

The EU in 2009

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1) Key dates for 2009

1 January	Czech Republic takes over EU Presidency
1 January	Slovakia joins the Eurozone
20 January	Barrack Obama enters office as President of the United States
19 February	Czech President Vaclav Klaus addresses the European Parliament
19-20 March	EU Summit in Brussels
2 April	G20 Summit in London
Spring	EU-US summit in Washington
4-7 June	European Elections
7 June	Elections in Belgium
8-9 June	Employment, Social Affairs, Health and Consumer Affairs Council to discuss Health directive
14 June	Elections in Bulgaria and Luxembourg
18-19 June	EU Summit in Brussels
1 July	Sweden takes over EU Presidency
September	Elections in Portugal
27 September	Elections in Germany
Autumn?	Second referendum in Ireland?
7-18 December	Copenhagen Climate Change Conference
1 January 2010?	Lisbon Treaty enters into force?

2) What to expect from the Czech EU Presidency

Czech Prime Minister Mirek Topolánek says his country will concentrate on “the three Es – economy, energy and external relations” when it takes over the EU Presidency on 1 January.¹ However he has said that “the financial crisis and its aftermath is such a strong topic that it is going to overshadow any of our national priorities.”

Marking a clear break from the restless style of outgoing EU President Nicolas Sarkozy, Topolánek told the *FT*: “I would like to have a very matter-of-fact presidency, very sober and, because of this, very effective. We shouldn’t expend our strength on great shows. We should be happy with getting things moving forward, be it just a mile or just a few feet, so that when we come to the end no one will say, ‘we wasted our time, there were no achievements’.”

Other EU countries have expressed concern about the Czech presidency, notably the influence of President Vaclav Klaus, who is against the Lisbon Treaty and the euro, and is critical of EU policy on climate change.

Secondly, Mirek Topolánek’s governing coalition is unstable, as it lacks a clear parliamentary majority and could in theory topple during the Presidency. However, the Czech opposition has indicated that it will “tolerate” the coalition until after the Presidency on several conditions.²

Response to economic recession

As the EU continues its efforts to present a response to the acute financial crisis and economic recession, the Czech EU Presidency is unlikely to facilitate attempts to push through stimulus plans, as Mirek Topolánek has warned against an excessive fiscal response to the crisis, saying “I consider loosening the Stability and Growth Pact to be a direct threat to confidence in the euro zone and a dangerous precedent for the future.”³

Instead, the Czech Presidency sees improving the regulatory environment as a better response, and plans to seek a consensus to set goals to reduce the administrative burden. It also wants to further improve free movement of services within the EU, and has therefore made a priority of the implementation of the EU Services Directive.⁴

EU financial regulation

Building on the EU Strategy for an integrated European market in the financial services sector for 2005-2010⁵, the EU is likely to now step up efforts for financial regulation. Plans are afoot to increase supervision and regulation of the banking and insurance sectors, with the Capital Requirements Directive, Solvency II and reform of the UCITS

¹ Financial Times, 30 December 2008

² See: http://www.ceskenoviny.cz/news/index_view.php?id=350995

³ See: <http://www.fxstreet.com/news/forex-news/article.aspx?StoryId=f17b76ef-8f9f-4e08-900f-e4c00e9843eb>

⁴ See: http://www.businessinfo.cz/files/2008/080812_czech_pres_priorities_oct_07.pdf

⁵ See: <http://www.businessinfo.cz/en/article/czech-eu-presidency/competitiveness-18-month-programme/1001745/49984/#b9>

Directive and the rules on the protection of savers' deposits. Reforming regulation of credit rating agencies and accounting standards are also priorities.⁶

The Czech EU Presidency is expected to try and reach an EU common position on global financial supervision ahead of next year's G20 summit in London in April.⁷ It will do this on the basis of a report by group, led by former IMF Managing Director Jacques De Larosière, which was commissioned in October 2008 to make recommendations.

However, the Czechs have warned against excessive economic regulation to fight the financial crisis⁸ and are therefore unlikely to add to calls for more regulation. One senior Czech diplomat told *European Voice*: "Co-ordination, yes. Some new regulation may be needed. But overregulation, no."⁹ Moreover, Czech Prime Minister Mirek Topolanek has compared some recent proposals for regulation of financial services "the fifth article of the Communist Manifesto". He said that the crisis had its origins in a "fatal failure of market intervention. It was state support for mortgages that led them to be offered to people who were fundamentally incapable of repaying them", adding "it is not a failure of capitalism, it is lack of capitalism."¹⁰

EU budget

An important challenge for the Czech Presidency may be to achieve a review of the EU budgetary framework. The European Commission is expected to publish a White Paper assessing the current situation and offering the first proposals concerning all aspects of EU expenditure and revenues during 2009. Depending on whether the paper is launched in the first or the second half of the year, it will be for the Czechs or the Swedes to mediate the debate.

