EU in the Pacific

Cooperation in the Pacific is another key component of the strategic partnership between Australia and the EU that would be assisted by an updated Framework.

As by far the largest global development donor – taking account of Commission and Member States contributions – it is no surprise that the EU is also the second-largest aid donor in the Pacific after Australia. Together, by joining our political and financial forces alongside those of New Zealand, we can maximise the absorption of funds and our overall impact. Most significantly by promoting good governance – in particular Fiji's return to democracy – and regional integration; while also mitigating climate change, and attaining the Millennium Development Goals. This would build on the enhanced forms of coordination foreseen in the Cairns

Compact – such as joint programming and delegated cooperation agreements.

The EU, Australia and Asia

More broadly, Australia and the European Union share the objectives of enjoying peace, security and trade with Asia. The change taking place in Asia is unfolding at a rapid pace, and as I have said earlier we see these changes and Australia's involvement in the region as positive.

The EU is building multi-dimensional relationships with Asian countries, determined that we should listen and learn from each others' experiences. Such stronger relationships are essential to deal with global challenges. Though we were ASEAN's first dialogue partner in 1972, in the past the EU's relationships in Asia have been largely economic. We need to go beyond a purely mercantilist approach and engage politically to shape collectively a new global governance.

The direct dialogue offered through ASEM – the forum that gathers all 27 EU Member States plus virtually all Asian States – is essential for bringing about these improved relationships. I am grateful that after 15 years the forum is still characterised by a sense of momentum. We must make it more effective still.

The European Union believes the forum is stronger as a result of Australia's participation, and also because of the broader scope of issues now covered. I am thinking of course of issues such as climate change which force us to address all the aspects of our relationship together, and the fact that security issues are now on the agenda of ASEM. The European Union is of course willing to play a role in regional security in Asia as it has done, in the role of honest broker, over issues such as Aceh.

We realise that our Union does not serve as a direct model for Asian regional integration. But at the same time it remains something of a catalyst and reference point for those working towards closer relationships in the region. Those relationships may exist from government to government, business to business or people to people. They will take time to develop, but I have no doubt the will to develop them is there. […]

“Australia-European Union Ministerial Consultations” Joint Media Release by Kevin Rudd, Minister for Foreign Affairs and Catherine Ashton, EU High Representative for Foreign Affairs and Security

31 October 2011*

Australia and the European Union (EU) today opened negotiations on a treaty-level Framework Agreement. Foreign Minister Kevin Rudd said it is a significant milestone in the Australia-EU relationship.

"It opens a new phase of closer cooperation between Australia and the EU that better accommodates our broad interests and priorities," Mr Rudd said.

High Representative Ashton, who is in Canberra for the Australia-EU Ministerial Consultations, said the proposed Agreement not only recognises the value we place on the EU-Australia relationship, but also provides a firm basis for expanding our practical collaboration in areas such as foreign affairs and security, development assistance, climate change, research, science and education.

"The Agreement would give political expression to our commitment to build a stronger, forward-looking partnership," High Representative Ashton said.

The negotiations will begin this afternoon (31 October) with introductory Senior Officials' discussions and will continue over the coming months in several substantive rounds to be held in Brussels and Canberra. The shared goal is to conclude the negotiations in 2012.

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* Available online (accessed on 22 March 2012): http://foreignminister.gov.au/releases/2011/kr_mr_111031.html

Foreign Minister Rudd and High Representative Ashton also agreed to open negotiations on a separate Crisis Management Agreement.

"Recent events in North Africa and the Middle East have underlined the value in Australia and the EU cooperating closely in responding to international crises," High Representative Ashton said. "The proposed Agreement will facilitate this cooperation, by making it easier for Australia to contribute to EU crisis management operations."

Foreign Minister Rudd and High Representative Ashton agreed on the first two Australia-EU delegated aid projects, in South Sudan – where the EU will deliver food-security assistance on Australia's behalf – and in Fiji, where Australia will deliver a component of the EU's assistance. They underlined that this partnership would improve the effectiveness of aid delivery in Africa and the Pacific. Australia is the first non-European donor with which the EU has established delegated aid cooperation arrangements.

The Minister and High Representative welcomed the signature of a revised Passenger Name Record Agreement in Brussels on 29 September 2011 and its endorsement by the European Parliament on 27 October. The Agreement provides for the transfer of passenger information on travellers between the EU and Australia, strengthening security in both jurisdictions.

"The new Agreement will be an essential element in Australia's border security system by assisting authorities in combatting terrorism and transnational crime, while ensuring effective protection of EU-sourced passenger data," Mr Rudd said.

High Representative Ashton said, "This Agreement strikes the right balance between the need to maximise air travel security and to prevent terrorist offences, on the one hand, and the safeguarding of the right of our citizens to protection of their personal records, on the other."

The Minister and High Representative also discussed a range of regional and international issues, including the G20, global and regional economic challenges, nuclear non-proliferation, piracy, and developments in East Asia, the Pacific, the Middle East, North Africa and South Asia. […]

“Fault Lines in the 21st Century Global Order: Asia Rising, Europe Declining and the Future of 'The West'” The Hon Kevin Rudd MP, Minister for Foreign Affairs Chatham House, London

24 January 2012*

[…] “It's fashionable, of course, at present, to talk of Europe's decline as if one follows the other as a result of some sort of inevitable axiom. Certainly, Europe has its share of challenges at present. But a clear-eyed analysis of Europe's place in the world requires a proper treatment of this continent's underlying strengths.

Consider the following:

- The European Union remains the world's largest economy. Its GDP, in purchasing power parity terms, was estimated at US$14.8 trillion in 2010, with the US economy ranked second at US$14.7 trillion and China third at US$10 trillion.
- Of the world's top 15 nations for offshore investment, seven are European. In 2009, the FDI outflows of France, Germany, Italy, Norway, Sweden, Ireland and the UK totalled a collective US$357.5 billion, only a shade less than the FDI outflows of the US, Japan and China combined.
- The Euro area produced and shipped 26.1% of the world's exports in 2010, and was the world's biggest exporter of goods and services in 2009.
- With that, Europe remains the world's largest exporter of manufactured goods and services, and is itself the biggest export market for more than one hundred countries.
- More than one-third of the world's largest corporations are headquartered in Europe (177 of the Global 500).

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* Available online (accessed 22 March 2012): http://www.foreignminister.gov.au/speeches/2012/kr_sp_120124.html

- More than one-third of the companies in Interbrand Top 100 Global Brand Index are European (half are from the US and the rest are mostly Japanese).
- In 2009, the EU produced 33.4% of the world's total scientific publications, making it the largest scientific centre in the world.
- One half of all Nobel Laureates have been European.
- In 2008, Germany, France, the UK, Italy and Spain were all among the top 10 biggest spenders on R&D on the planet.
- 30 of the world's top 100 universities are European.
- In 2009, the EU and EU Member States (through their bilateral programs) provided more than 56 per cent of total world development assistance (€49 billion).
- Finally, although military expenditure in Europe in 2010 shrank 2.8% from the previous year, while rising elsewhere in the world, Europe still comprises 43% of total non-US military expenditure globally.

Therefore, before anyone reaches too many dramatic conclusions about the 'inevitability' of the decline and fall of Europe, it's worthwhile reflecting on these statistical realities as well.

These achievements also rest on the shoulders of robust democracies that have again weathered decades and sometimes centuries of political change – providing, in the main, political and social resilience to respond to change without fundamentally undermining stability. This is a critical advantage over non-democracies. They reflect the cumulative investment in knowledge, innovation and, critically, institutions over decades and in many cases centuries.

It is within the framework of these robust fundamentals that Europe should not talk itself into an early economic grave. I do not in any way underestimate the dimensions of the current financial and economic challenges facing Europe, and, if left unaddressed, they'll impact not only on Europe but global financial and economic stability as well.

