

Czech Presidency in the Context of Cooperation of the French-Czech-Swedish Trio: Challenges and Opportunities

International Conference organised by the Association for International Affairs
with the support of the Office of the Government of the Czech Republic under auspices
of Štefan Füle, Minister for European Affairs of the Czech Republic

Prague, 24 September 2009

Venue: Liechtenstein Palace



Asociace
pro mezinárodní
otázky
Association
for International
Affairs



Projekt byl podpořen
odborem informování
o evropských záležitostech
Úřadu vlády
České republiky

Conference Synopsis

On 1 January 2009, the Czech Republic took over the 6-month Presidency of the Council of the European Union. In this demanding time, the Czech Presidency was confronted with both external and internal challenges. Facing tensions in domestic politics, it had to tackle complex issues such as the global economic and financial crisis, an energy dispute between Russia and Ukraine or a crisis in Gaza.

Was the Czech Presidency able to carry out its day-to-day business as well as to lead the European Union in an extremely complicated external environment? What lessons can be learnt from the Czech Presidency?

The goal of this expert conference is to evaluate the performance of the Czech Presidency with a strong focus on the framework of the France - Czech Republic - Sweden Presidency Trio. It was - among others - the Trio which created the context for the work of the Czech Presidency when it comes to political debate as well as e.g. media presentation.

The aim of this conference is to identify particular areas of cooperation and topics, where effective approach among the Trio members was reached as well as those where cooperation was rather limited. Its purpose is to discuss how to ensure that the system of rotating presidencies does not disrupt the continuity of European policies.

The conference comprises four topical blocs concerned with the most vibrant current issues of the European integration strongly related to the period of the Czech Presidency and its three priorities - economy, energy and external relations.

Ivana Jemelková,

Conference Coordinator

Association for International Affairs

Program

9:00 - 9:30

OPENING REMARKS

His Excellency Mr. Štefan Füle, Minister for European Affairs of the Czech Republic (tbc)

His Excellency Mr. Charles Fries, Ambassador of France to the Czech Republic

Her Excellency Ms. Catherine von Heidenstam, Ambassador of Sweden to the Czech Republic

9:30 - 10:45

PANEL I

“Searching for a Common Solution to the Economic Crisis: How to Coordinate the Interests of EU Countries?”

Chair

Charles Grant, Centre for European Reform, Director

Speakers

Jean-François Jamet, Sciences-Po; Economist

Michal Mejstřík, Member of the National Economic Council; Charles University in Prague, Faculty of Social Sciences, Institute of Economic Studies, Director

10:45 - 11:00

COFFEE BREAK

11:00 - 12:15

PANEL II

“Energy: Is the EU Capable of a Common and Coordinated Approach? What are the Possible Ways of Diversification?”

Chair

Jan Žižka, E15 Economic Daily, Deputy Editor in Chief

Speakers

Pavel Šolc, Ministry of Industry and Trade of the Czech Republic, Advisor to the Minister

Mats Braun, Institute of International Relations in Prague, Researcher

12:15 - 13:30

LUNCH

13:30 - 14:45

PANEL III

“Transatlantic Relations: Euphoria and Disenchantment or Actually New Possibilities of Cooperation?”

Chair

Michael Romancov, Charles University in Prague, Faculty of Social Sciences, Institute of Political Studies

Speakers

Christian Lequesne, Sciences-Po, Centre for International Studies and Research, Director

Alexandr Vondra, Former Minister for European Affairs; Senate of the Parliament of the Czech Republic, Senator

Mike Winnerstig, Swedish Defence Research Agency, Analyst

Mary Thompson-Jones, Embassy of the United States to the Czech Republic, Chargé d’Affaires

14:45 - 15:00

COFFEE BREAK

15:00 - 16:15

PANEL IV

“New Dimensions of Strengthening the European Neighbourhood Policy: Common Interest or Competition?”

Chair

Antonio Missiroli, European Policy Centre, Director of Studies

Speakers

Guillaume Klossa, Europeanova, President - Founder

Jeff Lovitt, Policy Association for an Open Society, Director

Johanna Popjanevski, Institute for Security and Development Policy, Deputy Director

16:15 - 16:30

CONCLUDING REMARKS

19:00

RECEPTION (by special invitation only)

Venue: Embassy of Sweden, Uvoz 13, Prague 1

Conference Working Language: English

Speakers

Mats Braun, Sweden

Mats Braun, Ph.D. is a research fellow at the Institute of International Relations in Prague. In his research he focuses primarily on the internal dimensions of the EU cooperation, European integration theory, and the impact of Europeanization on Central Europe and Scandinavia. Recently he has published in the journals *Cooperation and Conflict* and *Perspectives* among others. He is the author of the book *Modernisation Unchallenged: the Czech Discourse on European Unity*. In 2007 he was the programme chair of the 6th CEEISA Convention held in Wrocław, Poland.

Charles Grant, United Kingdom

After attending Cambridge and Grenoble universities, Charles Grant became a journalist with *Euromoney*, a financial magazine. He moved to *The Economist* in 1986 where he wrote about the City, the European Union (as Brussels correspondent) and defence. His biography of Jacques Delors (*Delors: Inside the House that Jacques Built*, published by Nicholas Brealey) appeared in 1994. In 1998 Grant left *The Economist* to become the first director of the Centre for European Reform, an independent think-tank that is dedicated to promoting a reform agenda within the European Union. He writes on EU foreign and defence policy, European institutions, transatlantic relations, Russia and China. His most recent CER publication is 'Is Europe doomed to fail as a power?', published in July 2008. He writes regularly for the *Financial Times*.

Jean François Jamet, France

Jean François Jamet is an economist. A graduate from *École Normale Supérieure* (Paris School of Economics), Harvard University and Sciences-Po, he is a Corps des Mines engineer. A specialist of the European economy, he was a consultant to the World Bank in 2007-2008. He is the author of several policy papers published by the Robert Schuman Foundation and the Aspen Institute, as well as academic articles and contributions to books on the European Union. He is currently teaching the political economy of the European Union at Sciences-Po in Paris.

Guillaume Klossa, France

Guillaume Klossa is founding president of EuropaNova. He was special adviser to Jean-Pierre Jouyet, minister of European Affairs during the French presidency of the Council of the European Union. He founded „Les Etats Generaux de l'Europe“ in partnership with Notre Europe, Jacques Delors' association and the European Mouvement and prepares the third edition of „Etats Generaux“ which takes place next year in Strasbourg for the 60th anniversary of Schuman declaration. He works on a project of an European leadership programme for Young opinion formers. He teaches European Affairs at Ecole Nationale d'Administration, Strasbourg.

Christian Lequesne, France

Christian Lequesne holds degrees from the Institut d'Etudes Politiques de Strasbourg, the College of Europe, Bruges and a Ph.D. in political science. Assistant, Department of Political and Administrative Studies of the College of Europe (1986-1988). Research fellow at CERI since 1988 and deputy director of the center between 2000 and 2003. Director of the Centre français de recherche en sciences sociales (CEFRES) in Prague from 2004 to 2006. LSE-Science Po Alliance Professor at the European Institute of the London School of Economics and Political Science from 2006 to 2008. Appointed director of CERI on 1.1.2009. Member of the Board of Directors of Sciences Po. Member of the editorial boards or scientific councils of *Critique internationale*, *Politique européenne*, the *Journal of European Integration* and regular columnist (*European policies*) for *Ouest France*. Was awarded the F. Palacky social sciences medal by the Czech Academy of Sciences.

Jeff Lovitt, United Kingdom

Jeff Lovitt is the Executive Director of the PASOS, a network of 39 independent think-tanks spanning 24 countries in Central and Eastern Europe and Central Asia. In 2007-2008, he co-edited “The Challenge of European Development Co-operation Policy for New Member States”, a PASOS report for the European Parliament, and Democracy’s New Champion and the “European Democracy Assistance after EU Enlargement”, a PASOS study into the democracy assistance policies of the Visegrad Four countries. From 2000-2005, he was the Director of Communications at the international secretariat of the Transparency International. In 1999-2000, as an editor and media consultant, his clients included Commerzbank and Forum 2000, the foundation of Vaclav Havel. In 1987-1995, he was an editor and journalist in London for The European and the Sunday Times. He has also reported for the Financial Times, and been an op-ed contributor for the International Herald Tribune.

Michal Mejstřík, Czech Republic

Profesor Michal Mejstřík graduated in econometry from the University of Economics (VŠE) in Prague and gained his title of candidate of economic sciences (CSc.) for his academic research in the field of project evaluation. He finished his advanced studies at the London School of Economics thanks to the T.G. Masaryk Fellowship. Since 1997 he has been a professor of economy at the Charles University in Prague, where he teaches finance and banking. Since 1993 he has been building a leading Czech university institution – the Institute of Economic Studies at the Faculty of Social Sciences of Charles University. He has published over 150 expert publications, which are often cited mainly abroad. In the last 18 years he has repeatedly worked as an external consultant of international organizations (USAID, World Bank, European Commission in CEE as well as Asia), the Czech government and a number of corporations.

