

“The Future of Europe”
Speech by H.E. Mr. Aigars Kalvitis, Prime Minister of the Republic of Latvia

Ladies and Gentlemen,

I would like to thank the Chairman of *Die Stiftung Ordnungspolitik* for the invitation to Freiburg and for the opportunity to speak to you on issues that are of great interest to all of us, recognising that, at the same time, there is a significant share of unknown elements and uncertainty in our vision of the future Europe.

Today, I would like to share with you my vision as well as the views of the Government of Latvia on several points related to the future of our continent.

In addressing the future of Europe, I will touch upon the following aspects:

- dynamics of political processes in Europe during the last 15 years;
- the attitude towards the enlargement process;
- the European economic dimension in the context of globalisation; and
- possible EU development trends.

What has happened in Europe during the last 15 years?

As the first in a series of events I would like to mention “German reunification.” This turn of history was hard to imagine, but German politicians managed to make use of the first cracks in the iron curtain of the cold war, and turned the unimaginable into reality. The reunification was the first of the three rounds of EU enlargement during the last 15 years.

The reunification of Germany created a chain reaction in political processes, and the result, which we witnessed, was the collapse of the Soviet Union and development of a new political system in Central Europe and the post-Soviet space.

In the last 10 years, the EU has experienced two significant enlargements – the number of Member States grew from 12 to 25, and soon Bulgaria and Romania will also join the EU.

In parallel to the enlargement process, the EU has also engaged in deeper integration. Beginning with the Coal and Steel Community, the development of the European Union has always been advanced by great ideas and challenges – *megaprojects*. In the recent past, such projects included the Single Market, the Schengen Agreement, and introduction of the single currency.

The governments of EU countries also agreed on the Treaty establishing a Constitution for Europe. Its development was an unprecedented process in the history of Europe, in which a much wider society was involved through the Convention than ever before, and what is even more important – all 25 Member States managed to reach an agreement on it.

We hoped that the Constitutional Treaty would outline the perspective of future development of the European Union. However, the negative referenda have proved that the project of future of Europe is not as clear as we might have thought.

To be accurate, we can't avoid mentioning also some other events in Europe that can by no means be called success stories.

We watched the dramatic events in Balkan countries, where ethnic conflicts contributed to hostilities. We also saw only partial success in the process of reforms and economic development in the post-Soviet space.

However, during the last two years we have seen revolutions of various colours that have provided a new impetus for reform processes, for example, in Georgia and Ukraine, and these allow us to foresee that very soon Europe will face new challenges.

During the last 15 years, European countries have experienced an intensification of the dynamism in political events, one following the other in quick succession, and this contributed to the EU's success at enlarging and simultaneously deepening its integration. The EU has reached new borders, and now it must be able to respond to new challenges.

Enlargement

The message from Brussels on 1 May 2004 was the following: enlargement has physically taken place – from this day on there are 25 Member States in the EU. And it was true, because EU institutions had concluded the accession negotiations, prepared the text of the new treaty, and governments of all 25 countries had signed the treaties. So those who say that the enlargement was completed on 1 May 2004, were and still are right.

A slightly different attitude at that time was in the ten new Member States, because accession negotiations had been on the agenda of political and economic life for at least five years, but even before the negotiations the societies of candidate countries had to prove that the economic reforms had been successful and that principles of democracy had been implemented in real life.

Furthermore, several of the candidate countries organized referenda prior to EU accession, in order to respect the opinions of the society on the future vision of the country – and they asked themselves whether they saw their political and economic future within the EU, and whether their citizens were satisfied with the results of the negotiations.

On 1 May 2004 in the new Member States, the attitude towards EU enlargement had a different meaning – strategic goals of foreign policy that had been defined soon after the regaining of independence were achieved. Accession to the EU for Latvia meant security and strengthening of national sovereignty.

It is possible that on 1 May 2004, old EU Member States had a completely different perception of the enlargement. For the majority of people in the old Member States 1 May 2004 was the beginning of the process – and only after May 1st, did they realize that the enlargement of the EU had taken place. Therefore it is no surprise that in the societies of the old Member States there was a certain lack of understanding and dissatisfaction with what had happened on May 1st.

I believe it would be correct to say that in May 2004 the real EU enlargement did not finish – it only started. Societies of EU Member States need time to get accustomed to the new situation. Citizens of EU Member States need time to regain a certain degree of comfort and regain confidence in order to accept that the enlargement was politically and economically beneficial.

Quite often it seems that among the citizens of the old EU Member States the enlargement has caused discontent, and a kind of angst. But why is this ? – the enlargement was well-planned, the negotiations were concluded successfully, and balanced compromises were achieved.

Furthermore, the new Member States joined the EU not with the aim to lower the existing standards but, on the contrary – to attain the average EU level of living standards through gradual growth. Owing to the political discussion and referenda, the new Member States, we could say, were in some way better prepared for the accession process than the old Member States.

As I already said – the EU has experienced a speeding up in the dynamics of political processes. But it is possible that the EU has become exhausted with such dynamics. Maybe Europe needs time to get used to the existing situation and to find a certain balance under the new conditions. One of the possible future visions of Europe is that it needs a break. An intermission between acts.