The challenges in various EU member states are now familiar: excessive deficits; unsustainable debt; spiralling yields; overexposed banks; poor competitiveness; faltering growth; rising unemployment; even threats to social stability, fuelled by ever-widening inequity.

National parliaments, and the taxpayers who vote for them, are restive across the Eurozone.

A more fundamental difficulty is that the apparent solution to financial crisis creates problems of its own in the real economy, growth and employment.

Governments must tackle debt by pursuing fiscal austerity, and they must increase competitiveness through structural reform of labour markets, education and training, business regulation and tax.

Meanwhile, banks cut back lending to repair their balance sheets, driven also by new capital adequacy requirements, with the resulting danger of a credit crisis for firms, both their cash flow and then investment capital.

In other words, the impact of these various measures to deal with the financial crisis can put at risk the economic growth these countries also need, if they are to succeed in reducing deficits, reducing unemployment and reforming their economies.

Some have described this as a perfect storm of pro-cyclical policies which may achieve neither the financial nor economic ends that policy makers seek. And on top of all of this, there are some who now question the medium to long term viability of the European project itself – including the future of European unity.

This is placed into sharp relief through on-going negotiations in Athens over the future of the Greek bailout facility and the consequences that may flow from it.

Once again, however, while recognising the dimensions of the challenge, it is crucial not to be sucked into a self-fulfilling vortex of despair and an irrational mind-set setting in that there's no way through the current crisis.

The truth is there is, if the right options are taken. Because the equal truth is Europe is now grappling with the full dimensions of the crisis they face, including the future of European unity.

From my own discussions with leaders in Brussels, Paris and London over the past week, in Europe there is now a serious, concerted and sophisticated effort to address the challenges that lie before it. I'm also convinced that there is a way through this crisis for Europe.

Through what often appears to outsiders as the torturous political processes of Europe, the truth is that the contours of a comprehensive European policy response are emerging.

- A liquidity facility offered by the ECB for European banks (which has already been drawn on by nearly 500 banks, totalling nearly half a trillion Euro to help keep credit available);
- A European "firewall" for the ultimate defence of European sovereigns, through the EFSF, the ESM and perhaps ultimately (depending on other policy conditions being met) the ECB itself;
- An enhanced capacity for the IMF to provide a further backstop to the European "firewall";
- A legally binding European fiscal compact to bring budgets back to structural surplus;
- A program of competition policy reforms and pension reforms, the first wave of which have already been announced in Italy.

The one missing element so far in the emerging policy response is a parallel strategy for growth, given that for Europe, fiscal stimulus is no longer possible at scale.

But the debate is on in earnest about the prospect for: greater consumption and external investment by surplus economies; productivity-driven growth through labour market reform; as well as the easiest but hardest of all, real trade policy reform by concluding Doha.

My overall point is this: given Europe's fundamental strengths and given the shape of the emerging policy response to the immediate crisis, there is a rational basis for optimism that Europe can come through this crisis – although the political, economic and social costs will be high.

If Europe embraces a comprehensive program of reform, and I fully recognise that this is equally a question of political economy as much as economic policy alone, then Europe will remain a major global player." […]

"Building a New Australian Economy Together"
The Hon Julia Gillard MP, Prime Minister of Australia
Australia-Israel Chamber of Commerce, Melbourne

1 February 2012*

[…] Friends, in 2012 Australians will be watching the economic situation of Europe closely.

It's only by understanding just how serious and complex the European problem is that Australians can truly understand our own position of strength in the world economy, the important opportunities we have created for ourselves – and the part every Australian can play in the work of coming years.

As Australians see the problems of Europe, we see the importance of fiscal discipline.[…] I sift a lot of economic commentary and advice – and I can tell you that, for once, the economists almost all agree – Europe still faces very serious economic difficulties.

And of course, this is no longer only a Greek problem, nor is it contained in a "periphery" or in the south. The January decision by Standard and Poor's to downgrade the sovereign credit ratings of nine of the euro area's 17 members included some traditionally thought stable and strong, like Austria and France.

The ultimate proof of economic policy failure, mass unemployment, is blighting millions of European lives. More than 23 million men and women are unemployed in the EU, five and a half million people under the age of 25. In Spain, the unemployment rate is over 20 per cent.

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* Available online (accessed 16 April 2012): http://www.pm.gov.au/press-office/building-new-australian-economy-together-speech-australia-israel-chamber-commerce-lunch

I do recognise that the July, October and December agreements last year in the euro area, the G20 November summit bringing the international community on board, plus the fiscal and financial reforms of new governments in Greece, Italy and Spain, all represent important progress.

Over the Christmas period, the European Central Bank assisted by lowering interest rates and providing cheap finance to European banks, enabling them to refinance. And the reaction to the Standard and Poor's downgrades was not as severe as may have been expected – suggesting markets had priced in this additional risk already.

But we can expect daily choppiness and immediate reactions to overnight news to continue to colour the mood of market commentators and participants – there will be more ups and downs in global markets for as long as it takes for Europe to get its house in order.

In recent days, Europe's leaders largely signed off on a new treaty on greater fiscal discipline and cooperation. They also largely agreed on a permanent rescue fund to tackle the on going debt crisis, as negotiations on the restructuring of Greek debt continue.

Economies like Ireland, Portugal, Spain and Italy are each in different degree subject to the same policy double-bind: a long term fiscal repair task which plainly cannot be delayed but which does run counter to the urgent growth challenge. This demands measures to deliver long-term fiscal sustainability while those countries with the capacity also provide short-term support for economic growth.

We cannot afford these nations to continue a negative downward spiral: sharp fiscal contraction, economic recession, falling employment, shrinking revenue, rapid decline in living standards sustained over years.

That's why Australia has been at the international table in 2011 and we'll be back there in 2012, arguing for sustainable long-term finances and policies which restart European growth, arguing against fiscal austerity alone and at any cost. Arguing for a balanced European policy response.

And that means restructuring Greece's debt; ensuring sufficient funds to refinance governments and recapitalise banks; progress now on domestic micro-economic reforms which spur growth; long term fiscal discipline across the Union – and delivering on measures for long term fiscal co-operation.

Along with co-ordinated global action, where countries outside Europe play their part in providing the International Monetary Fund with the additional resources it needs.

Australians have a deep interest in seeing these steps carried out.

Strong Asian growth – with China expected to grow over eight per cent and India over seven this year – means that the overall outlook for Australia's trade partners does remain solid. But this does not make us immune from the problems of the European economy.

If anything of value can be retrieved from the wreck of failed economic approaches in Europe pre-2008, it is the lesson to the world: fiscal discipline matters.

There is debate about the appropriate pace of European fiscal repair now and how that relates to the growth challenge – and I've made it clear where Australia stands in that debate. Where there's no argument is that European fiscal policy has been unsustainable.

Australia's position is fundamentally different.

When the global financial crisis hit we funded the best designed stimulus package in the world. A sophisticated set of targeted and temporary measures which kept our country out of recession and which grew employment in the hardest global environment – with a commitment to restrict spending and return to surplus as revenues recovered. That strategy remains.

My firm conclusion is that handing down a Budget surplus in May is the right call in the present economic circumstances.

The current international instability stems in large part from real concerns about sovereign risk – and perceptions of risk in various national economies can change quickly, indeed they have on occasion in recent times. So our fiscal policy must be disciplined and must be seen to be disciplined as well. It's in our interest to keep ourselves well ahead of the pack.[…]

The Euro Crisis, the New Fiscal Treaty and Why the Eurosceptics are Wrong

Peter O'Shea*

"Les hommes n'acceptent le changement que dans la nécessité et ils ne voient la nécessité que dans la crise"
(People may accept change when they are faced with necessity, and only recognise necessity when a crisis is upon them).[1]
— *Jean Monnet, one of the fathers of the European Union (EU)*

It has been more than a year since concerns about sovereign debt levels in the eurozone intensified dramatically, after Greece revealed its budget deficit would be more than double the previously published figure and after ratings agencies downgraded the country's rating.