Antonio Missiroli, Italy

Antonio Missiroli is the Director of Studies at Brussels’ pre-eminent think-tank, the European Policy Centre. He holds a PhD in Contemporary History from the Scuola Normale Superiore (Pisa) and a Masters in International Public Policy from the School of Advanced International Studies, John Hopkins University in Bologna. He is also a professional journalist who contributes to newspapers and periodicals across Europe and is well known in European policy circles as a respected and influential commentator on EU affairs. His publications include papers and books on CFSP, ESDP, EU institutional matters, Scandinavia, political opposition, Central Europe and Italian foreign policy.

Johanna Popjanevski, Sweden

Johanna Popjanevski is Deputy Director of the Central Asia-Caucasus Institute & Silk Road Studies Program, a Joint Research and Policy Center affiliated with Johns Hopkins University-SAIS, Washington D.C., and the Stockholm-based Institute for Security and Development Policy (ISDP). Her specialization is in development and security issues in the South Caucasus region, primarily in Georgia. In 2005-6, she was a visiting researcher at the Georgian Foundation for Strategic and International Studies in Tbilisi. Ms. Popjanevski holds an LL.M. degree from Lund University, specialized in Public International Law. She is the author and co-author of several publications on South Caucasus affairs, including the recently released book „The Guns of August 2008“ (M.E. Sharpe).

Michael Romancov, Czech Republic

Michael Romancov graduated in political science from the Faculty of Social Sciences of Charles University. Currently he teaches at the Metropolitan University Prague and Faculty of Social Sciences of his alma mater. He specializes in political geography, geopolitics and Russia and is a member of the body of editors of International Politics, a monthly journal and Central European Journal of International and Security Studies (CEJISS).

Mary Thompson-Jones, USA

Mary Thompson-Jones arrived in Prague in August 2007 and has served as Charge d'Affaires ad interim at the US Embassy since January of this year. Following her education at California State University and the Fletcher School and before joining the Foreign Service, she spent eight years as a journalist, primarily as an editorial writer. Her Washington D.C. assignments include work as Senior Press Officer in the Bureau of European Affairs and as Deputy Policy Coordinator for the Bureau of Western Hemisphere Affairs. She has also served in Spain, Canada, Guatemala, and Bosnia and Herzegovina. She has been awarded three Meritorious Honor Awards for her overseas work.

Alexandr Vondra, Czech Republic

Alexandr Vondra graduated from Charles University in Prague and earned a Doctor of Natural Sciences (RNDr.) in 1985. From the mid-1980s, he participated in the activities of Czechoslovakia's democratic opposition. From 1990-1992, Mr Vondra served as Foreign Policy Adviser to President Vaclav Havel. From 1992-1997, he served as the First Deputy Minister of Foreign Affairs of the Czech Republic. From 1997 until 2001, Alexandr Vondra served as the Czech Ambassador to the United States. From 2001 till 2003, he served as the Czech Government Commissioner to the Prague Summit. From January until July 2003, Mr Vondra served as the Deputy Minister of Foreign Affairs. On January 9th 2007, Alexandr Vondra was appointed as the Deputy Prime Minister for European Affairs of the Czech Republic. Alexandr Vondra has received numerous awards such as the NATO Meritorious Service Medal from the Secretary General of NATO.

Mike Winnerstig, Sweden

Dr. Mike Winnerstig is a deputy research director at the Swedish Defence Research Agency, primarily working in the fields of transatlantic relations, U.S. foreign and defence policy, NATO, the EU/ESDP and Nordic-Baltic security issues. He has published two monographies and numerous reports and articles on these topics. He has also been working as a researcher and teacher at Stockholm University, Sweden (1992-2000) and at the Swedish Institute of International Affairs (1993-1997). He has earned fellowships at Harvard University, USA (1997-98), Stiftung Wissenschaft und Politik, Germany (1995) and Aberdeen University, Scotland (1994).

Jan Žižka, Czech Republic

Jan Žižka has been the deputy editor in chief of E15 – Economic Daily, an economic and business daily published in Prague, since 2008. From 2000 until 2008 he worked for EURO, a weekly business magazine printed in Prague as a reporter and commentator responsible for world economy, European Union and foreign affairs. Before that he was a project manager with AISA, a market research agency. In the years 1991 to 1998 he was a reporter of several reputable Czech daily newspapers such as Hospodářské noviny, Mladá fronta Dnes or Právo specializing in international relations, world economy and politics.

Conference Papers

Views expressed in these article are solely those of the authors and do not necessarily correspond with those of the Association for International Affairs.

European Union Response to Financial and Economic Crises

Tomáš Búry

1 Introduction

The financial crisis, once regarded as a purely American problem, has spread with unprecedented strength to all countries and the EU has been no exemption. Some of the so called new member states have been particularly hard hit. Despite recent optimistic signs of recovery across the world, namely in Germany, France or Japan, economists still remain cautious concerning further economic outlook. The risk of a downward spiral of negative economic growth is considerable. The financial crisis, damaged markets' confidence and credit crunch have led to the deepest recession since the Great depression in the thirties. What is very frightening today is the negative feedback from rising unemployment, falling asset prices and increasing number of bankruptcy files to the soundness of financial institutions, mainly banks. The increasing level of defaults in consumer and corporate lending has a negative impact on balance sheets of all banks, which could result in further cuts in providing capital to companies and individuals that would eventually lead to further deterioration in the already bad economic conditions.

In order to address these problems governments across the EU push radical monetary and fiscal policies. The purpose of the article is to describe and compare national plans and analyze the role of the EU in pursuing economic recovery. Furthermore I would like to outline the development of EU financial market regulation and comment on the proposals for a future market supervision that should eliminate the risk of such a terrific crisis in next decades.

2 EU's Response to Current Financial and Economic Challenges

The impact of the crisis on EU countries is quite uneven. In some countries such as Great Britain financial industry constitutes a significant part of GDP. They had also experienced a pre-crisis housing boom, which resulted in serious problems with financial institutions. Other countries, e.g. Germany have been very pro-export oriented and have problems with high representation of pro-cyclical industries such as car manufactures. The size of the economy and its openness are also very important factors. However the key distinction made by the market and investors is between advanced and emerging economies.¹ Reallocation of international portfolios has caused severe problems due to the lack of capital available for both private and public sector in emerging economies.

In conclusion, it is clear that in spite of the high integration of the EU single market, member states tend to have different challenges and economic conditions. That is why they have diverse policies available and suitable.²

¹ There are significant differences among the new EU member states. On one side, there is the Czech Republic with a low deficit of public finances and no current account problems, or Slovakia entering the euro zone, on the other Hungary with sizeable problems with consumer and public debt or Latvia and Lithuania having problems with the stability of their currency. Although the situation among the new member states differs considerably, markets seem not to reflect it. For instance, when Moody's (a financial agency) degraded the rating of banks in central European region, stock prices of sound Czech banks fell as sharply as Hungarian ones did. Another issue is the distinction between euro zone and non-euro zone. Hungary having better macroeconomic data than Greece has been hit harder by lack of confidence at the markets resulting into higher spreads in government bonds. In: IMF report (May 2009)

² IMF report (May 2009): Scope for fiscal stimulus in emerging countries is very limited, rather fiscal consolidation is needed.

2.1 Addressing Problems in Financial Markets

At the beginning of transmission of problems in financial market, central banks were key players regarding the provision of liquidity to the markets. Monetary policy among EU central banks has been coordinated quite well. European Central Bank as well as Bank of England and others have decreased key interest rate for operational re-financing very radically. However, the timing was weak, since the crisis spread very quickly and problems with solvency appeared immediately.³

At this point, governments stepped in to intervene into the markets. Several banks had serious problems to repay their customers; the others seemed to be undercapitalized. These issues could not be resolved by central banking, which resulted in questions being asked about the real powers of EU institutions.⁴ National bail-out plans were put into place and approved by the European Commission ex-post after the so called G4 meeting (Germany, France, UK, Italy), where Germany refused a proposed plan concerning the creation of a common EU fund which would rescue banks with solvency problems within EU's borders. Even though ECOFIN had accepted a road map setting principles for cross-border financial crisis management, the non-binding nature of guidelines put in risk the European idea of single market which was threatened by national interests. "...It is certain that the national governments will exploit any possible means to help their enterprises. It may be a disguised return to national protectionism. If such violations become systematic, the principle of the single market will be put in question."⁵ In this regard it is noteworthy to state that the UK even used an anti-terrorism law to stop a transfer of capital from the UK to Iceland, which has stirred controversy concerning the powers of national states in relation to bank regulation and prevention of offsetting losses of multinational companies in one country by withdrawing deposits from the other.⁶

2.1.1 The Case of Deposit Guarantees

Following actual and possible runs on some banks, the governments wanted to improve market confidence in their banks. Despite negotiations at ECOFIN level, some jurisdictions led by Germany unilaterally bound themselves to unlimited guarantees of deposits, thus effectively pressured other states (even those without any problems with banks, e.g. the Czech Republic) to similar action. "*When state backing became more important, the resources and credit ratings of governments became a major factor in determining the soundness of banks. Thus, locally owned banks in smaller (or poorer) EU countries were put at a significant disadvantage, and, while these measures helped stabilize some banks, others suffered.*"⁷ The final legislation adopted by the European parliament raised minimum guarantee for deposits to 50 000 Euro with further increase to 100 000 Euro until the end of 2009.