On the one hand there is the desire for a reduction of expenditure on the Common Agricultural Policy (CAP), which is linked to the global Doha trade talks. And on the other, there is the debate on revenues, whereby the Czech Republic will call for the abolition of Value Added Taxes (VAT) as a revenue and oppose the introduction of new budgetary sources. The Czechs will also try to keep the money they gain from the EU Structural and Cohesion Funds. What remains of the British rebate is also set to be discussed.¹¹

The Czech Republic is also likely to have to resolve a proposal by Commission Presidency Jose Barroso to raise the EU budget by €5 billion. The proposal to let the EU spend the money on energy and high-speed internet projects was rejected at the end of 2008 by several member states.¹²

EU neighbourhood policy and Croatia accession

⁶ See: <http://euractiv.com/en/financial-services/financial-supervision-remains-high-eu-agenda/article-178049>

⁷ See: <http://euractiv.com/en/financial-services/financial-supervision-remains-high-eu-agenda/article-178049>

⁸ See: <http://www.javno.com/en/world/clanak.php?id=212466>

⁹ See: <http://www.europeanvoice.com/folder/czechpresidency/97.aspx?artid=63374>

¹⁰ See: <http://www.fxstreet.com/news/forex-news/article.aspx?StoryId=f17b76ef-8f9f-4e08-900f-e4c00e9843eb>

¹¹ See: <http://www.businessinfo.cz/en/article/czech-eu-presidency/priority-a-budget-for-europe-future/1001745/49823/>

¹² See: <http://www.europeanvoice.com/article/2008/12/member-states-delay-decision-on-extra-2008-spending/63513.aspx>

The Czech Republic has made this a priority, and wants to balance EU foreign and neighbourhood policy between south (as the French presidency attempted with the Mediterranean Union) and east.

The accession of Croatia will be a priority, particularly as it is being increasingly linked with the ratification of the Lisbon Treaty. The Czech Republic also intends to bring ex-Soviet countries including Ukraine, Belarus, Armenia, Azerbaijan, Georgia and Moldova closer to accession talks with the EU.¹³ Linked to this are relations with Russia and the US, and the issues of the US radar shield and energy security (see below).

Energy security

According to *Euractiv*, the Czech EU Presidency will push for the planned Nabucco gas pipeline to become an EU project, which aims to reduce the Union's dependence on Russian gas. In particular the unexpected cut in oil supplies from Russia to the Czech Republic has played a role in this. In their "Visegrad" cooperation, Poland, the Czech Republic, Hungary and Slovakia decided in November that this had to become a priority. A trio summit with countries from the Southern Energy Corridor – Kazakhstan, Azerbaijan and Turkmenistan - as well as with transit countries like Ukraine, Georgia and Turkey, will also be held.¹⁴

Relationship with the US and Russia

The Czechs are keen to develop a strong relationship with Barack Obama, and an EU-US summit is being planned. The Czechs are hoping to have approved the US radar base, which is politically being linked with the approval of the Lisbon Treaty in the Republic¹⁵. However it remains unclear what US President-elect Barack Obama thinks of the radar, which has angered Russia and led it to announce the installment of short distance rockets in Kaliningrad.

Czech President Vaclav Klaus has declared that Georgia was the aggressor in the crisis in August and that Russia poses no danger at present, which has led Czech Deputy Prime Minister Alexandr Vondra to suggest that Klaus could represent the EU at a June summit with Russia.¹⁶

Lisbon Treaty and the Klaus-factor

According to Mirek Topolánek, "The Lisbon Treaty is not expressly one of the priorities of our presidency"¹⁷. As it is unlikely that the planned second Irish referendum will be held before the European elections in June, the Treaty will not be of major concern to the Czech Presidency. However, the Czechs will remain under severe pressure to ratify the Treaty at home, which makes it highly likely that President Vaclav Klaus will clash again with the big member states and the EU establishment.

¹³ See: <http://www.eubusiness.com/news-eu/1229909540.32>

¹⁴ See: <http://www.euractiv.com/en/energy/czechs-push-nabucco-gas-pipeline-eu-helm/article-178090?Ref=RSS>

¹⁵ See: <http://news.bbc.co.uk/2/hi/europe/7792553.stm>

¹⁶ See: http://www.ceskenoviny.cz/news/index_view.php?id=351227

¹⁷ See: <http://www.eubusiness.com/news-eu/1229909540.32>

The lower house of the Czech parliament is expected to debate Lisbon in January and the Czech Senate probably in February.¹⁸ If it is approved, President Vaclav Klaus could in theory re-launch the case before the Constitutional court again, delaying ratification further.¹⁹ Even after that, he could line up with Polish President Lech Kaczynski and refuse to sign the Treaty.

President Klaus is likely to disturb the peace in the EU during the Presidency, with regards not only to his general discontent with the EU which he will not hide in the run-up to the European elections, but also to his opposition to climate change activism, which he has accused of threatening freedom in his book, "Blue Planet in Green Shackles". Klaus' criticisms of the EU climate package will be relevant in the debate on which industries are to receive exemption from new emissions standards, which will be ongoing throughout 2009.

