The European Union in 2010: a Review

I. Introduction

At the beginning of the year 2010, it was thought that the European Union (EU) would – at last – settle on a "stable *modus vivendi* – after a decade of uncertainty and a year of rapid change".[1] Following the completion of the Lisbon Treaty's ratification process and the far-reaching effects of the financial and economic crisis (2007-2009), it was understood that the Union could enter a phase of consolidation, quietly adapting to the reformed legal and institutional framework while carefully evaluating its short- and medium-term political objectives and developing a sustainable mode of policy implementation. The time of navel-gazing was thought to have passed.

With hindsight, however, these predictions appear strangely naïve. Presenting its achievements, the Spanish Council presidency (January – June 2010) referred to an *altogether new project* when it concluded that "the first milestone for European economic unity" had been placed,[2] while – at the end of the year – the Belgian presidency laconically stated that "the Union was faced with numerous *critical challenges*" over the course of 2010.[3] Although the drawn-out process of treaty reform had finally been completed, the EU's institutions – old and new alike – were expected to find their respective places both rapidly and effectively as the consequences of the financial crisis exposed precarious weaknesses in the design of the Economic and Monetary Union (EMU). In other words: several new crises cut short any hope for peaceful consolidation.

The following review will, in a *first step* (II), summarise two important overarching developments: the EU's reaction to mounting fiscal instabilities in several of its Member States and the continuing implementation of the Lisbon Treaty. In a *second step* (III), developments in ten major policy areas will be outlined. The

1 *Fehrmann, T.*: The European Union in 2009: a Review, in: ZSE, 8/1 (2010), 129-152, 152.

2 Spanish Foreign Minister *Miguel Ángel Moratinos* on 30 June 2010, cf. www.eu2010.es, "Evaluation of the six-month Presidency", 01.07.2010.

3 Belgian Foreign Minister *Steven Vanackere* on 20 December 2010, cf. www.eutrio.be, "Assessment of the Belgian Presidency", 20.12.2010.

third part (IV) provide an overview of the EU's financial and human resources, leading to a brief *concluding summary and outlook* (V).

II. Fiscal Crises, Institutional Reform, Strategic Planning

In addition to its regular policy remit, two important overarching developments challenged the EU in 2010. First, the *fiscal crises in Greece and Ireland* (as well as signs of instability in other Member States) led to a concerted rescue effort within the Eurozone, resulting in the establishment of two sizeable financial assistance facilities. Second, the process of *implementing the Lisbon Treaty's provisions* caused several significant institutional modifications that merit closer examination.

1. Greece, Ireland, and the Question of a *'Gouvernement Économique'*

Mainstream macroeconomic theory maintains that a currency union can only function when asymmetric economic developments are compensated by internal fiscal transfers and/or a high degree of factor mobility.[4] Since the EMU was designed on the principle of refraining from intra-European fiscal equalisation, two variables – factor mobility and the likelihood of asymmetric economic shocks – became critical in evaluating the quality of the Eurozone as a currency area. In 2010, several members suffered with disproportionate severity from the effects of the financial and economic crisis while, at the same time, experiencing no relief in terms of factor mobility. On the contrary: while labour remained immobile for a host of reasons (language, family, social security claims), capital markets demanded increasing risk premia, raising the cost of borrowing for the countries affected and leading to spiralling levels of debt.

In *Greece,* this problem was aggravated by a pre-existing record of borrowing above and beyond the country's fiscal capacity. Even though such behaviour was explicitly forbidden under the terms of the Stability and Growth Pact (SGP), this provision has been undermined in two ways: first, the SGP never constituted a credible instrument of stabilisation (due to a lack of effective penal procedures and, more importantly, as a result of the comparative expected costs of a bail-out and a sovereign bankruptcy); in addition, the Pact was severely damaged when both Germany and France repeatedly violated its rules without incurring any

4 *Mundell, R.A.*: A Theory of Optimum Currency Areas, in: American Economic Review, 51/4, (1961), 657-665; for further discussion cf. *de Grauwe, P.*: Economics of Monetary Union, Oxford, 2003.

form of punishment.[5] Second, it became known at the beginning of the crisis that the Greek statistical authorities had been reporting incorrect fiscal figures for a number of years, obscuring the real size of the public deficit.[6]