The case of deposit guarantees was a suitable example of EU's coordination of policies. Had those been coordinated, markets would have much more confidence than following a string of national governments' chaotic reactions. Moreover, the single European market is so integrated that unilateral state support of corporations has a substantial potential to cause serious distortions in financial transactions and consequently in trade. As a result of the uncoordinated approach, the guarantees are larger than equilibrium, which adds other fiscal risks not only for emerging countries (the overall guarantees for banks amount to hundreds of billions Euro or more).

3 Due to this ECB was strongly criticized for its monetary policy, because it increased the interest rate to 4,25% having concerns about inflationary pressures (in comparison the current interest rate is 1%). This raised questions about the efficiency of ECB's monetary policy and its forecasting ability. In the quoted study the IMF (page 11) analyzed whether the decisions of ECB during financial crisis are taken into account by the markets. Using bivariate vector auto regression models, the study concludes: "*To summarize, while interest rate transmission is clearly not insulated from the financial turmoil, ECB policy rate changes are still transmitted to market rates. Second, while there are also signs that the credit channel has been affected by the crisis, it remains functional. Third, owing to the ECB's credibility, inflation expectations, which play an important role for monetary policy transmission, remain anchored.*"

4 In comparison: "*One of the reasons why Europe disappeared from the scene is the non-existence of a "European Treasury". Although central banks played a dominant role in the first phase of the crisis, treasuries became the leading actors in the second. As banks had to be recapitalized, or interbank lending markets guaranteed, national treasuries had to step in.*" In: LANOO(2008) p.15-16

5 GUIDO (2009) p.48

6 NANTO et.al.(2009) p.60

Notice: Iceland is not a member of the EU; however it participates in the European Economic Area. Its government has recently officially applied for EU membership in order to safeguard its economy through the crisis.

7 IMF report (May 2009) p.22

2.2 Policies against Economic Slowdown

As I have already mentioned, EU members have faced different challenges in their economies, however, the European Commission and national governments were very well aware of the danger of negative spillovers after the case of guarantees. That is why they were communicating actively in an effort to make a European deal to respond effectively to the crisis. During the EU summit organized by the French presidency, European economic recovery plan was finalized and accepted.

2.2.1 Common EU Response

The European economic recovery plan consists of an increased financing investment by the European Investment Bank, improving an existing framework to facilitate full-scale utilization of EU resources and mainly coordinated fiscal stimulus. Stimulus should amount to 1, 5% EU GDP, which is approximately 200 billion Euro. € 30 bn should flow from EU budget and the rest from member states' treasuries.

The fact that member states are not legally obliged to spend a certain amount might prove to be a crucial problem. *"Free-rider behaviors will be encouraged on the part of some governments that, without formulating any national plan, expect to reap the benefits – given the high level of integration of European economies – deriving from incentives to aggregate demand in other countries."*⁸ Another issue is the price of capital for emerging countries or countries in trouble and their ability to attract it. Should it have been financed through EU bonds, the spread paid by less favorable countries (from investor's point of view) would be eliminated.

Suppose that these problems will not occur then the benefits of a coordinated action are enormous. According to an IMF study it will amount between 0,1 and 0,4% GDP, which could improve fiscal stimulus impact on the EU economy up to one third as a result of strong trade effects on highly integrated market.⁹ For a more coordinated and integrated EU recovery approach speaks also a potential threat of protectionism arising out of national stimulus plans.

2.2.1.1 Threat of Protectionism

It is very natural for governments to stabilize economy by spending national money on national projects. Electorate does not accept favorably when taxpayers' money helps other countries and do not listen to theoretical economic arguments. Protectionist measures would of course undermine the single EU market idea, literally destroy recovery efforts of small (and open) economies and cause apparent inefficiency in investments. It was very important that at that time the Czech Republic was presiding over the EU, as a country which is largely dependent on export and trade not only inside the euro zone. Czech presidency actively took part in London G20 summit, where protectionism was strongly refused. Furthermore it clearly demonstrated the support of further negotiations of WTO Doha round, which would have strengthened liberalization and limited the trade barriers mainly between developing and developed countries. In the time of a decreasing level of global trade, the conclusion of Doha round would provide a significant incentive for world trade. This is currently important especially for EU economies because of the potential for domestic exporters.¹⁰ Since the developing countries still record positive growth, markets in China, India, and Brazil etc. would provide a good opportunity for high quality EU producers.

2.2.2 Anti-crisis Measures in National Plans

As I have already argued, member states have various problems, which resulted in preference to push and enforce anti-crisis policies mainly on national level. There is hardly any EU country not intervening into market. However, governments differ in their approaches. Rightist politics usually concentrate on businesses and supply side of economy, whereas the left part of the political spectrum pays attention to the unemployed people, social programs and demand support. The plans vary also in relation to financial capacity.

8 GUIDO (2009) p.51

9 IMF report (May 2009) p.34

10 ASMUSSEN (2009), p.200

2.2.2.1 Fiscal Stimulus

According to many experts, the current economic recession calls for Keynesian policies¹¹, i.e. an increased spending on public projects as a measure to support the aggregate demand. Accelerated infrastructure investments and expenditure on long term projects such as green technology is desirable and is a part of plan in every jurisdiction with fiscal maneuver. According to IMF public investment is the most effective way in order to support demand, while tax cuts increasing disposable income may be transmitted into consumer spending only under certain conditions.¹² The case of cuts in VAT in Britain seems to confirm this conclusion.

We can see very diverse approaches and measures in stimulus packages across Europe ranging from corporate tax cuts through training of unemployed people to strengthening of credit lines for exporters (clearly protectionist measure used by almost all states). Economists like the systematic way in dealing with crisis, thus reducing social contributions paid by companies as improvement of supply side in all areas of economy or making labor market flexible is usually welcomed. On the contrary specific acts stimulating chosen consumption such as scrap-bonus can be hardly justified. This very popular measure lobbied by key car making industry raised questions about the philosophy of modern growth. To produce only for production purposes and throwing away functional cars is highly unsustainable and is actually against the long term prospects of recovery and against the Lisbon strategy. Another issue is government intervention into market in order to decide what is desirable to produce.

It is very difficult to assess which EU member applied the most effective plan. The criteria could be the difference between generally and specifically oriented measures and between long term investment and current consumption.¹³ Each national plan is a set of better and worse measures tailored to the needs of domestic economy. We can see interesting ideas in German or Spanish stimulus package, but other countries have also undertaken very helpful steps.

2.2.2.2 Fiscal Consolidation

However some EU jurisdictions, mainly credit-constrained¹⁴ emerging countries (e.g. Hungary) have had lack of scope for discretionary stimulus. These countries have pro-cyclical budgetary policy, governments reinforce boost by large expenditures increasing public debt. Increased wealth prospects led to a considerable leveraging of households driven by expansion of foreign owned banks. As a result of an extensive capital inflows and borrowing, high current account deficits and intensive external indebtedness occurred, which combined with a change of mood in financial markets has created serious currency problems. *“Although public debt relative to GDP is considerably lower in most CESEE (central, eastern, and south-eastern Europe - author’s note) countries than in major economies, markets’ tolerance for public debt in emerging and developing countries is much lower.”*¹⁵ Moreover parent banks sitting in EU advanced economies stop the flow of capital to their subsidiaries in emerging countries in order to stabilize its balance sheets. Households heavily indebted in foreign currencies with rapidly decreasing value of domestic income are in serious trouble to repay their debts and mortgages. There is a potential threat that bank losses may go public, which would add pressure on already tight budgets.

Instead of supporting aggregate demand, these countries have to address the issue of credibility. In order to reach this objective, fiscal consolidation is needed. The negative effect of spending cuts and fiscal, pension and other reforms on demand side should be offset by re-starting inflows of capital and better position for long term recovery period after the worst is over.¹⁶

11 DARVAS (2009)

12 IMF report (May 2009) p.31

13 EIJJFINGER (2009) p.6-7

14 „As capital is becoming scarce, the potential for private investment to be crowded out is also an important factor for countries facing external financing constraints“ In: DARVAS (2009) p.29

15 DARVAS (2009) p.3

16 An extremely important factor for the emerging EU countries was also the help of IMF in effort to stabilize domestic currencies. Fiscal consolidation and reforms constitute a part of the adjustments necessary to fulfill financial aid requirements. EU solidarity occurred as loan for e.g. Latvia was financed by several EU countries. Double increase in funds for member countries with problems with current accounts alongside with raised contributions to IMF resources belongs to the major achievements of the Czech presidency.

Fiscal consolidation is vital also for advanced economies that should start to cut deficits and propose changes in budgetary policy immediately after the economies have recovered. One of the main lessons to be drawn from the crisis is the convenience of an unindebted state without major economic imbalances in boom periods to face bad times in global environment.