Klaus' participation and role in summits and other EU events under the Czech Presidency are being negotiated. While Czech PM Mirek Topolanek will chair the highest-level summits, it is already agreed that Klaus could chair some summits of the EU and non-EU states such as the USA, Canada and others. He will also receive European Commission members on 7 January 2009, and give an address in the European Parliament on 19 February 2009.²⁰

According to an aide to President Klaus writing in French daily *La Croix*, Klaus is prepared to link up with likeminded critics of the EU in other countries, defending the decision not to fly the EU flag over Prague castle, saying "the EU flag doesn't fly at the seats of the Heads of State of Italy, Belgium, Lithuania, Sweden or the United Kingdom".²¹

Will France try to dominate?

France seems unwilling to let go of the EU Presidency as it prepares to hand the baton to the Czech Republic. The government has expressed doubts in particular about the Czech Republic's ability to respond to the financial crisis and about its commitment to press ahead with the Lisbon Treaty. According to one Czech newspaper: "most [French] media believe that Paris's current presidency has been a great success which the Czechs could spoil."²²

Jean-Pierre Jouyet, who has recently been replaced by Bruno Le Maire as French Europe Minister, has said that "France and other countries will take initiatives: no-one can stop the member states from proposing to meet, notably at the level of the eurozone."²³

¹⁸ See: <http://www.euractiv.com/en/opinion/czechs-reshuffle-government-ahead-eu-presidency/article-178172>

¹⁹ See:

http://www.realinstitutoelcano.org/wps/portal/rielcano_eng/Content?WCM_GLOBAL_CONTEXT=/Elcano_in/Zonas_in/Europe/AR1103-2008

²⁰ See: http://www.ceskenoviny.cz/news/index_view.php?id=351227

²¹ See: <http://www.la-croix.com/article/index.jsp?docId=2359907&rubId=1094>

²² See: <http://praguemonitor.com/2008/12/22/france-watches-upcoming-czech-eu-presidency-apprehensions>

²³ Libération, 22 December 2008. See: <http://bruxelles.blogs.liberation.fr/coulisses/2008/12/leurope-est-pas.html#more>

Indeed Nicolas Sarkozy has proposed the establishment of a parallel EU summit for eurozone countries for the whole of 2009, of which he will be President, given that neither the Czech Republic nor Sweden use the euro. Sarkozy said: "We cannot work like this, changing every six months on such important subjects."²⁴ The plan came under fire from Germany, but Jouyet's recent comments show the French have not given up on it.

However, it seems France's willingness to be involved in high-level EU decision-making during 2009 is not limited to economic and financial affairs. Jean Quatremer's *Coulisses de Bruxelles* blog quotes an aide to President Sarkozy saying, "France is leaving a roadmap on the financial markets, the economic relaunch, immigration, defence, energy, climate change. If Mirek Topolanek does nothing, Nicolas Sarkozy, who has brought France back to the centre of the game, will take the initiative. A certain number of European leaders have now got used to moving things forward and they will not let a negative spiral set in." The blog piece also notes that "the Elysée Palace is convinced" that Britain will join the euro "one day soon."²⁵

According to the *Prague Daily Monitor*, "Bruno Le Maire, France's new state secretary for European affairs, has made it clear that Paris does not want to let things run uncontrolled. France is definitely interested in Prague consulting its steps in all crucial issues, he said."²⁶

In a clear challenge to the legitimacy of the Czech EU Presidency, French President Nicolas Sarkozy said he would refuse to be present at the ceremony in Prague when the EU Presidency was handed over to the Czech Republic.²⁷

3) Ireland's second referendum on the Lisbon Treaty

Background

At the European Summit held on 11-12 December, EU governments agreed to the aim of bringing the Lisbon Treaty into force by the end of 2009.

A deal was struck between Ireland and the rest of the member states in which Ireland will receive 'guarantees' on abortion, tax, neutrality and the size of the European Commission in return for holding a second referendum.

The Irish government is committed to "seeking ratification" of the Treaty by the end of the current Commission's term²⁸ – in other words a second referendum will be held before 1 November 2009.

The other member states agreed to provide Ireland with the "necessary legal guarantees". These 'guarantees' will specify that Lisbon does not increase the EU's competences in taxation; that it will not "prejudice the security and defence policy of member states, including Ireland's traditional policy of neutrality"; that it will not affect the

²⁴ See: <http://openeuropeblog.blogspot.com/2008/10/sarko-puts-in-for-overtime.html>

²⁵ See: <http://bruxelles.blogs.liberation.fr/coulisses/2008/12/lavenir-de-leur.html#more>

²⁶ See: <http://praguemonitor.com/2008/12/22/france-watches-upcoming-czech-eu-presidency-apprehensions>

²⁷ See: <http://www.openeurope.org.uk/media-centre/summary.aspx?id=750>

²⁸ European Council, "Brussels European Council 11 and 12 December presidency conclusions", (12.12.08), p.3; http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/104692.pdf

Irish constitution's provisions on the right to life; and that the Commission "shall continue to include one national from each member state"²⁹.

Speaking after the December summit Irish Prime Minister Brian Cowen said that "On the basis of today's agreement...I am prepared to go back to the Irish people next year."³⁰

Turning 'political commitments' into legal guarantees

The exact legal nature of the 'guarantees' offered to Ireland in December is uncertain and is likely to be the major focus of debate in the coming months. The other member states are treading a delicate balance between trying to convince the Irish people that the Treaty has been altered to reflect their concerns, while avoiding any actual changes which would require the Treaty to be re-ratified across the EU.