Since then, the news has been filled with predictions that certain eurozone states would default, that some would have to leave the euro and even that the euro itself was in peril. The UK's *The Guardian* newspaper in June 2011 exclaimed in a headline that the crisis had prompted "fears of EU disintegration", the UK's *Financial Times* declared Europe was "on the road to irrelevance" and hedge fund manager George Soros predicted the EU was "on the verge of economic collapse". Few have rejected these claims as overly pessimistic or plain wrong.

In fact these headlines, and others like them, were not news. Similar headlines can be retrieved from the 1960s, the 1970s, the 1980s and the 1990s. And subsequent to each crisis, the European Union (or the European Community as it then was) has integrated further, not dissolved as the pessimists have forecast. The current crisis is not a sign that the union is dissolving; in fact, the opposite is true.

* Peter O'Shea is a Visiting Fellow at Sciences Po, Paris and is completing his doctorate with the Monash European and EU Centre, Monash University.

A new EU Treaty entitled *Stability, Coordination and Governance in the Economic and Monetary Union* was agreed by 25 member states in December and signed on 2 March.[2] Along with a raft of associated legislation, the "fiscal compact" aims to tighten fiscal rules, enforce fiscal discipline and promote stability. These moves are clear examples of closer economic integration and are a significant milestone in the EU's history. They are also examples of why eurosceptics and europessimists are wrong.

Why the Eurozone Will Stay as One

Despite the headlines, it always was and still is unlikely that any eurozone member state will default or leave the eurozone.

Firstly, to leave would be highly problematic for any country, especially those that are heavily indebted or reliant on imports for important goods and services. Some commentators have estimated that if Greece left the eurozone and reintroduced the drachma, for example, that the "new drachma" might be valued 40% lower than the euro. Critics of maintaining eurozone membership argue that currency devaluation is what Greece and similarly troubled member states need to make them more competitive. In fact, devaluation would have the opposite effect.

Greece's euro-denominated debt commitments would be 40% harder to service; the cost of oil, gas and other energy imports would rise dramatically; and the pharmaceuticals that Greek hospitals are now running low on would be even more expensive. Inflation would spiral and, far from becoming more competitive, Greece's situation would be exacerbated. This would also trigger concerns about other indebted countries and cause major widespread financial turmoil, if not financial market collapse and broader social panic.

The threat of rapidly rising inflation is not imaginary. It occurred in the mid-1970s when several European states left the 1972 Basel Agreement (also known as the "Snake in the Tunnel" Agreement) and the 1973 European Monetary Cooperation Fund. These agreements were the first attempt at European monetary cooperation, under which European currencies were pegged to each other and the US dollar. In the mid-1970s, countries started leaving the system to float their currencies, including Italy in 1973, France in 1974 (and, after re-integration, again in 1976), Sweden in 1977 and Norway in 1978. Consequently, inflation rose quickly throughout Europe and investment and trade levels fell dramatically. Exacerbated by the 1970s oil crisis, in 1979 inflation in Italy was 18.82%, France 11.79% and the UK 17.24%.[3]

Today, EU policy-makers are keen to avoid the consequences of monetary devolution and are committed to keeping eurozone membership intact. German Chancellor Angela Merkel has said that exit would be "catastrophic" for Greece:

> "It would be a huge political mistake to allow Greece to leave. That is why we will be clear with Greece, we will say: 'If you want to be part of a common currency you have to do your homework but at the same time we will always support you'".[4]

Secondly, the EU has deep pockets. Collectively, the eurozone member states have cash reserves of $852 billion placing the eurozone as a whole just behind China. The European Central Bank (ECB) has additional reserves. The EU's collective gold reserves are the highest in the world at nearly 11,000 tonnes as of December 2010. Germany alone holds the second largest reserves behind the US, while Italy, France and The Netherlands also rank in the top ten. The ECB also has its own reserves (see table 1).[5]

It is a little understood fact that as of yet no member state has directly forked out a cent to any other state. The European Financial Stability Facility uses the EU budget as collateral that will only be accessed should there be a default. However, this is highly unlikely.

Table 1: World Official Gold Reserves, Top 15 Reserve Holders, January 2011

Country	Tonnes	% of Reserves**
United States	8,133.50	75.20%
Germany	3,401.80	71.20%
International Monetary Fund	2,827.20	--
Italy	2,451.80	69.60%
France	2,435.40	67.20%
China	1,054.10	1.80%
Switzerland	1,040.10	17.60%
Russia	784.1	7.20%
Japan	765.2	3.10%
Netherlands	612.5	59.60%
India	557.7	8.50%
European Central Bank	501.4	29.30%
Taiwan	423.6	4.80%
Portugal	382.5	82.10%
Venezuela	365.8	55.20%

**The percentage share held in gold of total foreign reserves, as calculated by the World Gold Council

Source: World Gold Council

This is because, thirdly, there are ways and means of avoiding it and the EU has shown its willingness to explore these. In February 2012, private sector bondholders of Greek government debt agreed in negotiations with the EU to take a cut on the value of their bonds that by estimates will render their bonds worth 75% less. The deal is in the form of a bond swap (exchanging Greek debt with new debt) with France's BNP Paribas, which owns the largest share of Greek debt outside of Greece, writing down the value of its Greek debt by 75%.[6] Certainly, some would argue that this development is a soft default – a way of avoiding a real default on a debt commitment. However, it avoids surprising financial markets with a hard default and means that the EU budget will not be drawn upon.

The Problems are Substantial

While a collapse of the Eurozone is unlikely, the challenges faced by EU policy-makers remain substantial. Most member states do have high sovereign debt levels. Greece's debt-to-GDP level for 2010 was 144.9%, Italy's 118.4% and Belgium's 96.2%. Even so, it should be placed in context: many states have had higher debt levels in recent times such as Italy's at 120.9% and Belgium's at 130.2% in 1995.[7]

The real problem is that the immediate economic prospects of the highly indebted states are so impaired that there is a diminishing likelihood that they will be able to service their debts (without a "soft" default or otherwise). While some states are proving their ability to bounce back from recession (such as Germany recording impressive 29% export growth in 2009-2010 and even Ireland's economy showing encouraging growth signs), debt is debt and high levels of debt are a big concern, especially for states that are less competitive and do not have diverse economies.

The other issue is that the EU is not a transfer union. Unlike the US where wealthier states can effectively subsidise poorer southern or midwestern states, or Australia where Western Australia and Queensland currently complain that they carry other states, the EU must think of other solutions. It has done this to some degree by providing funding for large-scale public construction works in some poorer member states through the European Investment Bank. Another idea is the introduction of Eurobonds that could, for example, issue debt for a particular state backed by the EU or even roll over existing member state debt to Eurobond debt. The details of the Commission proposal for Eurobonds are yet to be determined but the issue is politically highly sensitive, especially in key states such as Germany.

I would argue that the EU needs to come to terms with the fact that, to stay united, wealthier states will need to subsidise poorer states. As the EU is half-way to a federal state it should at least act like one. Certainly, efficiency improvements can be made but devolution is not the answer.

The New Fiscal Treaty and the 'Six-Pack' Reforms

Despite these challenges, there is little evidence that the EU is disintegrating. The EU has taken the lead, with key states at the helm, to address the problem of state finances. The most recent example is the fiscal treaty that was signed in early March 2012.

Entitled the *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union*, it aims to implement a "balanced budget rule" throughout member states that will be monitored by the European Commission. Importantly, it also imposes a fine on errant states of up to 0.1% of national output (GDP) if they fail to comply. There are also plans for a more automatic mechanism to force states to correct budget deficits, plans for further bond sales, rules for all major economic reforms to be reported to EU institutions in advance, more frequent eurozone summits and a plan to incorporate the rules into the EU treaties within five years. The new agreement will enter into force once 12 of 17 eurozone states ratify it.