3 Strengthening of EU Regulation and Supervision of Financial Markets

The current economic crisis has provided a great example of systemic importance of financial markets for modern economies. The collapse of financial institutions and consequently of the whole financial sector has shown significant loopholes in financial regulation and unsuitable supervision across the world. Some regulatory measures even proved to be harmful providing unsound short term incentives. These issues have to be addressed on the international level because of imminence of regulatory arbitrage and huge potential risk of spreading problems caused by lack of regulation in part of the highly integrated international financial market.¹⁷ The Czech presidency played an important role to unite the views of national states in order to present a single strong EU opinion at the London summit and during other negotiations.

In addition to common problems with regulation, the EU faces difficulties due to the inconsistency of legal rules and powers of national and EU supervisors. Some legislative measures have been adopted. Especially capital requirements directive, "Solvency 2" directive focusing on insurance companies or tighter rules for credit agencies, could be very helpful in the future. A high-level Group on financial supervision in the EU consisting of financial experts was set up by the Commission to analyze problems of the current state of regulation and propose changes to the EU supervisory system. Improved regulatory rules supervised by efficient system of coordinated national and EU bodies are crucial for healthy repair and development of the financial market. *"This is not to say that all crises can be prevented in future. This would not be a realistic objective. But what could and should be prevented is the kind of systemic and inter-connected vulnerabilities we have seen and which have carried such contagious effects. To prevent the recurrence of this type of crisis, a number of critical policy changes are called for. These concern the European Union, but also the global system at large."*¹⁸ De Larosière report gained support not only from the Czech presidency but also from the Commission and other key players and thus became the basis for legislative changes which are expected to be proposed and accepted during the Swedish presidency.¹⁹ The report raised several key issues that I would like to describe and analyze in detail.

3.1 Pro-cyclicality of Recent Regulation

Lack of regulation is frequently mentioned as one of the main causes of the financial crises. This is partly true, but the same attention has to be paid to the inefficiency of the actual regulatory standards. Capital requirements based on risk-weighted assets in connection with mark-to-market principle had clearly strengthened the market sell-off. Since the ratings of corporate bonds and other market instruments were often AAA in boom times, the restriction on providing loans was generally relaxed, thus leading banks to enter into riskier transactions than desirable. The same was done with the prices of stocks and derivatives which were overvalued as a result of the housing bubble. When the first problems with mortgage securities occurred and investment banks realized that they had taken excessive risks they started to sell the assets in order to stabilize balances. Consequently the prices of assets fell sharply and ratings went significantly down which resulted in stricter capital requirements for banks balance sheets which finally lead to further sell-off (in order to obtain cash to satisfy prudential rules).

The regulation has actually contributed to the intensity of the financial crisis. In order to address this issue, De Larosière report proposes dynamic anti-cycle provisioning and change of mark-to-market principle for discounted future cash flow pricing.²⁰

17 In comparison de LAROSIÈRE report (2009) p.11 *"Strong international competition among financial centers also contributed to national regulators and supervisors being reluctant to take unilateral action."*

18 de LAROSIÈRE report (2009) p.6

"... The present crisis results from the complex interaction of market failures, global financial and monetary imbalances, inappropriate regulation, weak supervision and poor macro-prudential oversight. It would be simplistic to believe therefore that these problems can be "resolved" just by more regulation. Nevertheless, it remains the case that good regulation is a necessary condition for the preservation of financial stability." P.13

19 Part of the report's outcome has been already included or at least considered in EU legislation e.g. in the directives mentioned above.

20 This method is quite problematic, since it is based on precise estimates of future long term corporate or other profits. To make ex-ante judgment about even general situation in the financial sector in the few years ahead is extremely difficult.

3.2 Lack of Regulation and Underestimation of Systemic Risk

The system of EU supervision based on monitoring of individual firms without taking into account systemic financial and macroeconomic risk failed to protect the stability of the markets. So called micro-prudential supervision did not reflect deteriorating market and economic condition. When the crisis deepened, even banks in relatively good condition had problems with liquidity and solvency issues. That is why the De Larosière report suggests stress-testing as a usual tool for national supervisors and strong cooperation with proposed macro-prudential supervisor – ECB.

The issue of a macro-prudential oversight is related to regulatory loopholes and inconsistencies. Recent regulation applied exclusively or mainly to banking industry, thus underrated a substantial impact of the other institutions such as private-equity funds, hedge funds or insurance companies on financial system. Financial innovation has also brought very complex off-balance securitized instruments and derivatives some of which were incomprehensible even for professional investors. Finally the “issuer pays” model of credit (and not infrequently in the same time consultancy) agencies has been proved really harmful. In order to control the stability of financial system effectively, all parts of financial industry have to be put jointly under scrutiny.

3.3 Inconsistencies in EU and National Supervision

Lack of coordination among national supervisors constrained a potential of an efficient cross-border management of financial crisis and led to competitive distortions. The report proposes establishing three new authorities that will be in charge of financial supervision and systemic risk. The role of ECB as the macro-prudential supervisor should strengthen links between regulatory and monetary policy. Day-to-day micro-supervision would remain in powers of national supervisors allegedly respecting the principle of subsidiarity. With regard to large cross-border institutions host countries may obtain some powers in order to have control over their own financial system. Should the problem between home and host state occur, obligatory mediation process would be organized and possibly resolved by the ECB.

Harmonization of national regulation in case of issues mentioned above should also contribute to the efficiency of EU supervision. On the contrary, the lack of common EU funds, clear rules for bailing out of financial institutions and non-existence of a single strong EU institution with wide-spread powers maintain limits for overseeing the single (highly interconnected) EU financial market.

4 Advantages of Coordinated Anti-crisis Policy and Financial Regulation

The current economic and financial crisis has challenged the idea of a single European market. Financial problems had been transmitted from one jurisdiction to another with unprecedented swiftness through the integrated EU market. Moreover, governments tended to accept protectionist measures which would lead to distortions in the entire EU economy. However, these obstacles have been at least partly overcome by the adoption of EU economic recovery plan during the French presidency and a coordinated anti-protectionist approach on both EU and international levels under the leadership of the Czech presidency. Although EU’s response to the crisis was not ideal and cooperation could have been better, the measures that were taken have resulted in a positive outcome.

In order to eliminate the risk of an extreme financial crisis in the future, several steps to improve regulation of financial markets have been adopted. The lack of and necessity of clear common rules for bail-outs of financial institutions, deposit guarantees and other financial issues has been clearly shown in the current crisis. Further harmonization is inevitable in order to discourage regulatory arbitrage and together with supervisory reform constitutes a major task for the Swedish presidency in the field of economy.

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Presidency Trio Facing Energy Challenges

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1 Introduction

Energy is quickly becoming an important issue of common EU policy. In recent months we have witnessed energy issues testing the political unity of the EU. Since the European Commission published its Green Paper „Towards a European Strategy for the Security of Energy Supply“ in 2000, energy prices have gone through turbulent times in their development and have become more politicized.

Although the EU exercised only limited influence over the energy policies of its members, in the face of increasing concerns regarding Europe’s reliance on external energy resources and growing pressure to address climate change, the need for agreement on foundation of the “Energy Policy for Europe“ increased rapidly.

From 2004 onwards, energy issues became even more important with the accession of new member states. Due to increasing worries about the asymmetric dependence of Eastern Europe on a single supplier, energy security issues began to dominate both internal policy debates and external relations. In response, The “New Energy Policy for Europe”, as agreed in January 2007, outlined how the EU should address the challenges of developing and implementing energy policy at the EU level.

This article will examine the energy security challenges the EU had to face under the EU Presidency of France, the Czech Republic and Sweden. The aim is not only to analyze the state of the EU energy policy, but also to assess the ability of the EU Presidency to play an active role in its implementation. We decided to analyze the January 2009 gas crisis, Nabucco project and climate change policy which were in particular attention during the trio presidency.

2 Gas crisis a wake-up call to EU

At the beginning of 2009, Central Europe experienced the worst natural gas cut-off in a decade. Though it was expected to last a couple of days, the crisis lasted more than three weeks. Consequently, the debate on the security of gas supplies to the EU, which is for one quarter dependent on Russia, was renewed. On 24 December, Russian Gazprom restated its threat to cut supplies to Ukraine on 1 January if Kiev did not address its \$2.2 billion debt for previous supplies. On 30 December 2008, Naftogaz Ukrainy paid \$1.522 billion. However, Gazprom claimed that a fine of \$614 million was still to be paid. Supplies to Europe via Ukraine were expected to continue in spite of the dispute. Even at this stage a deal seemed possible. Putin insisted that Gazprom offered gas to Ukraine in 2009 at \$250 per tcm, up from last year’s price of \$179.50 per tcm, but Ukraine had refused to pay. According to Putin, Ukraine ought to pay around \$380 per tcm for its gas. The low price of \$250 was set by Gazprom as a „humanitarian gesture“. On 1 January, Ukraine proposed \$201 per tcm.²¹

When Russia cut off natural gas supplies to Ukraine on Thursday 1 January 2009, they promised to increase export to the European states. Gazprom, however, toughened its stance on natural gas prices, saying it would sell gas to Ukraine at the European market level of \$418 per tcm in 2009. The initial price of \$250 per tcm was, according to Gazprom, about half the current average price in Europe.