In October 2009, a newly formed Greek government substantially revised the public deficit figures. By December 2009, several credit rating agencies downgraded Greece's overall scores, leading to a depreciation of the Euro and a rise in interest rates for Greek government bonds. In February 2010, the Council moved to assure Athens of its political support, yet it remained silent on the question of financial assistance. In late March and early April, plans for *a three-year package of voluntary bilateral credit* (including support by the International Monetary Fund, IMF) to the level of € 45 bn. in 2010 were finalised, and on 23 April 2010 the Greek government formally applied for fiscal support.[7] By early May, most Member States had formalised their financial commitments and a fiscal austerity plan for Greece was devised by the Greek government, the IMF, the European Central Bank (ECB) and the European Commission (EC).[8] The subsequent cuts in public spending led to several waves of general strikes and violent protests in Athens and other Greek cities. On 12 and 18 May 2010, Greece received its first payments from the IMF and the other EU fund, respectively.

However, the problem of fiscal instability was not limited to Greece. Several other Eurozone members faced similar challenges, notably Portugal, Ireland, Italy, and Spain (collectively referred to, unfavourably and most notably in the British press, as the PIIGS group).[9] Since these countries also encountered rising costs of borrowing that led to an increase in the likelihood of fiscal collapse, an extraordinary meeting of the Council decided, on 9 May 2010, to create a *general 'rescue fund'* above and beyond the Greek aid package. In conjunction with the IMF, financial guarantees to the level of € 750 bn. were authorised as a bul-

5 *The Economist:* Loosening those bonds – Europe's governments are wriggling free of the stability pact's constraints, 17.07.2003. In *Romano Prodi's* words: "I know very well that the stability and growth pact is stupid. The pact is imperfect. We need a more intelligent tool and more flexibility"; interview in Le Monde, 18 October 2002.

6 *The Economist:* Arithmetic lesson – The politics of deficits and economic statistics – Greek public finances, 19.11.2009.

7 Statement by the Heads of State and Government of the Euro Area, Brussels, 25.03.2010; Statement on the Support to Greece by Euro Area Members States, Brussels, 11.04.2010.

8 Cf. www.euractiv.com, "Greece's austerity plan paves way for bailout", 04./05.03.2010.

9 *The Economist:* The PIIGS that won't fly - A guide to the euro-zone's troubled economies, 18.03.2010.

wark against further fiscal instability.[10] In addition to the IMF's guarantee of € 250 bn., two new European funding programmes were created: the *European Financial Stability Facility* (EFSF), headquartered in Luxembourg and supported by the European Investment Bank, was tasked with providing credit to crisis-ridden Eurozone members. The necessary funds are to be raised by issuing EFSF bonds against the collateral of the Eurozone members' guarantee commitment (€ 440 bn.). Similarly, the *European Financial Stabilisation Mechanism* (EFSM), administered by the European Commission, is authorised to raise funds up to € 60 bn. by issuing bonds that rely on the EU general budget as collateral. Once *Ireland* became the first Eurozone member to apply for financial support under this scheme (November 2010), both programmes issued their first bonds in January 2011.

This constituted not only a *de facto* erosion of the 'no bail-out' provision of the European treaty base, but effectively laid the foundation for an intra-European financial support scheme: Eurozone members are now able to resort to a joint refinancing mechanism that relies on shared financial guarantees. While the bankruptcies of both Greece and Ireland could be avoided, the 'rescue packages' merely treated the symptoms, not the underlying disease. Consequently, the question of more *co-ordinated macroeconomic policy making* received a considerable degree of attention. French President *Sarkozy* had already called for a closer co-ordination of economic policies in a speech before the European Parliament in October 2008: "the euro zone cannot continue without a clearly identified economic government. (…) the ECB must be able to negotiate with an economic government."[11] Even though the original proposal was not met with great enthusiasm, the German Chancellor *Merkel* appeared to accept the basic premise by June 2010.[12] Over the course of the second half of the year, the French and German governments negotiated an agreement, presented at the side-lines of the France-Germany-Russia summit meeting in Deauville on 18 October 2010. Both leaders called for a reform of the SGP ("a wider range of sanctions should be applied progressively in both the preventive and corrective arm of the Pact") while agreeing that such penal measures should not be automatic, but based on a

10 *Council of the European Union:* Press Release – Extraordinary Council Meeting, Economic and Financial Affairs, Brussels, 09./10.05.2010, 9596/10 (Pr. 108).