But at the same time there are problems of different type in today's Europe, problems that need to be solved. And a pause is not an integral part of the solution.

Economic growth, social problems and globalisation

Is the enlargement the only reason why citizens of European countries are dissatisfied with the current situation? Most probably there are several reasons behind this dissatisfaction – not only the enlargement.

In the last century, Europe was able to employ its advantages, it mobilized itself, and ensured very rapid economic growth, thus becoming one of the biggest and most influential trading blocs in the world.

No doubt, one of the aspects was the process of creating the European Community and later European Union, which ensured the development of a huge single market. Access to national markets of other European countries was made easier. The internal market liberalization in Europe created significant potential for economic growth.

One can certainly say that the processes of liberalization of external trade and investments in Europe and the world started a new economic age. First, the leaders of economically developed countries agreed on the General Agreement on Tariffs and Trade (GATT), which later became the World Trade Organization. These agreements laid the foundation for a liberal and global economy.

What does this mean to Europe, Germany, Latvia? What does it mean to EU institutions, governments, companies and people?

The world has become economically very open. This process was greatly fostered also by the need of governments, companies and people of European countries to ensure a certain level of well-being for their residents...because successful trade in itself, within one country, or within the EU, is not enough ensure the necessary growth.

Today's economies are not local any more. They have become global. The economies of European countries are influenced not only by decisions taken in their capitals or in Brussels. Our everyday life is affected by decisions taken in Washington, Tokyo, Beijing and capitals of other countries.

Together with the development of liberal and open economies at global level, competition has increased significantly. Political leaders in Latvia, Germany and Brussels must create appropriate instruments to ensure that EU countries can maintain their competitiveness – not only in Europe, but also globally.

In my opinion, the new economic challenges do not allow any pauses at the European level. Any delay at national or EU level can be very costly.

Today's challenge for European countries is to be among the most competitive economies in the world. However, the reality is not that bright. European economies could stagnate. Economic growth forecasts are not exceeding two percent. An increasing number of countries do not respect the criteria of financial management and budgeting set by the European Monetary Union.

At the same time, there are also other trends and other examples visible in Europe. Recently, a study of the World Economic Forum on competitiveness of national economies was published. Eight EU Member States are among the top-20.

The results of the study show that in the global economy small and medium countries are the most competitive – they can adapt to new conditions easier and faster.

We live in a rapidly changing world, which is characterized by the word "globalisation". One must understand that neither individual Member States nor the EU as a whole can stop this

process. But we can try to adapt and perceive it as a new opportunity, instead of trying to resist and defend ourselves. We see that today, the economies that are open to change, are the most competitive. I believe that this is also the main task of the EU at the moment - together the Member States will be able to use globalisation in a way that benefits everyone.

Just like decisions were made in the previous century that ensured economic growth in Europe and increased the standard of living - sound and far-sighted decisions must be taken also today.

EU institutions and national governments must take decisions and create a legal base which promotes the activities of companies instead of restricting and hindering them.

In my opinion, at the EU level, we are too busy with regulating the internal market by creating ever new conditions, but we pay too little attention to the competitiveness of the EU on the global scale.

The EU legislative process and development of the internal market takes place to some extent in isolation from the rest of the world. Possibly because of the increasing pressure of EU legislation, some European companies are forced to move their economic activities, and in particular their production, outside the EU.

Previously EU Member States abandoned national protectionism and replaced it with protectionism at the EU level. This policy generated economic growth potential at the time of creation of the internal market, but now it may well be causing obstacles and difficulties. In the process of creation of the internal market the principles of liberal market were taken into consideration – the emergence of a free market within the EU was ensured. Today, we must create preconditions for the operation of EU companies in a liberal and global market.

A significant share in the economic activities of our countries is generated by SMEs, small and medium-sized enterprises, for which the EU legislative process may be not a facilitating factor but rather a discouraging one. The EU legislative process is more beneficial for large companies and international corporations rather than for SMEs.

I would also like to note that a significant part of the so-called internal market is an illusion, since apart from the EU-level standards and requirements many countries have enforced their national requirements in addition to the EU, thus, creating impediments to a fully functioning Single Market. This illusion is mostly experienced by the new EU Member States, which have established liberal national economies but now face restrictions on the markets of other EU Member States.

Does the Lisbon Strategy give an answer to these challenges faced by the EU? In fact, the Lisbon Strategy has clearly indicated the areas requiring further work but it has not provided specific instruments for implementation of the relevant policies. And this is one of the problems experienced at the EU level that often we are unable to get beyond political slogans. The European Council adopts many formal decisions, but nobody really cares for their enforcement.

We should keep in mind that the EU consists of its Member States, and the Union acts only within the scope of competence assigned by the Member States. A number of areas are the competences of national governments. If a Member State fails to fulfil its obligations agreed upon previously, if joint success stories are presented as achievements of an individual government but failures are blamed on the European Union, there is a problem. Social issues and unemployment are just a couple of the areas experiencing this kind of problem.