The crisis was somewhat uneventful until 4 January when Gazprom accused Ukraine of stealing about 50 million cubic meters from European supplies and Gazprom storages. The next day, Gazprom cut gas volumes in the pipelines by one fifth, arguing that Ukraine should have replaced the technical gas it had taken. As a consequence, gas volumes were cut by three fifths on 6 January. The following day, gas supplies to the EU from Ukraine were halted.

²¹ Ukraine sets gas offer...

It must be said that the Czech Presidency did not want to be involved directly as a part of the dispute. The incident was regarded as a bilateral dispute between Gazprom and Naftogaz, although wider political consequences were evident. The Presidency reacted after the 4 January, when security of gas supplies to the member states was threatened. According to Russian sources, Ukraine closed its pipeline for gas deliveries from Russian territory but Ukraine claimed that Gazprom had stopped delivering gas without explanations as all pumping stations are in Russia.

The European Commission called both sides to negotiations and suggested sending independent monitors in an attempt to prevent further quarrels about where the gas was flowing. The Commission and the Presidency also agreed on the necessity of wider steps to avert a crisis in the long term, such as transparency of supplies and adopting of crisis mechanism. On 10 January, a delegation led by Czech Prime Minister Mirek Topolánek and Putin reached an agreement. But even at this point the problem was not resolved yet, as Timoshenko appended a handwritten reference to the list of conditions, blaming Russia for the conflict. Russia contested these claims and President Dmitry Medvedev announced that the agreement was „void“. Despite threatening to pull out of negotiations, both sides signed an agreement without any amendments on 12 January. Independent observers were deployed between 11 and 12 January.

On 13 January Gazprom agreed to start test deliveries but no gas flowed through Ukraine. Ukraine insisted they could not transport the deliveries without disrupting its own consumers. Part of the problem was also a reconfiguration of the Ukrainian transit system that transported gas from storage facilities, mostly located in the west, to consumption areas in the south and east. All hopes that the deployment of monitoring mission would allow rapid restoration of gas flows evaporated between 13 and 17 January, as both sides remained stubbornly holding their positions.²²

On 17 January, Russia held an international conference in Moscow where all interested parties met. EU states were represented by the Czech Presidency and the European Commission. The summit failed to resolve the dispute. Negotiations continued bilaterally between Russia and Ukraine and on 19 January both sides announced that they resolved the dispute. All European customers returned to normal levels on 22 January 2009.²³ Although the 2009 agreement brought a new quality into Russia-Ukraine energy relations both sides remained suspicious, which was reflected on the diplomatic level, where occasional disputes over energy issues continue.

The Czech Presidency proved to be a successful mediator, although they were not able to push both sides to act between 13 and 17 January when negotiations were frozen. In this crisis the Presidency had a support of large states like Germany and France, which led to a stronger position towards Russia. Close cooperation with the Commission on the whole issue also paid off. The January crisis was a real test of unity and solidarity in the EU. The most important lesson was that the EU could easily become a hostage in a dispute of third parties. This has become a strong argument for those who support diversification of gas supplies corridors such as Nabucco.

3 Nabucco gets boost

The European Commission in its “Strategic Energy Review of January 2007” affirmed the need for greater independence from Russian energy supplies. To succeed in this effort, the EU is promoting the Fourth Energy Corridor, which should bring energy resources from the Middle East, South Caucasus and the Caspian region to the EU. The key project of the Fourth Corridor is the Nabucco gas pipeline, which apart from the EU member states includes Turkey, Azerbaijan and Turkmenistan, but at current stage excludes Iran.

The EU has been criticized for having wasted time in the past because nobody was in charge of the project. However, there is a new wave of motivation since the Russian-Ukrainian gas dispute in January 2009. During the Czech Presidency we have seen a marked shift towards the implementation of this project, which has lagged behind competing Russia’s Gazprom South Stream project.

²² The Russo-Ukrainian gas dispute... s. 23

²³ The Russo-Ukrainian gas dispute... s. 19

Competition between these projects (Nabucco and Gazprom) appeared even at EU level. On 27 January 2009, when speaking at Nabucco conference in Budapest, the Czech PM considered South Stream a threat to the Nabucco project, while Angela Merkel argued recalling January gas crises and pointing out unreliability of Ukraine as a transit country, rather than Russia as a supply country. This summit gave an important opportunity for all parties to assess the consequences of January gas crisis and to reconsider their political support for the Nabucco project.

On 4 February, the European Commission proposed 250 million Euros²⁴ to help launch the project and the European Investment Bank committed to finance up to 25 percent of the project during the Budapest Summit. These were the first concrete steps in the financial efforts. At the International Energy Conference held in Sofia in April 2009, Turkish president declared the Fourth Energy Corridor among their main objectives. Clearly, officials in Ankara are eager to stress the strategic importance of Turkey, which they believe will boost the prospect of Turkey's admission to the EU. However, the Inter-Governmental Agreement (IGA) which would lay down the political and legal foundation for the Nabucco project seemed to be a major obstacle in reaching an agreement with the EU.²⁵

Apart from the success of the Czech presidency in restoring the Nabucco project to the list of explicitly mentioned items for financial investments and allocation of 1.5 billion Euros to improve gas infrastructure between the member states, the presidency also scheduled an informal energy council, gathering representatives of supply, transit and importing countries. The meeting, officially named the Southern Corridor Summit, took place in Prague on 8 May 2009. Final Prague Declaration signed by some producer and transit countries at the Summit expressed support for the concept of the Southern Corridor. In spite of various problems, the Prague Declaration at the conclusion of the summit may suggest that the legal hurdles were about to be overcome. Declaration also stated that signing an IGA for Nabucco is going to happen in Ankara at the end of June 2009.

Although the signing of IGA had been moved from June to 13 July 2009, the fact that Turkey took active part in negotiations and together with the Commission and the Czech presidency found a way to overcome legal issues heralds a bright future for the implementation of the Nabucco project. Considering the recent development and the fact that the project has been pushed forward, it does appear that the EU member states are beginning to speak more with one voice on energy.

4 The presidency trio leading the European Union towards Copenhagen

Climate change is one of the biggest environmental, social, economic and security challenges of our time and it is happening faster than anyone expected. At the same time, and for its nature, climate change is a very sensitive and delicate topic for policy makers not only in the European Union. It requires global solution and global action on local level. It proves difficult to put climate change mitigation and adaptation theory into practice acceptable for both industrial and developing countries.

The European Union assumes the leadership of climate change mitigation activities and it is the main donor to climate change adaptation funds despite the world financial crisis. It sets the path towards transition to low-carbon economy, green energy, technologies and industry, and green collar jobs. Europe's green future seems to be in the words of European leaders irreversible like the climate change itself. Despite economic obstacles and changing domestic policies, the EU claims no change in its climate strategy. The climate strategy helps to reach the energy security goal as well as the recent energy security problems exposed the need for diversification of energy sources and reduction of fuel dependency.

The EU builds its climate change strategy on the Intergovernmental Panel on Climate Change (IPCC). According to the IPCC it is essential to limit the increase in mean temperature to two degrees Celsius. This means that the industrialized world must reduce its emissions by 25–40 percent by 2020 and by 80–95 percent by 2050 compared with the level in 1990. It is also important to create conditions for the developing countries to reduce emissions by 15–30 percent by 2020 compared to what the situation would be if no measures were taken.²⁶ Those are more than ambitious global emissions cuts.

²⁴ In March 2009, the EU allocated the initial 200 million euros with more to be expected.

²⁵ Turkey's Stalling on Nabucco Hurts...

²⁶ More in the IPCC. Climate change 2007: Synthesis report.

Apart from political declarations what are the actions the EU 27 has taken during the last three EU presidencies of France, the Czech Republic and Sweden? Are we on the fast track to curb the green house gases and to combat climate change?

The EU set an ambitious path in order to reach a complex agreement for a new climatic regime after 2012. So as to follow its climatic objectives the trio presidency prepared its 18-months programme. The trio agreed on the necessity to reach consensus on climate change post-Kyoto policy and particularly on revised directive on EU emission trading system (EU ETS), on distribution of costs related to greenhouse gasses reduction, on promotion of renewable energy, development of carbon capture and storage (CCS) programme or on development of global carbon market.²⁷

Under the French Presidency in December 2008 the Climate action and renewable energy package has been adopted. The package constitutes a core basis for an ambitious European policy to combat climate change and for a transition to an economy using minimum of carbon.²⁸ The package may be simplified as 20-20-20 deal. The EU agreed in this package to reduce its overall emissions to at least 20% below 1990 levels by 2020, and the EU is ready to scale up this reduction to as much as 30% under a new global climate change agreement when other developed countries make comparable efforts. It has also set itself the target of increasing the share of renewables in energy use to 20% and increasing energy efficiency by 20% by 2020.²⁹

The adoption of the climate-energy package can be considered a success and of particularly high political importance. After a fierce debate on how to attain 20-20-20 goals, despite the resistance of the Eastern EU members, Italy or Germany, the EU reached an agreement.