The agreement is complemented by a package of Commission legislation dubbed the "six-pack" reforms. Passed by the European Parliament in late 2011, the measures aim to improve eurozone governance and coordination of economic policies by "deepening and broadening economic surveillance arrangements to guide fiscal policy".[8] The reforms consist of proposals to strengthen the Stability and Growth Pact, plans for greater EU surveillance of member state budgets and reforms focusing on monitoring and controlling macroeconomic imbalances within the eurozone. The measures will be implemented under a new EU surveillance cycle, the "European Semester", which will bring together existing procedures. All up, these new measures are a milestone in economic and monetary integration.

The Problem with the Old Rules

The problem the new treaty aims to address is that the former Stability and Growth Pact, adopted in 1997, didn't work: most member states have violated its limits on state deficits and debt levels (see table 2). The Pact outlined fiscal guidelines for member states, with member states agreeing to adhere to an annual budget deficit of no higher than 3% of GDP and a national debt lower than 60% of GDP. Yet with no means for enforcement, 13 of the 17 eurozone states were in breach of these debt limits in 2010.[9]

Table 2: Debt to GDP Levels of Selected Eurozone States, 2010

Greece	142.8%
Italy	119%
Belgium	96.8%
Ireland	96.2%
Portugal	93%
France	81.7%
Germany	83.2%
Hungary	80.2%
Austria	72.3%
Malta	68%
Netherlands	62.7%
Cyprus	60.8%
Spain	60.1%

Source: Eurostat database, extracted 16 April 2012

It is now widely known that several member states, including Greece and Italy, did not meet the Maastricht criteria for entering the eurozone at the time they were admitted, despite their statements that they had. The EU gave Greece the green light to enter at the EU summit of June 2000 on the basis of 1997-1999 accounts that showed a public deficit of 1.8%, within the limits set by the Maastricht Treaty. In a well-publicised scandal, the Greek government subsequently revised these figures in 2004 to 4.6%, thus placing Greece in violation of the criteria.

It has since been revealed that not only were Greece's figures inaccurate but that complicated financial currency swaps took place involving investment bank Goldman Sachs that helped mask the true level of Greece's debt. The currency swap, in which government debt issued in dollars and yen was swapped for euro debt for a certain period, did not show up on official statistics.

EU leaders have since distanced themselves from the incident, with German Chancellor Angela Merkel expressing horror and French President Nicholas Sarkozy exclaiming in October 2011 that allowing Greece to enter was a mistake. Despite these protestations, some observers allege that EU leaders at the time knew very well that Greece and others had not met the criteria. They argue that the reason leaders turned a blind eye was because the EU has always been a project driven by political rather than economic imperatives: the euro was seen as the ultimate symbol of unity and a EU without the Mediterranean would not be complete. Some commentators point to the troubled political histories of some of the entering states and the desire to bring them under EU governance while others point to NATO security imperatives.

Moving Forward: The Next Stage

Even since the adoption of the euro and the proclaimed economic and monetary union, member states have had a high degree of autonomy when it comes to fiscal policy. This is an issue that the EU needs to address. It has become clear from the recent crisis that the EU cannot be half a federal entity. The new fiscal treaty and associated legislation do make it more difficult for states to violate agreed rules. However, even as recently as March 2012 some states sought concessions and the European Commission has indicated its willingness to compromise on certain issues.

Further, the EU's decision-making process remains slow and cumbersome. Any further treaty amendments need to be negotiated between 27 member states, some of which can refuse to sign, as shown by the failure of the UK and the Czech Republic to ratify the fiscal treaty. Even then, some states can opt to refer the treaty to referendum, as Ireland, which has a record of rejecting treaty proposals, has done. Should new legislation be required, there will be lengthy negotiations in the three forums that have input into legislation – the Commission, Parliament and the Council – leaving ample room for important measures to be amended or diluted.

Conclusion

All this uncertainty has, somewhat understandably, reinforced concern about the prospects of the euro and even the EU's future. However, suggestions that the EU is on the verge of collapse have always been a little pessimistic and have perhaps underestimated the political nature of the EU project itself and the will to consolidate European integration. The EU was initially a project to build long-lasting peace and stability for Europe after two devastating world wars. Few Europeans have forgotten this.

The world came close to serious financial ruin after the collapse of Lehman Brothers in September 2008. Some of the largest banks in the UK and Europe were on the verge of insolvency or were in fact insolvent. If they had collapsed, millions of people may not have been paid their monthly salaries, business funding would have frozen and a run on banks would have been likely. To respond, governments turned to Keynesian economics to pump money into their economies to stave off the worst scenarios. In doing so private sector debt was turned into sovereign debt. So the EU's task to rebuild and repair was always going to be difficult.

Just as the economic difficulties and the "Great Inflation" of the 1970s helped inspire the second attempt by the then European Community to move towards economic and monetary integration by establishing the European Monetary System, today's difficulties are moving Europe towards closer integration. As Jean Monnet predicted, crisis, a feature of EU evolution since its inception, is lurching the EU forward again.

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[1] J. C. Trichet, 'Speech by Jean-Claude Trichet, President of the European Central Bank' (19 October 2011) available online: http://www.ecb.int/press/key/date/2011/html/sp111019.en.html (accessed on 10 April 2012)

2 European Union, 'Treaty on Stability, Coordination and Governance in the Economic and Monetary Union', (2012) available online: http://www.european-council.europa.eu/media/579087/treaty.pdf (accessed 12 April 2012)

[3] Inflation.eu, 'Inflation 1979 by country/region' (2012) available online: www.inflation.eu/inflation-rates/cpi-inflation-1979.aspx (accessed on 17 April 2012)

[4] BBC News, 'Merkel: Eurozone Must avoid Greek Exit', *BBC News* (26 March 2012) available online: http://www.bbc.co.uk/news/world-europe-17497656 (accessed on 10 April 2012)

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[6] B. Morris, 'Greece Debt Cut: Some of Europe's Biggest Banks Hit', *BBC News* (21 February 2012) available online: http://www.bbc.co.uk/news/business-17110355 (accessed on 10 April 2012)

[7] Eurostat, 'General government gross debt – percentage of GDP' (16 April 2012) available online:
http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do;jsessionid=9ea7d07e30daa1960c83677445bbab6cf295c09f6555.e34OaN8Pc3mMc40Lc3aMaNyTaxaSe0?tab=table&plugin=0&pcode=tsieb090&language=en (accessed on 17 April 2012)

[8] European Commission, '10 Years of Economic and Monetary Union: a resounding success but testing times ahead' (7 May 2008) available online:
http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/716&type=HTML&aged=0&language=EN&guiLanguage=en (accessed on 10 April 2012)

[9] Eurostat, op. cit. (2012)

Australia and the European Union: A Relationship Driven by Trade

Donald Kenyon AM*

The European Union (EU) is a unique international entity.[1] While far from a 'United States of Europe', it constitutes the most successful example of supranational integration. European integration, however, remains a work in progress and the limited nature of the powers and responsibilities of the EU institutions in Brussels is a key factor in determining the nature of Australia's engagement with the EU.

The pooling of sovereignty, which has transferred policy competence from member state governments to EU institutions, has taken place to differing degrees in the various policy areas. Sovereignty in the area of foreign and defence security policy remains primarily with member states and EU-wide policy making on these issues occurs solely through intergovernmental cooperation. Competition policy, environmental policy and development aid, meanwhile, are areas of shared competence between the EU and member states.