French President Nicolas Sarkozy summed up the issue when he said, "The problem is the legal form of those political commitments...What we now need is not re-ratification by all countries — we have no interest in solving one problem to create 26 others."³¹

Gordon Brown and Nicolas Sarkozy have already called on the services of Jean-Claude Piris, the French director general of the Council of the EU's legal service, to square the circle and find a solution. He is credited for finding a "solution" to the Danish no vote and effectively having written the Treaties of Maastricht, Amsterdam and Nice.³²

The problem is that to make any guarantees legally binding a simple declaration from EU leaders is not enough³³. They either have to be written into the main EU treaties or added as protocols. In both cases this requires ratification from all EU member states. In The case of Lisbon re-ratification is something many politicians around Europe, particularly Gordon Brown, are keen to avoid.

Above and beyond the domestic aggravation of re-ratification, many EU leaders fear the possibility of a Conservative UK Government coming into office before the Treaty is passed. Shadow Foreign Secretary William Hague has already said that "If the Lisbon treaty is unratified and on the table at the point we take office then, of course, we would hold a referendum."³⁴

The solution mooted by Sarkozy is to incorporate Ireland's guarantees within Croatia's Accession Treaty, which is expected to come into force in 2011 or 2012³⁵.

This means that Irish voters will be asked to vote on exactly the same Treaty they rejected earlier this year, in the hope that EU leaders will make good on their political promises. The only concrete guarantee that Brian Cowen will have secured by the time he is supposed to go back to the Irish people will be the "satisfactory completion of the

²⁹ See: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/104692.pdf

³⁰ Irish Times, "Cowen confirms new Lisbon referendum after EU deal", (12.12.08).

³¹ Irish Times, "Sarkozy praises 'courageous' Irish over Lisbon Treaty vote", (16.12.08).

³² Bruno Waterfield *Daily Telegraph's* Blog, "Cometh the EU hour, cometh the eurocrat", (11.12.08)

³³ Tony Barber's *FT* Brussels blog, "Is it sneaky to sneak a treaty through a Croatian back door", (12.12.08).

³⁴ Telegraph, "Conservatives could hold Lisbon Treaty referendum after ratification", (28.09.08).

³⁵ EUobserver, "Second Irish referendum linked to Croatian EU accession", (12.12.08).

detailed follow-on work” on the Irish ‘guarantees’ and the “*presumption* of their satisfactory implementation”³⁶.

Furthermore, if the guarantees are to be made legal via a Croatian Accession Treaty, it is not clear that this will be plain sailing either. Slovenia has already hinted that it may block Croatian accession talks due to a long-running border dispute³⁷ and the latest survey results suggest that only 30 per cent of Croatians view membership of the EU as a good thing³⁸.

4) The European elections

The elections to the European Parliament will take place from 4 to 7 June 2009.

Declan Ganley, Chairman of Irish based anti-Lisbon group, Libertas, has launched the organisation as a pan-European party to compete in the elections. His aim is to turn the European elections into a proxy referendum on the Lisbon Treaty. At the launch of Libertas’ new offices in Brussels, Ganley said “This is the only chance for a referendum...you may never have that opportunity again”³⁹.

Libertas is hoping to raise €75m for the campaign and to run enough candidates to have a mathematical chance of securing a majority in the European Parliament. Ganley has said that Libertas will field up to 400 candidates, focusing particularly on the big countries. He told journalists that “We would need to be running candidates in most constituencies across the EU and there isn’t any big country that we could miss. Germany, France, Poland Italy, Spain, the UK, Romania: it really is important that we field candidates in all of those countries because they have got really large numbers of seats”⁴⁰.

Ganley was unable to name any potential candidates at Libertas’ launch but a party manifesto and list of candidates is expected in the New Year⁴¹.

In the UK, local elections will be held on the same day as the European elections, increasing the chances of it becoming a second-order national election. However, the Conservatives may well use the elections to demand a referendum on Lisbon. In September, David Cameron told the *BBC* that “We have elections for the European Parliament next year; we’ll be campaigning very hard for that referendum”⁴².

5) The Swedish EU Presidency

According to a paper by the Swedish Institute for European Policy Studies, priorities for Sweden during its EU Presidency from 1 July 2009 are enlargement, climate change, migration and asylum, the Baltic Sea Strategy and the Eastern Partnership.⁴³

³⁶ See: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/104692.pdf emphasis added.

³⁷ EUobserver, “Slovenia to block Croatian accession talks”, (18.12.08).

³⁸ Eurobarometer 69, November 2008.

³⁹ Irish Times, “Ganley wants to run in all EU states”, (12.12.08).

⁴⁰ Times, “Libertas to seek a Euro majority”, (13.12.08).

⁴¹ Libertas press release, “Libertas launches pan-European campaign for 2009 parliament elections”, (11.12.08).

⁴² BBC’s Andrew Marr Show, (28.09.08).