Under the Czech presidency the EU maintained its position as the global leader of climate change crusade. However it is questionable whether it was the Presidency or rather other member states who took the lead in negotiations. The climate-energy package and its proposals were formally adopted by the European Council in April 2009. A consensus was reached on the climate change mitigation and adaptation measures financial architecture and on the main principles for global distribution of the costs of such support, i.e. the ability to pay depending on the economic level and the responsibility for released emissions.

The Swedish Presidency's most important climate objective is to run the EU and, together with other parties, to agree on an international climate agreement at the meeting in Copenhagen in December 2009 so that negotiations of its predecessors are successfully concluded and implementation of the EU's climate change directives is pleadable. Even though the Swedes believe in a "cash on the table" strategy, a question remains whether this strategy is backed with sufficient amount of money in the time of financial crisis. The promised support of the EU to developing countries has been lowered from 13-24 billion Euros to 2-15 billion Euros.³⁰

The EU set wheels in motion to lead the way to a low-carbon future and a post-Kyoto climatic regime. Whether this will lead to a positive output is not yet clear. The EU is advancing in adoption and implementation of climate change mitigation and adaptation measures. After years of bold declarations tangible acts are being adopted. The Copenhagen negotiations will evince either positive or negative future of the EU's climate change actions. It will depend on the ability to balance the needs of both industrial and developing countries and also on the means the world is ready to dedicate to this case.

5 Conclusion

We have seen an interesting development in European energy issues in the past months. We experienced volatile energy markets, conflict directly threatening EU's energy supplies from South Caucasus, another Russian-Ukrainian gas war, remarkable steps forward with Nabucco project, we have seen

27 18-month programme of the Council... s. 15.

28 The six legislative proposals in this package include an amendment of the ETS Directive, a decision on the division of CO2 reduction effort among the Member States, a Framework Directive on renewable energy sources, a Directive on the geological storage of carbon dioxide, a Regulation setting emission performance standards for new passenger cars, and an amendment of the Directive 98/70/EC which specifies fuel quality and introduces a mechanism to monitor and reduce greenhouse gas emissions from the use of road transport fuels. In IEEP. European Parliament Adopts ...

29 EP seals ...

30 Climate change: Commission ...

a compromise reached on the final shape of the Third Energy Package and finally the EU advanced in adoption and implementation of climate change mitigation policy.

The Russia-Ukraine gas crisis shows the European Union needs a long-term energy security strategy and lacks a crisis management mechanism. However, joint action and cooperation of the EU institutions towards the crisis, which we have seen during the trio presidency, highlighted the need for the presidential role.

Common interest on climate change mitigation policy and progress of the Fourth Energy Corridor also showed important steps forward in EU energy policy.

It was a busy time with precipitous development in the EU energy policy in terms of legislation, practice and management. No matter how confusing and inefficient the outcomes and experience of the presidency trio in the field of energy could appear in retrospect, these are important steps towards the implementation of a more ambitious and difficult task the EU will face.

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Transatlantic Relations during the Czech EU Presidency

Jiří Skoupy

1 Introduction

In the words of Mirek Topolánek, Prime Minister of the Czech Republic in charge of the EU-US summit held in Prague in April 2009, the event marked “a symbol of a new level reached in EU-US relations”³¹. Such a bold statement reflects the idea that, after a period characterized by various transatlantic rifts, Europe and the United States have entered a new era in their mutual relationship, full of cooperation and understanding, and facilitated to a great extent by the arrival of a new American administration.

This chapter aims to assess the validity of that statement, i.e. the current state of the EU-US relations. It claims that while there have been tangible improvements in transatlantic relations lately, they might have had more to do with style rather than substance of politics. This is not to say that the United States and the European Union are not well positioned to continue to be strategic partners, it is rather to argue that there are persistent issues in transatlantic relations that will require committed effort for their resolution. To support its claim, this chapter starts by providing an overview of the development of the EU-US relations during the Bush presidency. Next, expectations and realities of the first six months of the Obama administration, overlapping with the Czech presidency of the European Union are contrasted. The chapter concludes by offering possible future scenarios for mutual EU-US cooperation in selected areas.

2 EU and US under President Bush Jr.

President Bush assumed office determined to frame American foreign policy more in sync with a narrow definition of American national interests than his predecessor. As a result, the United States found itself less ready to cooperate with the international community in areas where the benefits for America were not immediately visible. The decisions not to ratify the International Criminal Court’s Rome Statute or the Kyoto Protocol, which came early into President Bush’s first term in office on the grounds that they did not serve American interests, were a clear demonstration of this new approach and elicited resentment on the other side of the Atlantic.³²

The most important event that came to dominate the Bush presidency and with it the transatlantic relations were the attacks of September 11, 2001 and the subsequently launched war on terror. European countries were among the first to express sympathy with the United States in the wake of the attacks on the World Trade Center and Pentagon and to condemn those barbaric acts. The European Union supported firmly the American attack on Afghanistan designed to locate and punish those responsible for the 9/11 atrocities and to deny terrorists a safe haven in the country.

However, further conduct of the war on terror began to alienate European allies when the Bush administration started advocating the necessity to strike against Iraq and its alleged WMD program. The run-up to the war escalated into a full diplomatic crisis when the United States failed to secure the approval for its military campaign in the Middle East of two crucial EU members, France and Germany, who along with numerous other countries, for instance Russia or Canada, called for a resolution of the issue by diplomatic means. Ultimately, the United States proceeded with assembling a “coalition of the willing”, which included some EU countries, such as the United Kingdom, Spain or Poland. As a consequence, American commitment for international institutions weakened further and transatlantic ties soured somewhat, creating a rift that did not manage to fully heal until the departure of Mr. Bush from the White House despite considerable improvement since the Iraq crisis.

31 EU-U.S. Summit Ends on High Note, Chinaview.cn, April 6, 2009, available at WWW: http://news.xinhuanet.com/english/2009-04/06/content_11136539.htm, last accessed Sept 1, 2009.

32 It is important to note that some decisions not to ratify international treaties might not have reflected solely the administration’s conviction about their uselessness. Bearing in mind the constitutional requirement of Senate consent, it can be a highly costly political undertaking to push for a treaty which is likely to be met with hostility in the usually more sovereignty-conscious Senate and American presidents might not therefore be willing to spend precious domestic political capital on affairs that are not of utmost necessity.

Two aspects are crucial for understanding the dynamics of EU-US relations in the beginning of the new millennium. First, European leaders did not tend to share the American interpretation of 9/11 as an event that had an altering impact on the international system. For the United States, the attacks ushered in an era of new challenges and actors in international politics that might require similarly nontraditional responses. What is more, they put emphasis on terrorism and WMD proliferation as a security threat and the United States did not feel it received significant support from the international community or the European Union for its efforts to counter it. Importantly, the United States enjoyed at that point an unprecedented dominance in international affairs, which fostered a belief that any inevitable concessions stemming from multilateral action might be an unnecessarily high price to pay in matters of such high priority.³³ Conversely, a large part of the European community considered means that the United States chose to employ in its campaign ineffective at best, and counterproductive at worst.

Second, it is important to distinguish EU-US relations from transatlantic relations of individual member countries. The enlargement of NATO by post-communist countries, a process in which the United States played a central role and which was followed by the EU enlargement, introduced new perspectives into European politics as the new members did not always share the view of EU15 members on issues ranging from global security to energy security to relations with Russia. And while the Secretary Rumsfeld's speak of "new Europe" and "old Europe" was unfortunate, it remains a fact that some European countries maintained better functioning ties with the United States than others did.

3 President Obama and Continuity in American Foreign Policy

During his presidential campaign, candidate Obama called for an increased effort to improve America's ties with Europe. His talk of the need for more cooperation and multilateralism made him Europe's preferred candidate, as demonstrated by his campaign stop in Berlin, which drew large crowds of spectators. Consequently, there were large expectations and hopes for a rosy transatlantic partnership when President Obama entered the White House, shortly after the Czech Republic assumed the presidency of the European Union.

Some initial foreign policy steps undertaken by the Obama administration seemed to confirm the aforementioned expectations. For instance, the decisions to close the prison at Guantánamo Bay and to publish information concerning the use of enhanced interrogation techniques during the prosecution of the war on terror along with continuing determination to scale down and ultimately terminate American presence in Iraq were met with positive reactions in Europe. Overall, President Obama has seemed to keep his campaign promise to be more a listener than a preacher, which marks a sharp contrast from his predecessor.

The most notable event for transatlantic relations during the first six months of 2009 was Mr. Obama's tour of Europe, consisting of the G20 summit in London and NATO's sixtieth anniversary celebrations in Germany, and culminating by arguably the highest-profile event of the Czech presidency, the EU-US summit held in Prague in early April, even though the meeting was somewhat tarnished by the fact that the hosting Czech government had just lost a vote of non-confidence and a caretaker government was in the making.