The European Labour Market

EU countries have developed essentially different approaches for addressing labour market issues. Moreover – we observe various social security schemes. Today I will not analyse or suggest which labour market or social security market in Europe would be the most beneficial

and successful. I share the view of those saying that European countries have common values but different traditions and ways of addressing social issues. Citizens of the EU expect an answer to their concerns about social security, and, in my opinion, this answer is the responsibility of national governments.

At the same time I would like to underline that the labour force is one of the key elements for ensuring the development of a competitive economy.

I see several significant elements that need to be considered in the context of labour market. First – it is necessary to think about flexible labour market conditions. In my opinion, flexibility is exactly the feature that provides certain dynamics in economic development. We can cooperate in this area but I do not see any model that would be equally appropriate and acceptable for the whole of Europe.

Second, special attention must be paid to education – to education in its wider sense – starting from primary education up to vocational education, universities and research laboratories. It is my conviction that current quality of education and science is to some extent an impediment for the economic development of our continent. This is a common challenge that requires measures to be taken at national and more importantly, at EU levels.

The Development of the Political Process in the EU

The problems I mentioned indicate the necessity for further development process at the EU level, otherwise, not only the EU would suffer but also each individual country and every citizen.

Currently, at the EU level, the focus should be on issues related to the economic dimension.

With regard to future prospects for Europe, it is necessary to touch upon the issue of the Constitution. Latvia ratified the Constitution immediately after the two negative referendums. This should be taken as proof of our commitment to the further development of the EU.

Let's consider possibilities to implement the institutional reform of the EU. I have no particular answer when and how it should be performed, but it is most likely that at certain point a new EU treaty will be necessary in order to address all the institutional issues. Today the EU can function and act under the Treaty of Nice but it threatens the dynamism of EU development, particularly in the economic field.

It is nothing new to say that the EU needs to reach an agreement on its new Financial Perspective as soon as possible. This agreement would restore political confidence for the development processes of the EU. The Financial Perspective is also an instrument for ensuring improvement of general welfare in the EU. The cohesion policy is an essential tool on the way towards a harmonious and balanced Europe.

It is completely reasonable to ask what is the direction of EU's future development ? Should the EU become a true political union or should it continue on its path of development concentrating mainly on its economic dimension.

In my opinion, the negative referendum results in France and the Netherlands have caused serious difficulties for further development of the political unity of the EU. Within the framework of the existing treaties, the EU Member States must promptly consider economic issues as I described previously. The integration of the European Community and the EU has always been successful in the economic dimension – for this reason current efforts must focus on further development of this dimension, in order to solve social and structural problems.

Should future of the EU be formed according to the *core group* principle? Should further development of the EU be based on the variable geometry principle?

Such cooperation exists already today, for instance, the Schengen Agreement and the European Monetary Union. In my opinion, closer cooperation among individual Member States should be supported when new forms of cooperation are tested in order to gradually cover the whole Union. At the same time I think that the single set of EU institutions should be preserved.

For the EU to grow, a driving force is needed for pushing through new ideas and leading others. The process needs management and a purpose or project. Without any ideological management there is a risk of forming a variety of *core groups* or cooperation models in the EU, in which only a few would participate. Sooner or later this would cause the EU's disintegration and fragmentation. Certainly, a step backwards in evolution.

In addition, I would like to point out that apart from the development of the economic dimension, the EU must also consider how to develop the foreign policy dimension. As I mentioned, today we face the globalisation process and, while developing its economies, the EU must also build a strong position in foreign relations.

The EU must play more important role on the international arena. The EU should build pragmatic relations with its partners – it is necessary to fulfil the strategic partnerships with the United States, Japan, China, India, Russia and Canada as previously defined by the EU. These international partners need pragmatic, rather than some formal cooperation which looks better on paper than in practice.

In conclusion I would like to summarise the key points I mentioned in this speech:

- During the last 15 years European countries have experienced very dynamic political development – both through enlargement and 'deepening' of the EU;
- Enlargement is not the source of EU's problems;
- European countries face a new challenge – globalisation;
- The economic dimension must become the main development area of the EU;
- The EU must foster economic openness in order to use the globalisation processes for growth;
- Europe should avoid management of formal character;
- Economic development can be the answer to social issues;
- The EU must build strong foreign relations aimed at fulfilment of strategic partnerships with special emphasis on economic cooperation;
- The EU must define its further cooperation with the New Neighbours;
- Currently, the EU lacks preconditions for adoption of decisions on further political development. The decisions could be passed no sooner than in 3 to 4 years;
- A new EU treaty is needed in order to address the institutional issues;
- Closer cooperation among individual Member States should be supported when new forms of cooperation are tested in order to gradually cover the whole Union.
- Otherwise there will be many and different *core group* combinations or cooperation models in the EU, in which only some countries would participate. Sooner or later this would cause disintegration and fragmentation.
- We need a vision of the future which will allow the development of a united Europe with the synergies and abilities that make it well-equipped to face the new challenges emerging in its portfolio.

Thank you!