The most extensive integration, however, has taken place in the trade and economic policy domain, with trade an exclusive competence of the EU. Beginning with the customs union, the transfer of the 'trade power' to Brussels and the creation of the Common Agricultural Policy (CAP) during the 1960s, EU economic integration has deepened substantially to the creation of a single market, a monetary union and a common currency. The current 'euro crisis' is opening a new phase in economic integration and forcing the EU to wrestle with the challenge of extending supranational integration further into broader economic policy, in particular fiscal policy.[2]

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A consequence of this deep economic integration is that trade has a clear primacy in Australia's relationship with the EU. The EU is one of Australia's main trading partners, accounting for 14.1% of Australia's total two-way trade in goods and services.[3] It is Australia's chief source of imports, accounting for 19% of total imports, and its third largest export market, accounting for 9.5% of total exports. Two-way trade in services is of increasing importance, with the EU accounting for 19.4% of Australia's total services trade.[4]

Despite the importance of the EU as a trading partner for Australia, the relationship has not always been a smooth one. Indeed, from the beginnings of the EU in 1957 and for much of the second half of the 20th century it was a severely challenged relationship.

Twenty Years of Stormy Weather

A major challenge facing Australia in its early relationship with the EU was the repeated attempts of the United Kingdom (UK) to join the Union from 1960. At that time the UK was a major market for Australia's exports of farm products. Over the same period, the six EU member states (Germany, France, Italy, the Netherlands, Belgium and Luxemburg) were introducing the CAP as an integral part of the customs union in the initial phase of European integration. The aims and objectives of both the customs union and the CAP were laudable; supranational integration as a mechanism for European economic recovery, including agricultural reconstruction and the prevention of further war in Europe. However, the policy choices made in developing the CAP were to have far reaching implications for the international relationships of the EU.

Designing the CAP took place against the backdrop of a tradition in France and Germany of maintaining high agricultural prices for farm products. By the end of the 1950s, agricultural production in Europe was recovering from the effects of World War II, but farmer's incomes remained well below those of industrial workers as reconstruction got underway in the industrial centres of Europe. Accordingly, the solution adopted was a fixed prices policy aimed at dragging up farm incomes to levels comparable to those of industrial workers. EU authorities bought up market surpluses to support the high guaranteed prices and imposed variable levies on imports aimed at ensuring that there would always be a margin of price preference for European produce. The CAP also allowed for the introduction of export subsidies to dispose of surpluses on global markets. The CAP was introduced initially on cereals in 1962, but was progressively extended over the next decade to dairy products, sugar and beef. Under this system imports were relegated to a residual role.

The UK followed an opposite policy. It relied on preferential imports of farm products from suppliers in the British Commonwealth, notably Australia, Canada and New Zealand (NZ). UK producers were paid income supports to bridge the difference between the higher costs of domestic production and the lower cost of imports. By the time the UK finally succeeded in joining the EU in 1973 it had no option but to accept the CAP. NZ was accorded special access for its butter and cheese due to its high dependence on the UK market, but no special arrangements were made for other Commonwealth countries such as Australia or Canada. They had been active in reducing their dependence on the UK market (especially for cereals, beef and sugar in Australia's case) over the years that the UK had been working to join the EU, but lost the remaining market for farm products in the UK virtually overnight in 1973. At this time, Australia still relied on farm products for between 40-50% of its total exports. Australia entered into its relationship with the newly enlarged EU (now encompassing Ireland and Denmark as well as the UK) in a climate of trade tension.[5]

From the accession of the UK to the EU, the CAP was the cause of twenty years of trade tension and conflict between Australia and the EU. In the short term Australia had painful adjustments to make. Some rural industries, especially dairy, had to be significantly downsized. New markets had to be found, mainly in Asia, North America and later in the Middle East. Australia turned its focus away from Europe towards the countries of the Pacific Rim which has remained the centre of its attention ever since. At this time, Australia's importance as a global exporter of coal, iron ore, bauxite/alumina, copper and gold helped to counteract the loss of its remaining significant markets for farm products in Europe.

By the late 1970s an unwelcome CAP-related development soon jolted Australia's attention back to Europe. The high support price policy of the CAP, especially as the EU continued to grow though successive enlargements, had been so successful in expanding production in the EU that large surpluses of cereals, dairy products, beef and sugar began to emerge. The CAP provisions for export subsidies were triggered and the EU emerged as a major exporter on world markets with a seemingly unlimited capacity to subsidise exports, which in turn depressed global prices for farm products. Australia used all the trade weapons at its disposal to fight the EU agriculture export subsidy policy. In trade negotiating rounds under the General Agreement on Tariffs and Trade (GATT), notably the Tokyo Round which concluded in 1979, Australia sought tougher trade rules on export subsidies on agriculture. In successive international commodity agreements on wheat, sugar and dairy products, it sought agreements on export prices and quantities aimed at countering the impact of EU export subsidies on world markets. Together with ten other sugar exporting countries Australia took GATT dispute settlement action against EU sugar export subsidies.[6]

None of this was to much avail. Political and financial support for the CAP in Europe was strong. One initiative, perhaps the only one, that yielded lasting benefits for Australia was a bilateral agreement reached with the European Commission in 1985 for the EU to refrain from subsidising beef into Asian markets. The CAP appeared to Australia as an unscaleable wall, both inward-looking and trade-distorting. An image of Europe as protectionist, over-regulated and bureaucratic developed in Australia as a result of its experiences with the CAP. The frustration with which Australia regarded the EU was reciprocated in Brussels. Australia was largely dismissed as a small, closed economy on the other side of the world, interested only in agriculture.

EU export subsidies were ultimately a key element in triggering a crisis in world agricultural trade. They led the United States (US) to legislate its own 'war chest' of agricultural export subsidies in 1985 and played a key role in the launching of the Uruguay Round of GATT multilateral trade negotiations in 1986. Australia considered this new GATT round as a critical test of the multilateral system to bring an end to the competitive export subsidy practices of both the EU and US. It created the Cairns Group (CG) of agricultural exporting countries which insisted on agricultural trade reform as an essential element of an outcome of the negotiations.[7] The negotiations dragged on for seven years during which subsidised EU agricultural exports continued unchecked. Finally, a combination of factors created a breakthrough: internal pressures to curb the burgeoning cost of the CAP, pressure from the US, and insistence of the CG that the broader benefits of the GATT round on industrial tariffs and services could not be secured without agricultural trade reform. The EU accepted reform of the CAP and an agreement on agriculture was reached in the GATT negotiations that, *inter alia*, placed limits on the use of export subsidies. Subsequent reforms of the CAP have continued the process of reducing the impact of the CAP on trade.

Moving into Calmer Waters

While these potentially 'game changing' developments for the Australia-EU relationship were going on through international negotiations, even more important changes were taking place domestically in both Australia and the EU. Up until the early 1980s, Australia was a highly regulated, import competing economy with a high industrial tariff. Reform programs through the 1980s opened up the Australian economy, forcing its manufacturing and services industries to be internationally competitive. Significant changes were also taking place in the EU through the late 1980s and 1990s, particularly the 'single market' initiative to create EU-wide industries that would be better able to compete with US and Japanese firms in world markets. It was this process that intensified pressure to curb expenditure on the CAP. As the CAP receded as a contentious issue between Australia and the EU it became clear, even before the end of the GATT round in 1993, that a new chapter was opening in the Australia-EU relationship. There was increasingly more that united than divided Australia and the EU on international trade issues, especially in respect of shared interests in global trade liberalisation in both industrial products and services.

Change, however, was slower to occur than may have been expected. For more than a decade following the end of the Uruguay Round Australian and

EU perceptions of each other continued to be influenced by stereotypes forged in less propitious times. In part, this was linked to the priorities that Canberra and Brussels had come to accord each other over the long period of neglect that had characterised disputes over agriculture. Australia's centre of gravity had moved decisively to the Pacific Rim and the attention that Australia gave to the EU was far behind that given to China, Japan, the US, South Korea, ASEAN, South Asia and even the Middle East. In Brussels there was a similar hierarchy. Australia was on the periphery of EU attention, far behind the US, Eastern Europe, China, Japan, South Korea, the Middle East, ASEAN and Africa. In short, a certain residualism impacted negatively on the attention Australia and the EU accorded each other.