Yet, it is fairly difficult to identify tangible results of President Obama's European trip among lofty declarations of cooperation. On the probably most pressing issue for Americans, expansion of war in Afghanistan, Obama's pleas for greater European involvement by sending in extra troops or at least moving the already deployed ones to more volatile areas fell largely on deaf ears. On the issue of EU membership for Turkey, a US staunch ally in the Middle East, France and Germany stood firmly opposed to American calls.³⁴ On tackling the current economic crisis, a consensus on the appropriate scale of domestic economic stimuli was not reached. On fighting climate change, both sides of the Atlantic expressed their commitment to address the issue and arrive at an agreement at the world climate summit later this year in Copenhagen, but the Waxman-Markey Act, an already substantially watered-down bill passed by the House of Representatives and intended to serve as a basis for negotiations in Denmark, faces uncertain future in the American Senate.³⁵

33 For an analysis of the dominant position of the United States in the aftermath of the Cold War see, for example, WOHLFORTH, William C.: *The Stability of a Unipolar World*, *International Security*, Vol.24, No.1 (Summer 1999), pp. 5-41.

34 In the words of President Obama: "Moving forward toward Turkish membership in the EU would be an important signal of your commitment to this agenda and ensure that we continue to anchor Turkey firmly in Europe." RETTMAN, Andrew: *EU-US Summit Exposes Divisions over Turkey*, *EUobserver.com*, April 6, 2009, available at WWW: <http://euobserver.com/9/27917>, last accessed Sept 1, 2009.

35 For a summary of concessions made to secure the passage of the bill see: BRODER, John M.: *With Something for Everyone*, *Climate Bill Passed*, *New York Times*, June 30, 2009, available at WWW: <http://www.nytimes.com/2009/07/01/us/politics/01climate.html?ref=politics>, last accessed Sept 1, 2009.

On international trade, declared to be one of the key topics at the EU-US summit, both parties were struggling with inevitable yet dangerous protectionist impulses resulting from their fight with economic downturn.

In addition to acknowledging that the unrealistically high domestic and international expectations from the Obama administration are bound not to be met, European leaders need to keep in mind that one of the characteristics of American foreign policy is a great degree of continuity. President Obama's foreign policy will continue to reflect the basic values of American political system with its emphasis on rule of law, liberalism and democracy. What is more, Barack Obama shares the opinion of George W. Bush that the United States needs to be engaged in the world for its own (foremost security) interests.³⁶ The tone and mode of delivery of American foreign policy will and in fact has already been altered but it may be argued that just like hard power has its limits (as George W. Bush learned painfully), so does soft power. Importantly, in spite of wounds from the economic crisis, the United States remains the world's only superpower, and after a short honeymoon European leaders might soon find themselves being asked to respond more boldly to overtures United States under President Obama has been making to be deemed a respectable partner.

4 Future outlooks

Numerous issues persist in transatlantic relations that will occupy policymakers in the foreseeable future. Potentially the most contentious amongst these is the war on terror and its execution. European countries are already being requested to bear a more proportionate brunt of the mission in Afghanistan, which is currently encountering increasing difficulties. If Europeans agree that operations in Afghanistan and their success are vital for global and thus their own security, they need to boost their presence in the region or remove restrictions on deploying their troops in less secure areas.³⁷ Compliance with American requests would greatly contribute to the improvement of mutual relations, whereas failure to do so would put yet another strain on the military alliance in Afghanistan, especially since the timetable of American withdrawal from Iraq might be jeopardized by a recent spike of violence following the handover of Iraqi cities to local forces in June 2009.³⁸ A failure of the NATO mission in Afghanistan would worsen the position of the alliance, already threatened to an extent by calls for genuinely European defense forces without American participation. Concerning another issue related to the war on terror, European countries have an opportunity for a gesture of good will by accepting some of the inmates from Guantánamo, as the United States has hinted at.

Other issues depend to a large extent on the ability of the European Union to frame common policies in areas such as energy security and other issues of global impact, to which the Lisbon Treaty process, if ever concluded, may be instrumental, as the European Union will need to address questions where the United States is not only a partner, but also a potential strategic rival. The already mentioned much hoped-for global climate deal is precisely the type of cooperation where considerations of its implications for global competitiveness of a particular area play an important role. A possible revival of the Doha trade talks is another project clearly of interest to both the European Union and the United States, while keeping in mind both entities remain partners as well as competitors.³⁹ In a positive scenario, Atlantic partners work together to adopt global agreements on both issues, whereas a negative one consists of trade wars spurred by short-term protectionist instincts and insufficient action to tackle global warming.

5 Conclusion

Transatlantic relations are definitely in a better shape than a couple of years before. With the new president, the United States became more open to listen to its partners and to multilateral approaches.

36 As exemplified by President Obama's labeling of the war in Afghanistan as "a war of necessity." Remarks by the President at the Veterans of Foreign Wars Convention, Phoenix Convention Center, Phoenix, AZ, August 17, 2009, available at WWW: http://www.whitehouse.gov/the_press_office/Remarks-by-the-President-at-the-veterans-of-foreign-wars-convention/, last accessed Sept 1, 2009.

37 In an ironic turn of events, some European troops (such as Germans in north Afghanistan) are already located in substantially less secure areas than, say, two years ago without having moved at all due to the overall deterioration of the security situation in the country. Unless the coalition forces are able to reverse the tide, European leaders might face the unpalatable choice between helping their troops with reinforcements and a humiliating withdrawal.

38 An unwanted consequence of the recent violence might be the necessity for American troops to remain involved in providing security in Iraq longer than intended. NORLAND, Rod: *Bombs Hurt Maliki Case That Iraq Can Guard Itself*, New York Times, August 20, 2009, available at WWW: <http://www.nytimes.com/2009/08/21/world/middleeast/21iraq.html>, last accessed Sept 1, 2009.

39 An upcoming ruling in the long-fought Boeing-Airbus dispute filed with the WTO may serve as a reminder of EU-US rivalry. THE ECONOMIST: Trading Blows, August 13, 2009, available at http://www.economist.com/businessfinance/displaystory.cfm?story_id=14214813, last accessed Sept 1, 2009.

However, that change brought about a risk of complacency and short-sightedness on part of those European leaders who would expect that all it took to mend transatlantic rifts was to replace George W. Bush. President Obama may be more willing to take into account the European perspective, but American foreign policy and priorities remain fairly constant. A possible way to look at the current situation is to claim that the United States has done its homework by electing a new leader, so now it is Europe's turn to respond to his advances and good will gestures. In all fairness, there are certain areas where the European Union has not been involved and sharing the costs in accordance with the global role it would like to enjoy or assume, such as the ongoing war on terror.

Genesis of the Eastern Partnership and the Czech EU Presidency

Michal Thim

1 Introduction

Since its greatest enlargement ever in 2004 the EU is desperately trying to find its place in its neighbourhood. The first security strategy of the EU⁴⁰ followed by the European Neighbourhood Policy Strategy Paper⁴¹ indicates that the EU was very well aware of the new challenges. However excitement has been subsequently replaced with confusion and disappointment on the side of recipients (i.e. neighbouring states) and with a seemingly never ending balance of power between advocates of Eastern Neighbours and those who favour the Mediterranean region. Since 2004 the European Neighbourhood Policy (ENP) has been amended or upgraded in 2006 (strategy of strengthening the ENP), 2007 (multilateral component of Black Sea Synergy), 2008 brought French proposal for Mediterranean Union (later changed to Union for Mediterranean and linked to Barcelona process) and finally also Polish-Swedish Eastern Partnership initiative. It is clear that European (i.e. EU's) neighbourhood efforts definitely do not lack initiatives. Unfortunately the same cannot be said about the coherency and focus of these efforts.

This paper has no ambition to analyze in detail all the strategy papers, action plans and initiatives linked to the neighbourhood policy of the EU. It rather seeks to provide a picture of (geo)political landscape of the neighbourhood game and the role of the three states of current presidency troika in the light of recent developments starting with the Polish-Swedish initiative, Russian-Georgian war as the most significant highlight on the way to Eastern Partnership and concluding with Prague Eastern Partnership summit in May 2009.

2 East and South – Balance of Power or Balance of Weakness?

International politics inevitably require a certain talent in the art of consensus. States measure their success according to what they were able to uphold out from their national interests, i.e. to what extent they have compromised their interests. The inherited nature of EU decision making is that this process happens regularly on two levels. First, consensus is (and sometimes is not) reached among the member states. Second, the EU cannot expect that its own internal consensus is fully acceptable for other external actors the EU is dealing with, and therefore what is often already a result of the lowest common position on certain issue is further subject to compromise (e.g. negotiations between the EU and Russia). Needless to say that during this two level consensus making process differences among the respective member states are not kept in secret and that makes them exploitable by the external actor(s). It is only a matter of common sense that this is happening first and foremost when the most significant external interests are at stake.

40 A secure Europe in a better World – European Security Strategy. Brussels, 12 December 2003. Available at <http://www.consilium.europa.eu/uedocs/cmsUpload/78367.pdf>, last access 9 September 2009.