11 *European Parliament:* CRE 21/10/2008 – 7, 21.10.2008; for further discussion, cf. *Strassel, Chr.*: Eine Wirtschaftsregierung für Europa: Französische Utopie oder europäische Notwendigkeit?, Frankreich-Analyse der Friedrich-Ebert-Stiftung, Januar 2009, 1.

12 Cf. www.euractiv.com, "Merkel, Sarkozy eye watered-down economic governance", 15.06.2010.

Council decision. Furthermore, they agreed on an amendment of the treaty base to enable "the establishment of a permanent and robust framework to ensure orderly crisis management" in the future.[13]

The President of the European Council, *van Rompuy,* was subsequently asked to assemble a Task Force and prepare concrete proposals in time for the March 2011 summit; the European Commission submitted its own two-tiered policy proposal on the question of 'economic governance' (referring to the SGP and macroeconomic policy co-ordination, respectively),[14] leading to six different legislative initiatives.[15] The most prominent result achieved to date concerns the introduction of the so-called *European Semester,* a procedure enabling closer economic policy co-ordination and tighter controls on fiscal rules. In essence, each six-month planning cycle begins in March when the European Council, based on a Commission report, agrees on the most important economic policy challenges and proposes a set of policy recommendations. In April, Member States compare their medium-term fiscal planning against the Council's recommendations and prepare national reform programmes. In June and July, both the European Council and the Council of Ministers prepare a further set of recommendations before Member States complete their fiscal planning for the subsequent year.[16]

2. Implementing the Lisbon Treaty: Slow but Steady Progress

At the same time, the EU was in the process of adapting to the new institutional and procedural framework of the Lisbon Treaty. Even though a wealth of individual changes could be noted and evaluated,[17] the following overview will mainly concentrate on the two most prominent developments: the official institutionalisation of the European Council, including the establishment of a permanent Presidency, and the expanded role of High Representative for Foreign Af-

13 Cf. www.elysee.fr, "Franco-German Declaration - Statement for the France-Germany-Russia Summit", Deauville, 18.10.2010.

14 *European Commission:* MEMO/10/454; MEMO/10/455.

15 *idem:* COM(2010) 522 final; COM(2010) 523 final; COM(2010) 524 final; COM(2010) 525 final; COM(2010) 526 final; COM(2010) 527 final.

16 *Council of the European Union:* 13161/10.

17 For a complete overview, cf. *Fehrmann, T.*, European Union in 2009, op. cit., 137-139; *Lieb, J./ Maurer, A.*: Der Vertrag von Lissabon – Kurzkommentar, 3. Auflage, SWP Diskussionspapier, 2009. On the European Citizen's Initiative, cf. *European Commission:* COM(2010) 119 final; *Maurer, A./ Vogel, S.*: Die Europäische Bürgerinitiative. Chancen, Grenzen und Umsetzungsempfehlungen, SWP-Studie, Berlin, 2009.

fairs and Security Policy, including the foundation of the European External Action Service (EEAS).

The European Council, now established as an official institution of the European Union, adopted its rules of procedure on 2 December 2009, detailing, among other provisions, that the General Secretariat of the Council of Ministers shall assist both the European Council at large and its President.[18] Currently, the office of the President and the Council Secretariat share the *Justus Lipsius* building in Brussels, but the former (and the European Council as a whole) are due to move to a separate location in 2013. The President's office is organised along the French *cabinet* structure and currently comprises 34 political, administrative, and support staff; *Franciskus van Daele* was appointed as head of the *cabinet*.

Although the High Representative, *Catherine Ashton,* has been in office since 1 December 2009, the launch of the EEAS as a new institution took place one year later, on 1 December 2010. It consists of a number of foreign affairs and security related divisions transferred from General Secretariat of the Council and the European Commission, including all heads of the EU delegations in foreign countries and their political sections.[19] The EEAS's remit does not, however, comprise several important EU foreign policy instruments, including trade policy, which remains in the purview of the Commission. Existing staff was transferred on 1 January 2011, drawn from the Commission, the Council Secretariat, and Member States' diplomatic services, joining the newly appointed members of the High Representative's office. The maximum quota for Member States' diplomats is set at 40 %. Currently, 1.643 staff work for the EEAS.[20] The High Representative's office is also structured along the *cabinet* principle, employing about 20 political, administrative, and support staff; *James Morrisson* is the current head of the *cabinet.*

As the new institutions took shape, they had to establish their position in the EU's political framework. *Van Rompuy* faced the difficult task of presenting himself as a publicly recognisable figure while not straying too far from his political masters, the heads of state and government. *Ashton,* on the other hand, was required to oversee the merger of two previously separate bodies, the Commission's external relations bureaucracy and the CFSP-related parts of the Council Secretariat. Over the course of the year, it became clear that the role of the rotat-

18 *European Council:* 2009/882/EU.