Another factor slowing down change may have been the asymmetry between the EU and Australia in their relative importance in world trade and in their trade with each other.[8] Australia currently ranks around 20th in world trade (imports and exports) and accounts for 1% of both global exports and imports.[9] In contrast, WTO data indicates that in 2010 the EU accounted for 34% of world merchandise trade (14% excluding intra-EU trade) and 41% of global services trade (21% excluding intra-EU trade). The EU is the world's largest trader with merchandise and services trade worth US$5.0 trillion (excluding intra-EU trade), well ahead of the US and China with US$4.1 and US$3.3 trillion respectively.[10] The EU-Australia bilateral trade relationship mirrors this asymmetry. As mentioned above, the EU is one of the most important trading partners for Australia. For the EU, however, Eurostat data reveals that Australia ranks just 12th in importance as a merchandise export market in 2010, accounting for 1.9% of EU exports, and 20th as a source of imports, accounting for 0.6% of EU imports.[11]

Residualism and trade asymmetry played a role in the EU continuing to view Australia through stereotypes that by the end of the 20th century no longer accorded with the reality of its emergence as a globally competitive economy. Similarly, residualism coupled with deeply entrenched views formed about the EU during the long period of bilateral tension over agriculture slowed Australia's full appreciation of the range of trade opportunities available in the more competitive and open EU market of the late 1990s. In other words, the long period of neglect resulted in a situation where neither side paid the attention to the other that changing circumstances justified.

New Models for the Future

While re-engagement between Australia and the EU on a more positive basis has taken longer than it might have done given the changes of the mid 1990s, the pace of change has steadily accelerated, especially over the past five or six years. As far back as 1995, Australia sought to reflect a warmer relationship with the EU in a 'framework' agreement covering the foreign trade competences of the European Commission and a ministerial level declaration on the foreign and security policy competences of the member states. A consultative Ministerial Declaration in 1997 was the outcome of this initial effort. Driven in part by the desire to consult more closely with the EU on the coordination of respective aid programs in the Pacific Islands, Australia returned to upgrading its mechanisms for cooperation with the EU in 2006. The Rudd government elected the following year gave impetus to this project. The outcome was a 'Partnership Framework' concluded in 2008 which provided for closer cooperation on a broad range of subjects including foreign and security policy, trade, climate change and cooperation in the Asia-Pacific region. This new 'Partnership Framework' was also intended as a 'living instrument' for cooperation with medium to long term goals to be reviewed and updated on a regular basis.

When Prime Minister Gillard made her initial visit to Brussels in October 2010, agreement was reached to re-open negotiations with a view to upgrading the 2008 'Partnership Framework' to a treaty level agreement. At the time of writing, these negotiations are ongoing.[12]

These efforts to identify an enduring model for closer cooperation have greatly improved the climate between Australia and the EU. Issues over agriculture remain, mainly linked to market access. However, they are now no more challenging to deal with than similar problems Australia has with many of its other major trading partners, such as China, Japan, the US and South Korea. The launch of an annual Ministerial Trade Dialogue in 2009 has also helped to increase knowledge of the shared interests that Australia and the EU have across a wide range of bilateral and multilateral trade issues. Looking forward, however, a relationship destined to be so dominated by trade as that between Australia and the EU will always need careful management, including some commitment to policy change. There must be doubts that the framework agreement route, limited as it is to commitments to broad aims and goals, will be adequate for this task.

In the various agreements Australia and the EU have pursued since the mid 1990s to reflect their closer engagement and cooperation they have sought an increasing specificity of outcomes. However, they have eschewed entering into specific trade commitments. This is in part because both parties have focused their trade liberalisation priorities on the multilateral 'Doha' negotiations in Geneva. These negotiations have now been effectively stalemated since mid-2008. A consequence has been that the EU has changed its focus towards bilateral Free Trade Agreement (FTA) negotiations. An FTA with South Korea has been concluded and entered in force in 2011. The EU is currently negotiating FTAs with ASEAN, India and Canada while serious consideration is being given to opening negotiations with Japan.

If the Doha negotiations continue to be stalemated, an FTA between Australia and the EU may prove to be the best course in pursuing the bilateral trade priorities of both sides. An FTA encompassing an exchange of specific commitments designed to expand bilateral trade could co-exist with the Framework Treaty currently being negotiated. Agriculture market access would clearly be a great challenge for the EU, as would be animal and plant health standards for Australia. There would be few major merchandise trade problems to solve as, with few exceptions, tariff levels in both Australia and the EU are now very low. The major benefits to both sides would be likely to come from the liberalisation of non-tariff barriers (NTBs) stemming from 'behind the border' regulatory divergences which now constitute significant impediments to trade and investment between Australia and the EU.[13] There would be benefits to both sides in services trade. There could also be benefits to Australia on food standards and environmental product standards and benefits to the EU on public procurement and investment screening regulations. The outcome of the

FTA negotiations with Canada can provide some interesting precedents for Australia.

Conclusion

Australia and the EU have had a long and often difficult trade relationship. Disagreement over agricultural trade policy, in particular the EU's Common Agricultural Policy, soured the relationship for much of the second half of the 20th century. Changes to the CAP, especially the diminished use of export subsidies, and broader economic and trade policy reforms over the past two decades have seen the EU and Australia reengage with one another. The EU is the world's largest trading power and a major trading partner for Australia. The policy responsibilities of the EU institutions in Brussels make it inevitable that trade will continue to have a primacy in Australia-EU relations. Developing this important relationship will therefore depend on managing trade relations well. Since the late 1990s, both sides have sought an enduring model to reflect the warmer relationship that now exists and successive consultative arrangements have succeeded in fostering closer cooperation. Negotiations are underway to upgrade the current Partnership Framework agreement (2008), but it may also be prudent to take note of recent EU FTAs as a possible way forward for the Australia-EU trade relationship.

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[1] Throughout the text, the term 'EU' has been used to denote: the European Economic Community (EEC) established by the Treaty of Rome in 1957; the European Communities (EC) which in 1965 united the EEC with Euratom (the European Atomic Energy Community) and the European Coal and Steel Community (ECSC); and the European Union which was created as a legal entity by the Treaty of Maastricht in 1992.

[2] D. Kenyon & D. Lee, 'Australia and Europe' in J. Cotton and J. Ravenhill, (eds.) *Middle Power Dreaming: Australia in World Affairs 2006-2010* (Australian Institute of International Affairs: Oxford University Press, 2011), pp. 112-14.

[3] DFAT, 'Trade at a Glance 2011' (2011) available online: http://www.dfat.gov.au/publications/trade/trade-at-a-glance-2011.html (accessed on 29 March 2012)

[4] DFAT, 'Composition of Trade Australia 2010' (2010) available online: http://www.dfat.gov.au/publications/stats-pubs/cot-cy-2010.pdf (accessed on 29 March 2012)

[5] D. Kenyon and D. Lee, *The Struggle for Trade Liberalisation in Agriculture: Australia*

and the Cairns Group in the Uruguay Round (Canberra: Dept. of Foreign Affairs and Trade, 2006), pp. 11-19.

[6] D. Kenyon and D. Lee, op. cit. (2006), pp. 47-48.

[7] During the Uruguay Round negotiations 1986-93, the Cairns Group originally comprised: Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Uruguay. At the conclusion of the negotiations Hungary and Fiji left the group. Since then seven additional countries have joined: Bolivia, Costa Rica, Guatemala, Pakistan, Paraguay, Peru and South Africa. Membership currently stands at nineteen countries.

[8] D. Kenyon and J. Kunkel, 'Australia and the European Union in the World Trade Organisation: Partners or Adversaries?', *Australian Journal of International Affairs,* vol. 59, no. 1 (2005), pp. 56-58.