⁴³ See: http://www.sieps.se/epa/2008a/EPA_14_2008.pdf

EU leaders plan to get the Lisbon Treaty ratified by all member states by 1 January 2010. As Croatia's accession to the EU has been linked to Lisbon, this could make Croatian accession even more a priority for Sweden than for the Czech Republic. Until now negotiations have not run smoothly, so concluding accession talks by the end of December 2009 (and effectively accessing the EU in 2010) might look a bit ambitious.⁴⁴ As the second Irish referendum is likely to take place in autumn 2009, this will also be of huge importance for the Swedes.

Budget talks with another round of fighting to reform the Common Agricultural Policy will more than likely not be finalised under the Czech Presidency and a decision on which economic sectors are going to receive special exemptions under the Emissions Trading Scheme will have to be decided in autumn as well. A particular concern will be the political hopes for finalising a successor to the Kyoto Protocol in December 2009.⁴⁵

Ongoing repercussions from the suffering economy and its implications for the common market and the euro are also likely to dominate the Swedish EU Presidency.

6) Will the Euro come under pressure?

As has been said by many, a monetary union cannot survive without a political union to sustain it. In recent years, interest rates have been kept too low⁴⁶ for booming economies such as Spain or Ireland, in an effort to support one particular member state, notably Germany, where politicians wanted low interest rates and have used the influence of the Bundesbank in the European Central Bank (ECB) to achieve this goal⁴⁷. Spain's experience illustrates the impact of joining a monetary zone without having any real influence on how interest rates are being set.

Moving money around through government transfers might help to compensate for imbalances although a real economic integrated area is of course more desirable. However the eurozone has neither, in contrast with the United States. Will mayhem follow in 2009?

In their yearly "10 Outrageous Claims for 2009"⁴⁸, Saxo Bank has at least three of them reserved for troubles with the Euro. While noting that they form part of a list of "less likely scenarios", they are nevertheless interesting to bear in mind.

One of them mentions a drop of the value of the Euro to the Dollar (only temporary, as they foresee an even gloomier prospect for the Dollar), as a consequence of not only underestimated problems with European banks but also "increasing intra-European economic tensions as witnessed by the spread between German government bonds (Bunds) and bonds issued by other European governments."

⁴⁴ See: <http://blogs.ft.com/brusselsblog/2008/12/2009-shapes-up-as-a-weary-dreary-year-for-eu-enlargement/>

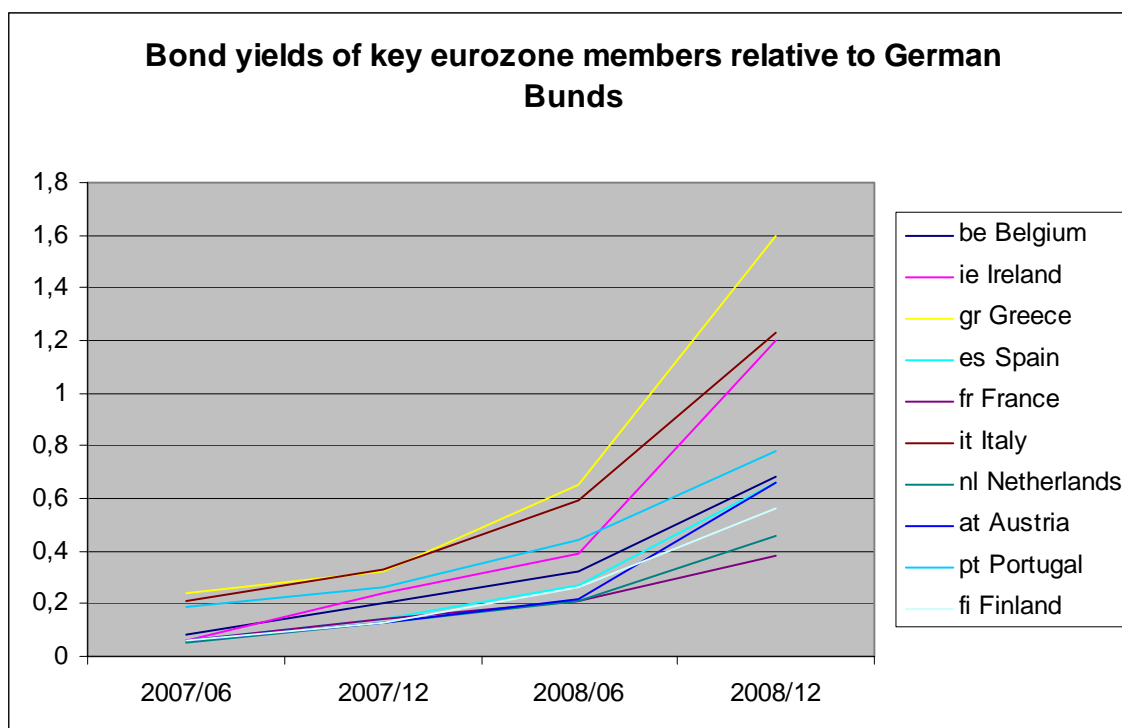
⁴⁵ See: <http://www.carbon-financeonline.com/index.cfm?section=features&action=view&id=11760>