19 *Council of the European Union:* 11665/1/10 REV 1.

20 *idem:* IP/10/1769.

ing presidency of the Council of Ministers continued to carry substantial weight, thus calling into question the original intention of streamlining the EU's outward appearance. While *Ashton's* public profile remained comparatively low, largely due to her lack of institutional clout (pending the establishment of the EEAS), *van Rompuy* launched several attempts of casting himself in the limelight. While not always successful, he achieved a certain degree of public presence for himself and the European Council, leading to a previously unknown perception of continuity concerning the institution's business.

Concerning the *inter-institutional adaptation* to the post-Lisbon framework, the Council reacted rather acridly to a revision of the Framework Agreement between the Commission and the Parliament in late 2010, noting that

> several provisions of the Framework Agreement have the effect of modifying the institutional balance set out in the Treaties in force, according to the European Parliament prerogatives that are not provided for in the Treaties and limiting the autonomy of the Commission and its President. The Council is particularly concerned by the provisions on international agreements, infringement proceedings against Member States and transmission of classified information to the European Parliament.[21]

The Council concluded that it will resort to the European Court of Justice (ECJ) in case of an application of the agreement "that would have an effect contrary to the interests of the Council and the prerogatives conferred upon it by the Treaties". This example demonstrates that the transition to the new treaty base was far from quiet and seamless; further conflict may yet arise.

III. Developments in Major Policy Areas

The following section will highlight several important developments in ten major policy areas, distinguishing between the Internal Market (1), Competition Policy (2), Agriculture and Fisheries (3), Cohesion Policy (4), Transport (5), Environment (6), Justice and Home Affairs/Immigration (7), Social Policy (8), Health and Consumer Protection (9), and External Relations and Enlargement (10).

1. Internal Market

The year 2010 saw the conclusion of the ten-year implementation period of the *"Lisbon Strategy"*, the EU's long-term economic growth agenda.[22] While the EU

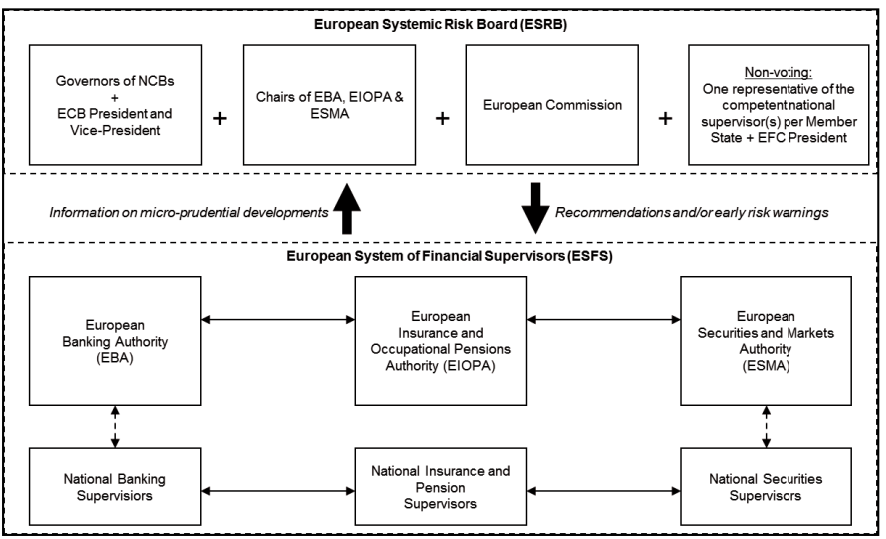
21 OJ, C 287/1.