[9] DFAT, op. cit. (2011)

[10] Extracted from the WTO online database on international trade in merchandise and commercial services:
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[11] Extracted from the Eurostat online database:
http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

[12] D. Kenyon & D. Lee, 'Australia and Europe' in J. Cotton and J. Ravenhill, (eds.) *Middle Power Dreaming: Australia in World Affairs 2006-2010* (Australian Institute of International Affairs: Oxford University Press, 2011), pp. 111-15.

[13] K. Hussey and D. Kenyon, 'Regulatory Divergences: A Barrier to Trade and A Potential Source of Trade Disputes', *Australian Journal of International Affairs*, vol. 65, no. 4 (2011), pp. 381-93.

The Continued Evolution of the EU as an International Actor

Professor Martin Holland*

Unsurprisingly, contemporary perceptions of the European Union (EU) have been largely shaped by the 2011 sovereign debt crisis. Whilst important, such an exclusive focus runs the risk of misinterpreting the longer term ambitions, achievements and geostrategic challenges that confront Europe today. A recent study found media coverage of the EU in Australia to be particularly skewed and public opinion startlingly uninformed.[1] For example, during the first six months of 2011, 80% of news stories on the EU that appeared in *The Australian* and *Australian Financial Review* focused on economic issues (primarily the sovereign debt crisis), largely ignoring the EU's response to the Arab Spring. In a public opinion survey of some 1,000 respondents conducted in March 2012, 63% of Australians said that they had never heard of the European Commission or the European Court of Justice, 52% of the European Parliament and 45% of the European Central Bank (with this last figure somewhat perplexing given the European economic emphasis in the press). By way of comparison, 98% of respondents had heard of the UN and 88% of the WTO. This public ignorance reflected a general disinterest, rather than hostility, towards the EU: 45% of the survey professed neither positive nor negative perceptions of the EU.

This somewhat myopic understanding of the EU, as seen through the lens of the Australian media and in public opinion, undervalues important historical and contemporary trends. The ambition to be a significant international actor has long been part of the EU's agenda. Three decades ago, the 1981 London Report issued by the European Council (comprising

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the heads of government of the then 10 EU member states) argued that Europe "should seek increasingly to shape events and not merely react to them".[2] While the record is an imperfect one, there should be no doubt that the EU remains committed to exercising such an international role and, importantly, has undertaken a series of initiatives this millennium to enhance its global capabilities. This short review focuses on a number of these: the impact of the 2009 Lisbon Treaty; the creation of the post of High Representative for Foreign Affairs and Security Policy; the execution of military and civilian overseas missions; and the EU's continued commitment to achieving the Millennium Development Goals (MDGs), including the eradication of poverty.

The Lisbon Treaty

The rule of law is fundamental to the European integration project, hence the importance given to the various treaties signed from Rome in 1957 to Lisbon in2009. While even the founding Treaty of Rome gave the then European Economic Community significant external competences, particularly in trade, each iteration since then has seen the international profile of the EU be expanded and clarified. The Single European Act of 1986 saw the first mention of a putative defence capability, the 1993 Maastricht Treaty formally established the Common Foreign and Security Policy (CFSP), while the Amsterdam Treaty introduced the idea of a High Representative as the focal mechanism for EU foreign policy. Lisbon, however, has signalled a fundamental sea-change in the organisation and scope of the EU's international relations. Words matter for Europe: Article 21 of the new treaty does not lack ambition and specifies the objectives of EU foreign policy as: safeguarding values and fundamental interests; the consolidation of democracy and human rights; the preservation of peace and prevention of conflicts; fostering sustainable economic, social and environmental development; and, if that was not enough, to improve "the sustainable management of global natural resources".[3] These objectives are to be supported by "stronger multilateral cooperation and good global governance".[4] In short, CFSP embraces "*all areas* of foreign policy and *all questions* relating to the Union's security".[5]

Ashton and the EEAS

Catherine Ashton's place in EU history is now assured as the first appointee as the EU "foreign policy chief" under the Lisbon Treaty. The office of the High Representative for Foreign Affairs and Security Policy is an innovation as well as an oddity, linking as it does, without precedence, two institutional portfolios (Ashton is both the Vice-President of the European Commission and a member of the Council). In this way it is hoped that the past challenges of policy coherence between different branches of the EU can be overcome. The structure is a work in progress, although it would be fair to say that initial conclusions on the efficacy of the arrangement have been cautious.

A second significant development has been the creation of the European External Action Service (EEAS), the EU's new diplomatic service which is designed to better "brand" the EU internationally as well as work in cooperation with the individual diplomatic services of the member states. Since its launch, the EEAS has consciously sought to engineer a new EU diplomatic culture by drawing its staff from three separate sources: former Commission External Relations officials, the Council Secretariat and national foreign affairs ministries. The success of the EEAS will depend upon the effective synthesis of these human resources both at the new EEAS headquarters in Brussels and in the 130 EU Delegations operating globally.

Common Defence and Security Policy

Over the last decade the EU has begun to construct a meaningful common approach to defence and security. Largely thanks to an Anglo-French bilateral initiative begun under UK Prime Minister Tony Blair and French President Jacques Chirac, the EU has now established institutional and operational capacity to deliver a long-held aspiration to develop a security architecture separate from NATO – the Common Security and Defence Policy (CSDP). Institutions, such as the EU Military Committee, EU Satellite Centre and the European Defence Agency, have been established and more than two dozen CSDP missions undertaken to address conflicts in Africa, Asia and the Middle East. While security concerns closer to home have been prevalent, the EU has been insistent that its policy is, where necessary, global in reach.

CSDP involves both military and civilian missions. To date, eight military missions have been undertaken: two in the Balkans and six in Africa. Two military missions are ongoing: EUNAVFOR Atalanta,a naval response to piracy off the Coast of Somalia; and EUTM Somalia,a military training mission. Five civilian missions have taken place on African soil (in the Democratic Republic of Congo, Sudan/Darfur and in Guinea Bissau), involving security sector reform, support and police monitoring and mentoring. Closer to home, a further four policing and justice system missions have been undertaken in the Balkans (in FYROM, Kosovo and Bosnia-Herzegovina), while three similar missions have been completed in Moldova and Georgia. Looking East, ongoing missions include monitoring border crossings in Gaza, police training in the Palestinian Territories and Afghanistan as well as justice system reform in Iraq. The EU's only excursion into Southeast Asia was its successful 2005/6 Monitoring Mission that facilitated the decommissioning of arms and peaceful reconciliation in Aceh .[6]

From an enthusiastic start, the EU's appetite, especially for military involvement, seems to have waned somewhat recently. Declining national defence budgets and the potential duplication with NATO – as well as the experience of what does and does not work well – appear to have produced something of a hiatus in CSDP activity. Furthermore, the original European Security Strategy drafted by Javier Solana in 2003 and updated in 2010 awaits a more pronounced Ashton imprint.