⁴⁶ See: <http://www.iht.com/articles/2008/05/01/business/euro.php?page=2>

⁴⁷ See: http://blogs.telegraph.co.uk/ambrose_evans-pritchard/blog/2008/12/16/european_central_bank_rebels_defy_the_bundesbank

⁴⁸ See: <http://www2.saxobank.com/en/market-news-and-analysis/Pages/economic-predictions-2009.aspx>

Indeed the graph below showing how European Eurozone economies differ looks worse by the day:⁴⁹



This means in practice it will become more difficult for the ECB to achieve an optimal interest rate policy for the whole Eurozone. That brings us to the second “outrageous” but possible prediction by Saxo Bank, which is that Italy will leave the Eurozone in 2009, as it has a “long-running affection for devaluations, something which is not possible within the single-currency cooperation of the European Exchange Rate Mechanism (ERM)”. In the past, Italian exporters were all too effective in convincing the government to devalue the Lira (to the expense of Italian consumers). Saxo writes that “government finances are under immense pressure and the ERM requirements will not only be violated, but they will be completely ignored in 2009”.

Recent comments by Italy’s Welfare Minister Maurizio Sacconi have sparked the debate. Sacconi said: “There is something worse than recession, and that’s state bankruptcy: an improbable, but nevertheless possible, hypothesis.” Although Italy’s Finance Minister Giulio Tremonti immediately denied that there was any danger of default, on the same day he himself had to confirm that the risks had grown. Reporting on the incident, *The Economist* noted⁵⁰ that Italy’s public finances are no longer in the parlous state they were in a few years ago, but points to the great current uncertainty on how deep the crisis will be, which will gravely affect Italy’s budgetary situation.

A last Euro-related “outrageous claim for 2009” is that several of the Eastern European currencies currently pegged or semi-pegged to the Euro will come under increasing pressure due to capital outflows in 2009, especially pointing to the Baltic currencies.

⁴⁹ Source: *Financial Times*

⁵⁰ See: http://www.economist.com/world/europe/displaystory.cfm?story_id=12780815

Troubles were already underway in 2008. More than €7.1 billion has already been spent by international lenders, the EU and the IMF to assist suffering Latvia, whose currency is being pegged to the Euro. While the IMF – and undoubtedly the EU – won't argue for dropping the currency peg, prominent economist Edward Hughes builds⁵¹ a case for doing away with it, and allowing Latvia to devalue its currency in order to recover through exporting. Hughes mentions that "currency policy has become almost a matter of national strategic importance in Latvia", underlining how the EU pushes political considerations (eurozone membership as a step towards a Europe-wide economic government) ahead of economic ones (the need for Latvia to devalue).

Other countries have pegged their currency with the Euro – for example Bulgaria, which is also struggling to keep its peg, depriving the country of using devaluations as a response to the crisis.⁵²

7) Will protectionism rise?

Protectionism in Europe

With the global financial crisis this year and the recession hitting the Eurozone, North America and all major trading partners, there have been increased rumblings about the potential for a rise in protectionism.⁵³ Politicians have been rallying against it, before it even takes hold, in a bid to stave off the inevitable calls to protect jobs. However, despite commitments from the G20 in November to make no protectionist moves for 12 months, 5 members have since announced their intention to raise tariffs or otherwise restrict trade.⁵⁴

In his *FT* column, Gideon Rachman recently raised the possibility that increased protectionism in China would almost certainly have a knock-on effect in the EU, which could affect the appointment of a new Commission in 2009, especially if France and Italy exert their influence to protect their domestic industries.⁵⁵

With the origins of the credit-crunch in the US sub-prime mortgage crisis, certain politicians could be led to point to globalisation as being a cause of the global recession.

Doha Round

The cancellation of much-hyped plans for a WTO mini-ministerial in December 2008 signals a reduced appetite for further negotiations on the Doha round. Ostensibly it was easy to argue that there was not much point in holding negotiations with a lame-duck US administration, but countries' negotiating stances are somewhat entrenched after a 7-year negotiating process. WTO Director-General Pascal Lamy has been particularly

⁵¹ See: http://www.rgemonitor.com/euro-monitor/254854/why_the_imfs_decision_to_agree_a_latvian_bailout_programme_without_devaluation_is_a_mistake

⁵² See: <http://businessneweurope.eu/story1410/SOUTHEAST EUROPE 2009 The higher they rise the harder t hey fall>

⁵³ See: <http://www.telegraph.co.uk/news/worldnews/northamerica/usa/barackobama/3416381/Gordon-Brown-to-warn-Barack-Obama-over-protectionism.html>

⁵⁴ FT, "Fresh blow to trade protectionism battle", (13.12.08)

⁵⁵ See: <http://blogs.ft.com/rachmanblog/> (15.12.08)

keen in the last 6 to 12 months to make progress on the round since his term is due to expire in September 2009, stating that he hopes to conclude the round next year.⁵⁶ While not impossible, this seems unlikely given the financial crisis and the unlikelihood that the new US administration will be focused on trade issues in its first three months.