41 European Neighbourhood Policy – Strategy Paper. Communication from the Commission, Brussels, 12 May 2004. Available at http://ec.europa.eu/world/enp/pdf/strategy/strategy_paper_en.pdf, last access 9 September 2009.

Internal divides within the EU are symptomatic for the European Neighbourhood Policy and related initiatives since their establishment. Thus, these are to a considerable extent shaped by the relations of respective member states with Russia. There are a number of countries that naturally care more about the Mediterranean region where they have business or security interests. In a similar way member states from Central and East Europe prefer more Eastern accent in EU's external policy. It would be useless to complain that within a body composed of sovereign states like the EU differences exist that subsequently influence the body's external behaviour. However, it is also supposed that each and every member of such organization will act to the general benefit of all members. And here comes the difference between Southern and Eastern Policy of the EU. Whereas in the South there is no other actor that is seriously challenging EU's policy towards the region and therefore policies of individual states are not harming interests of the others, in the East there is Russia as a major stakeholder and lack of unity, focus and decisiveness of the EU's acting in the areas neighbouring with its Eastern border are carefully exploited by Moscow, an actor that is repeatedly declaring its animosity towards any political engagement of the EU in what Russia considers to be its exclusive sphere of influence.

EU's neighbourhood policy is a result of internal power of balance between two camps where as a matter of how the EU's decision making is settled one cannot prevail over another. One recent example is the fate of Sarkozy's controversial plan for Mediterranean Union – an organization consisting of Mediterranean EU member states, states of the region participating in the ENP and Turkey.⁴² It was accepted in a very different form as Barcelona Process: Union for Mediterranean only after it sparked controversy in Germany for excluding non-Mediterranean EU member states⁴³ and it was given green light after it was made sure that there will be adequate support for the then Polish-Swedish initiative for the Eastern Partnership that would upgrade relations between the EU and six countries to the East: Belarus, Ukraine, Moldova, Georgia, Armenia and Azerbaijan (hereafter referred to as partner countries).⁴⁴ For that reason balance of power could be rebranded as balance of weakness. Not because it reflects patterns of EU's decision making but for this provides any external initiative with embedded doubts about it being a genuine reflection of the EU's interests and goals. Genesis of the Eastern Partnership is not any exception.

4 Georgian-Russian War – Implications for the Eastern Partnership

Sweden and Poland presented Eastern Partnership initiative⁴⁵ in Brussels on 26 May 2008 before the General Affairs and External Relations Council and at European Council summit on 19 and 20 June 2008. It was agreed to proceed further with preparations of the final shape of new Eastern initiative. It is only a speculation what would happen with the Eastern Partnership (EaP) if there was no war between Russia and Georgia in early August 2008. The extraordinary summit of the European Council of 1 September 2008 asked for acceleration of preparations and European Commission that took patronage over the EaP prepared working documents in December 2008. Subsequently the EaP was discussed at a regular EU summit in March 2009 and its launch was set up on 7 May 2009 in Prague.

The extraordinary summit also decided that talks with Russia on a new strategic partnership agreement shall be put on hold as a consequence of the war and recognition of independence of both Georgian breakaway territories (i.e. Abkhazia and South Ossetia). However, at the end of the year with support of the French EU Presidency a U-turn was made and talks were resumed after it was argued that Russia is in compliance⁴⁶ with the six point ceasefire agreement brokered by French Presidency. It is worth to mention that return to "business as usual" relations with Russia was fully "rewarded" by Russia in June 2009 when UN and OSCE observer missions to Georgia were terminated after 15 years as a consequence of Russian veto of mandate extension.

Russia also started to mount its opposition to the Eastern Partnership initiative where foreign minister Lavrov's accusation of the EU of building a sphere of influence is just one example. In September 2008

42 Turkey's proposed participation raised negative reactions not only in Ankara itself since it was perceived as a blunt attempt to terminate Turkey's candidate status.

43 Sarkozy's Mediterranean Union plans irk Merkel. Euractiv, Thursday, 13 December 2007. Available at <http://www.euractiv.com/en/future-eu/sarkozy-mediterranean-union-plans-irk-merkel/article-169080#>, last access 10 September 2009.

44 Poland, Sweden defend Eastern initiative. Euractiv, Monday, 26 May 2008. Available at <http://www.euractiv.com/en/enlargement/poland-sweden-defend-eastern-initiative/article-172660>, last access 10 September 2009.

45 Original text may be accessed here: <http://www.ms.gov.pl/Polish-Swedish,Proposal,19911.html>, last access 13 September 2009.

46 Lithuania mounts last ditch effort to oppose EU U-turn on Russia policy. Euroasia Daily Monitor. Jamestown Foundation, 17 November 2008.

it seemed that war could be a “wake up” call with a more united EU stance towards Russia as a direct consequence. But instead it seems that nothing new has been learned and nothing old has been forgotten. This is not a cry for an unreasonably hawkish stance towards Russia, this is about deciding what we would like to achieve in our relations with neighbours. There was never an argument on the table that Eastern neighbours should be abandoned at the expense of strategic relations with Russia. Moreover, on its website the Commission argues that the conflict between Russia and Georgia proves that EU’s security begins outside of its borders.⁴⁷

What are the implications for the Eastern Partnership? First of all it must be said that initial enthusiasm of the partner countries with the ENP has disappeared even before EaP was drafted. Russian opposition to it would not be that substantial if six countries would be willing to undergo wide and deep reforms in order to get closer to the EU. But the EU failed gravely to indicate what the goal is while Eastern neighbours were expecting that accession to the EU could be the ultimate goal. The carrot that ENP and EaP provide does not seem to be sweet enough to take all the sticks that are part of the process. As Yevgeny Volk from Heritage Foundation puts it “Clearly, the post-Soviet states do not view their relationship with the EU as an end in itself. Rather it is a means to address a host of economic and political issues facing these nations”.⁴⁸ This may lead to general application of what we are witnessing in case of Azerbaijan – balance of influence policy where the EU plays the balancing role to the ever present Russian influence. However, if this is the future scenario we may not expect any permanent stabilization of the region or sharing of common values as the EU has been declaring in all ENP related documents.

The EaP is therefore facing major challenge of its credibility right at the beginning of its existence if not even before it was given birth. The French Presidency did not exercise very well (intentionally or not) in order to provide better conditions for the initiative and frankly speaking nobody has even expected Paris to do so. The U-turn that was made after 1 September under the initiative of French Presidency in relation to Russia was a particularly bad decision for it indicated to the partner countries that any future Russian show of force will not be met by EU’s adequate response. It would not be unreasonable if the partner countries concluded that it is better to compromise some of their interests (like closer relations with the EU) before Russia asks for more as a consequence of deeper engagement with the EU that would provoke Moscow.

5 Conclusions - Czech EU Presidency and the Eastern Partnership

In the light of what is argued above it is an uneasy task to make an assessment of the performance of the Czech EU Presidency. The Czech Republic belonged to the proponents of what later became known as Eastern Partnership during negotiations within Visegrad Group. It became Polish-Swedish initiative because there was need on the Polish part to have a partner representing “old” member countries if the initiative was to succeed. It was only natural that Czechs have endorsed this initiative and pledged support during forthcoming presidency. Given the relative limited power of the Czech Republic in EU’s decision making, the period of the Presidency was a unique opportunity to become more visible (ironically in this regard the Czech EU Presidency was more successful than expected). In regards to the Eastern Partnership it is fair to say that Czech engagement can be deemed as positive. To the dislike of Moscow the main driving force behind EaP are those states (including the Czech Republic) that are generally more critical towards Russia and the opening summit in Prague was a good symbolic step in the direction of their commitment. On the other hand divides and confusion within the EU on what is the future of relations between the EU and the six partner countries and the EU and Russia are that fundamental, that it is out of skills of any Presidency to solve. To conclude Prague managed well as an administrator and it was not realistic to expect more.

Sweden that already took over the EU Presidency seems to put the EaP among the less important priorities while focusing more on the economic recovery of the Baltic region. This does not mean that Stockholm decided to abandon its child for good. This is a simple realization of the fact that more cannot be done at the moment. Political rapprochement between the EU and partner countries relies also on the complex nature of relations of individual member states with Russia. One thing is clear enough. After 5 years of EU’s engagement in its neighbourhood there is no improvement in the direction of increased stability and democratization. On the contrary, the situation seems to be rather deteriorating in most of the countries. If the EU’s interest in its neighbourhood is genuine, then more has to be done.

47 Eastern Partnership website (http://ec.europa.eu/external_relations/eastern/index_en.htm).

48 Yevgeny Volk: Russia vs EU’s Eastern Partnership. Heritage Foundation. Available at <http://blog.heritage.org/2009/05/12/russia-vs-eu-s-eastern-partnership/>, last access 14 September 2009.

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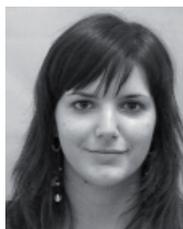
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We would like to thank all those help and cooperation have made this conference possible.

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**Czech Presidency in the Context of Cooperation of the French-Czech-Swedish Trio: Challenges and Opportunities
Prague, 24 September 2009**

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