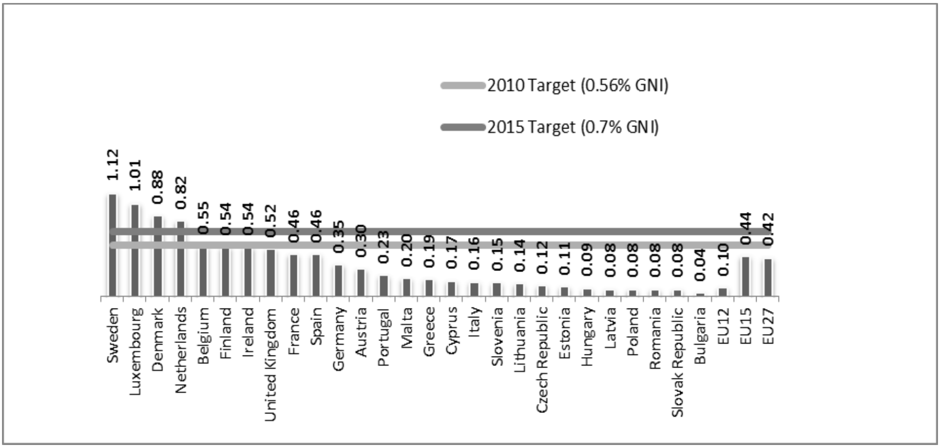
Millennium Development Goals

In contrast to the EU's comparatively belated articulation of a common security dimension, development policy has been emblematic of the EU's global involvement since the signing of the Lomé Convention in 1975. This innovative framework linking the EU with the countries of Africa, the Caribbean and the Pacific (ACP) was superseded by the Cotonou Agreement in 2000. Cotonou, which currently provides the development framework for 78 ACP states and the EU, remains controversial, given its emphasis on market liberalisation and the establishment of Economic Partnership Agreements.[7] However, it gives legal recognition to the EU's enduring commitment to poverty eradication, which goal is now contained in Article 21 of the Lisbon Treaty.

The EU's development policy has most recently embraced the Millennium Development Goals and set targets for the EU to achieve by the 2015 deadline. Few in Europe, or elsewhere, remain confident in these being realised. In its mid-point review of progress towards the eight MDGs, the European Commission presented a sombre analysis.[8] Progress was modest at best with the 2015 deadline increasingly aspirational rather than realistic. The indexes for measuring primary education, empowerment of women, child mortality, maternal well-being, HIV/AIDS, environmental sustainability and sanitation all suggested little improvement. The evidence for MDG1 – reduction of poverty and extreme hunger – was similarly downbeat.

An initiative linked to poverty reduction committed the EU member states to meet their 0.7% GNI Official Development Aid (ODA) targets - obligations that were in fact first signalled at the UN in the 1960s and reconfirmed as common EU goals in 2005. By 2010, the EU agreed to commit an average of 0.56% of Member State GNI to overseas aid, with this figure increasing to the 0.7% level by 2015. As Table 1 below illustrates, the 2010 target was set to be missed by all but four member states (Sweden, Luxembourg, Denmark and The Netherlands) and the prospects for meeting the 2015 goal look bleak, particularly in the context of sovereign debt and continuing financial crises. Despite these implementation shortcomings, the EU remains the dominant global development actor. Taking the 27 member states' bilateral ODA together with that supplied directly through the European Commission, currently the EU collectively provides in excess of half of all aid given worldwide. This expression of an ethical foreign policy is cemented in the legally binding Article 21 of the Lisbon Treaty which commits the EU to "the primary aim of eradicating poverty" in developing countries.[9] Whether this legal commitment will prove sufficient remains, of course, a matter of conjecture.

Table 1: EU Member State ODA as Percentage of GNI, 2009



Source: M. Holland and M. Doidge, *Development Policy of the European Union* (Basingstoke: Palgrave, 2012), p. 218.

Conclusion

The EU's evolution as a credible and effective international actor has made considerable strides over the last decade, but still remains a work in progress. At its heart, the tension between supranational and intergovernmental views of the future direction of European integration is at play. For many member states, foreign policy autonomy remains a sensitive policy area. While a greater collective EU approach is accepted, a more expansive common approach remains a contentious issue. This dynamic between 'Eurofederalists' and those who advocate state sovereignty is nothing new: it has shaped the European integration project since the Schuman Plan in 1950.

The current compromise, which blends the appearance of a common international role for the EU with the contradictory reality of individual member states' foreign policies, presents contradictions and confusions for third countries. The question famously asked by former US Secretary of State Henry Kissinger of who to call to find out Europe's foreign policy position still requires more than Catherine Ashton's mobile phone number as an answer.

Presented with such complications, perhaps it is less surprising to find a lack of public awareness among Australian citizens and a reluctance on the part of the media to try to explain and contextualise the EU's international relations. These shortcomings notwithstanding, the EU remains internationally ambitious and can no longer be characterised as merely a "soft" power even if the strength of its hard power has yet to be fully tested.

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[2] European Council, 'Report on Political Cooperation', *Supplement of the Bulletin of the EC, 3/81, Luxembourg* (1981) available online: http://www.cvce.eu/content/publication/2002/1/18/869a63a6-4c28-4e42-8c41-efd2415cd7dc/publishable_en.pdf (accessed on 13 April 2012)

[3] European Union, 'Treaty of Lisbon amending the Treaty on European Union and the Treaty Establishing the European Community', *Official Journal C/306, 17.12.2007* (2009) Available online: http://eur-lex.europa.eu/JOHtml.do?uri=OJ:C:2007:306:SOM:EN:HTML (accessed on 13 April 2012)

[4] Ibid.

[5] Ibid. (emphasis added)

[6] EEAS, 'EU Operations' (2012) available online: http://www.consilium.europa.eu/eeas/security-defence/eu-operations?lang=en (accessed on 13 April 2012)

[7] M. Holland and M. Doidge, *Development Policy of the European Union* (Basingstoke: Palgrave, 2012)

[8] European Commission, 'Progress Made on the Millennium Development Goals and Key Challenges for the Road Ahead', *SEC (2010) 418 final (2010) available online: http://ec.europa.eu/development/icenter/repository/SEC_2010_0418_COM_2010_0159_EN.PDF (accessed on 13 April 2012)*

[9] European Union, op. cit. (2009)

Biographies of Contributors

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Peter O'Shea is a Visiting Fellow at L'Institut d'études politiques de Paris (Sciences Po) in France. He is completing a PhD at the Monash European and EU Centre at Monash University. His thesis examines the new supervisory and regulatory framework for the EU's financial markets and critically analyses the actors that played a role in the policy process which led to the creation of the current regulatory and supervisory structure. Peter has been Managing Editor of Industry Analysis since 2003 for Mergent Inc, a leading financial publisher, equities research firm and index provider based in the United States.

Donald Kenyon AM

Associate Professor Donald Kenyon AM is currently a Distinguished Visiting Fellow at the Australian National University Centre for European Studies. He was Australia's Ambassador to GATT/WTO from 1993 to 1996 and Australia's Ambassador to the European Union, Belgium and Luxembourg from 1997 to 2000. Associate Professor Kenyon has a wealth of experience as a senior trade negotiator for the Australian Government including many years experience in bilateral trade negotiations with the EU. He was awarded the Order of Australia (AM) in 2002 for service to public administration, particularly the promotion of Australian trade and commercial interests. His research interests focus on trade policy issues, particularly facilitating a closer trade and economic partnership between Australia and the EU that would be to the mutual benefit of both sides.

Professor Martin Holland

Professor Martin Holland holds New Zealand's only Jean Monnet Chair (*ad personam*) and is Director of both the National Centre for Research on Europe at the University of Canterbury and the European Union Centres

Network in New Zealand. In 2000 he established the National Centre for Research on Europe, New Zealand’s only dedicated EU tertiary level centre. The NCRE is now in its eleventh year and comprises 8 academic staff, has over thirty post-graduate students and a full undergraduate EU Studies major programme.

Professor Holland is internationally recognised for his work on EU development policy, Common Foreign and Security Policy and perceptions of the EU. He leads the “EU External Perceptions Project” which was recognized by DG Education and Culture as one of the top 20 “Jean Monnet Success Stories” and has supervised transnational projects on perceptions of the EU in Asia, Africa and the Pacific. He has held a number of notable awards including: Jean Monnet Fellowship, European University Institute, 1987; Alexander von Humboldt Fellowship, Freiburg, 1992-4; Rockerfeller Bellagio Fellowship, 2000; Jean Monnet Chair of European Integration and International Relations, 2002-6; and a Jean Monnet Chair *ad personam* since 2008.

Professor Holland is the author of some twenty books.