Current indications on the issues which are bogging down talks are industrial sectoral cuts and the special safeguard mechanism in agriculture negotiations. Draft negotiating texts have been produced on both agricultural and non-agricultural sectors, but no conclusions have yet been reached over modalities. Lamy described the negotiating positions of opposing parties as “not reconcilable” at the present stage.⁵⁷

There is a definite possibility of reaching a deal on the special safeguard mechanism in the next year, more so than the issue of sectoral tariff cuts. Despite agriculture traditionally being an extremely protected sector, the global downturn will inevitably sharpen the focus on manufacturing and the ability of India and Brazil to undercut prices while still maintaining high import tariff levels to protect domestic sectors. The EU and US have become less willing to trade away concessions for anything less than reciprocal moves in non-agricultural sectors by China, India and Brazil.

Another real fear with the Doha round is that countries could refuse to negotiate on any less significant issue unless it is tied to a deal on Doha. On 26 November, the WTO’s highest court again ruled against the EU in the long-running banana dispute case with Latin America and the US. The current rules were introduced in 2006 but the WTO has ruled that they still discriminate against countries including Ecuador.⁵⁸ However, the EU has attempted to tie any move it makes on its banana import regime to a successful conclusion to the Doha round, thereby delaying any change it might have to make and also strengthening its negotiating hand in the agriculture negotiations by appearing to trade its system of preferences away.

However, if serious progress is not made next year, confidence in the round (now the longest ever) will collapse and could be abandoned in the face of rising protectionism, concurrently producing a rise in protectionism.

US trade policy

Any movements on the Doha round will have to reflect US trade policy. The Obama administration’s American envoy on trade issues, the US Trade Representative (TR) was recently rumored to be Xavier Becerra, a Congressman from California, who had stated previously that he regretted voting for the North American Free Trade Agreement.⁵⁹ However, Becerra withdrew his name from circulation and Obama has now named Ron Kirk, former Dallas Mayor, as his new TR.⁶⁰ Initial news reports seem quite keen on his even-handedness and he seems a better choice than Becerra, in terms of his support for trade.

The Democratic Congress will be an impediment to any trade deal, especially since the talks are particularly stalled on sectoral cuts in the non-agricultural talks, with a

⁵⁶ See: http://www.wto.org/english/news_e/news08_e/tnc_dg_stat_17dec08_e.htm

⁵⁷ ICTSD Bridges Weekly Trade News Digest 2:43 (17.12.08) <http://ictsd.net/i/news/bridgesweekly/36562/>

⁵⁸ ICTSD Bridges Weekly Trade News Digest 12:41 (3.12.08) <http://ictsd.net/i/news/bridgesweekly/35126/>

⁵⁹ See: <http://ictsd.net/i/news/bridgesweekly/35920/>

⁶⁰ AFP, “Obama signals major shift in US trade policy”, (22.12.08)

Democratic Congress visibly concerned about jobs which are most at stake if reciprocal cuts in Indian and Chinese tariffs are not achieved.

8) Other issues to look out for

The EU's climate and energy package

The EU has only recently come to an agreement on its climate change package, but there are still some developments which could affect its course in 2009.

Chief among these is the decision on which industries will qualify for special treatment as energy-intensive sectors and may therefore be shielded from the changes to the Emissions Trading Scheme in phase III, beginning in 2013. The details of which industries, and which particular companies, that will benefit from these exemptions are yet to be decided. With so much at stake for heavy industries in the chemicals, steel, and glass sectors, EU governments are likely to come under severe pressure on this issue and the negotiations will be fraught.

The uncertainty this creates has come under criticism from industry groups⁶¹ because it does not allow companies to make difficult long-term capital investment decisions when the EU is still undecided about the specifics of the ETS.

The risk of protectionism cannot be decoupled from climate change plans either, since their impact on heavy industry in Europe may cause carbon leakage, as the sectors move their industries overseas where they are not burdened by such stringent environmental protection plans. Although Germany has not warmed to the notion of state aid plans proposed by other member states thus far in the financial crisis, they may well be forced to step in if industry struggles or begins to consider moving abroad.⁶²

The United Nations is due to hold its Climate Change Conference in Copenhagen from 7-18 December 2009 with a view to producing "an ambitious global climate agreement" for the period from 2012.⁶³

Working Time Directive

In December MEPs voted to end the UK's opt-out from the EU's 48 hour working week, which could see the UK losing the opt-out by 2011. The issue will now go to the so-called 'conciliation' stage, where representatives of the European Parliament and EU member states will try to find a compromise. They have until May to do so or the entire proposal will fall, leaving the British opt-out in place. However, the UK does not have a veto at this stage, making the outcome unpredictable⁶⁴.

Directive on pesticides

⁶¹ See: http://online.wsj.com/article/SB122877483764089259.html?mod=todays_europe_corporate_news (9.12.08)

⁶² See: <http://www.spiegel.de/politik/deutschland/0,1518,594928,00.html> (8.12.08)

⁶³ See: <http://www.cop15.dk/en/>

⁶⁴ See: <http://www.openeurope.org.uk/research/wtdoptout.pdf>

The European Parliament is due to undertake its second reading on the directive in January⁶⁵. The European Parliament has long been pressing for major controls on the use of pesticides. Environmentalists have described the proposed measures as a “landmark”, while the National Farmers’ Union has called them “devastating”. Gordon Brown has voiced concerns that they would damage agriculture and food production without significantly benefiting health or the environment⁶⁶.

Defence procurement

The Commission has proposed a directive that aims to simplify the European defence market. Under the current Nice Treaty, internal market rules are not applied, allowing member states to exclude defence contracts from EU procurement rules. The new rules will introduce a European system of licences which will be uniform and applicable throughout the 27 member states aimed at simplifying and harmonising the rules for transferring military equipment from one country to another⁶⁷. The European Parliament passed the directive on its first reading in December⁶⁸ but the proposals will undergo a second reading and are subject to approval from the Council next year.

Health Directive

As of December 2008, EU Ministers remain divided over the Cross-Border Healthcare Directive regarding patients’ rights to receive treatment in other member states, especially about the scope and implementation of such a Directive, as well as its potential effects on national healthcare systems.⁶⁹ The draft Directive is due to be discussed by ministers at the Employment, Social Affairs, Health and Consumer Affairs Council of 8-9 June 2009, after the European Parliament issues its opinion in the spring.

The Discrimination directive

In July 2008 the European Commission proposed an extension of discrimination law outside the workplace. Two directives stemming from 2000 (which haven’t yet been fully implemented) already ban discrimination inside the workplace, and also outside the workplace where racial and ethnic discrimination is concerned. The new proposal aims to extend the ban on discrimination outside the workplace to age, disability, sexual orientation and religion or belief. The fact that the consultation procedure is applicable means that the legislation has a long way to go, but 2009 will be crucial for it to take shape.

Restrictions on workers from new member states

In April 2009, the second phase of the transitional period for restrictions relating to the free movement of workers in relation to the provision of services will come to an end. Member states will have to decide whether or not they will prolong these restrictions for workers from the new member states.

⁶⁵ See: <http://www.theparliament.com/latestnews/news-article/newsarticle/deputy-backs-calls-for-rethink-of-eu-pesticide-rules/>

⁶⁶ Independent, “Massive crackdown on the use of scores of toxic pesticides”, (21.12.08).

⁶⁷ EUobserver, “European Parliament approves opening of defence market”, (16.12.08).

⁶⁸ See: http://www.europarl.europa.eu/news/expert/infopress_page/054-44605-350-12-51-909-20081216IPR44603-15-12-2008-2008-false/default_en.htm

⁶⁹ See: <http://www.euractiv.com/en/health/ministers-divided-eu-patient-rights/article-178149> (17.12.08)

Common EU immigration and asylum policy

The Czech Republic will have to implement the final stage of the Hague Programme⁷⁰, stemming from 2004. It will have to answer calls to extend the "Blue Card Initiative" to refugees, beneficiaries of subsidiary protection and asylum seekers that are entitled to work. Agreement on the establishment of a European Asylum Support Office will also be sought.⁷¹

EU enlargement

Croatia is due to join the EU in 2009 if its accession talks proceed smoothly. However, Slovenia has been moving to prevent the opening of new chapters in the accession talks over a border dispute. At this point, Croatia has only concluded 7 chapters of 35 with 15 still open, and another 13 still to be launched. Finishing all of these within 12 months looks to be a tall order.⁷² 2010 may be more likely for Croatia as it stands. Of course, that would give rise to the question of how the assurances given to Ireland on the Lisbon Treaty would attain legal status.

Turkey's accession process is much less advanced, with only 10 chapters open, and hopes of opening another two during the Czech Republic's EU Presidency.⁷³ However, Turkey has a lot more hurdles to jump through. A political settlement over Cyprus and improvements on human rights and democracy are coming at a far slower pace than the EU would like. There are also indications that some western European states, such as France, are not overly keen on the entire process. 2009 could well offer further insight on whether or not the talks will stall completely or whether the accession process will be embraced wholeheartedly in all corners of the Union. 2009 will be a "litmus test" of a year according to the EU Enlargement Commissioner.⁷⁴

Montenegro has recently filed its membership application and, although membership is unlikely to occur too quickly, a decision from the Commission on whether to grant Montenegro candidate country status is expected during the Czech Presidency.⁷⁵

While Macedonia has been a candidate country since 2005, it has still yet to open the negotiation process, and will probably have to resolve its name dispute with Greece first.

Other countries which could be looking to open up accession talks with the EU in the future are Iceland, Serbia, Albania and Kosovo.

⁷⁰ See: <http://www.mvcr.cz/mvcren/article/agenda-of-the-eu-at-the-ministry-of-the-interior-hague-programme.aspx>

⁷¹ See: <http://www.businessinfo.cz/en/article/czech-eu-presidency/priority-a-secure-and-free-europe/1001745/49826/>

⁷² See: <http://blogs.ft.com/brusselsblog/> (19.12.08)

⁷³ See: <http://blogs.ft.com/brusselsblog/> (19.12.08)

⁷⁴ See: <http://www.iht.com/articles/2008/12/21/europe/union.php> (22.12.08)

⁷⁵ See: <http://euobserver.com/15/27301> (15.12.08)