22 *European Council:* Presidency Conclusions, Lisbon, 23./24.03.2000.

failed to meet most of the targets detailed in the strategy,[23] the Commission immediately launched a new planning framework under the headline "Europe 2020".[24] Without prejudice to a more detailed evaluation, it can be said that the strategy largely continues on the path of the Lisbon agenda, with the addition of the overarching theme of 'green growth'.

As a result of the financial crisis, the Commission proposed several measures concerning *financial market supervision* that were adopted by the Parliament in September and the Council in November 2010. The proposals supplant the existing structure of financial supervision by a *European System of Financial Supvervisors* (ESFS). This system will include three European Supervisory Authorities (ESAs), namely a Banking Authority, a Securities and Markets Authority, and an Insurance and Occupational Pensions Authority. In addition, a European Systemic Risk Board (ESRB) will analyse potential structural market risks. These agencies became operational in January 2011.[25]

Figure 1: The EU's Reformed Financial Market Supervision System



Source: *European Commission:* Driving European Recovery, DG Internal Market and Services, 2010.

23 *Ciaglia, S./Fehrmann, T./ZSE-Redaktion:* Die Lissabon-Strategie der Europäischen Union: eine kritische Bewertung, ZSE 8/4 (2010), 581-612.

24 *European Commission:* Europe 2020. A strategy for smart, sustainable and inclusive growth, COM(2010) 2020.

25 Official Journal of the European Union (OJ), L331/1; L331/12; L331/48; L331/84; L331/120; L331/162.

In regard of the *free movement of workers,* the transitional period following the accession of eight new Member States in 2004 is set to expire in April 2011. By the end of 2010, all old Member States with the exception of Germany, Austria, and the United Kingdom had already abolished the remaining national regulations. Concerning the accession of Bulgaria and Romania, 15 of the 25 previous Member States have fully opened their labour markets, with all remaining exceptions due to expire on 1 January 2014 at the latest.

In December 2010, the Council adopted a *regulation to combat tax fraud* concerning value-added taxation (VAT), establishing a network of national civil servants named *Eurofisc* in order to address cross-border fraudulent activity.[26] With regard to tax fraud in general, the Council adopted a directive to improve administrative co-operation across all Member States.[27] Furthermore, a new directive was issued with the intention of simplifying the VAT system by harmonising the rules on the acceptance of electronic invoices.[28] In addition, the Council voted to continue applying a minimum VAT rate of 15 % until 2015.[29]

On the occasion of the expiration of the transposition period for the 2006 *directive on services in the internal market,* the Commission reported that significant need for action remains in a number of Member States and in several overarching areas; the Council called on all Member States to expedite the implementation process.[30]

The Council agreed in principle to a Commission proposal regarding a *"Single Market Act"*, which comprises a two year framework (2011-12) and around 50 individual initiatives aimed at the stimulation of economic growth and job creation. Particular attention is paid to the existing possibilities offered by the internal market, creating participation incentives for businesses and individuals. However, by the end of 2010, no tangible decision had been reached.[31]

The Council furthermore moved to grant Estonia permission to introduce the Euro as its currency on 1 January 2011.[32] The Eurozone was thus expanded to include 17 Member States with a population of more than 327 m. people.

26 OJ, L268/1.

27 *Council of the European Union:* 5567/4/10; 7081/10; 7081/10 ADD 1; 7081/10 ADD 1 COR 1.

28 *idem:* 10858/10; 11339/10 ADD 1.

29 OJ, L326/1.

30 *idem:* 6060/10.

31 *idem:* 13977/1/10.

32 OJ, L196/24.

2. Competition Policy

Two years after the launch of a wide-ranging investigation into potential violations of competition rules in the *pharmaceutical sector,* the Commission has moved to shed light on certain patent settlement agreements that are alleged to delay the market entrance of cheap generic drugs.[33]

The Commission opened an antitrust investigation into a prospective $ 116 bn. joint venture between iron ore producers *Rio Tinto and BHP Billiton,* aiming at a combination of their Australian business activities. In anticipation of potential concerns, both companies vowed to keep their marketing structures strictly separate.[34]

In view of the British mobile telecommunications market, the Commission approved the merger of *T-Mobile (UK) and Orange,* a France Telecom subsidiary. Both companies agreed to releasing some of their combined frequency allotments in order to gain regulatory approval.[35]

Air France filed a regulatory complaint against *Ryanair* in regard of sizeable subsidy payments allegedly received by the Irish airline in exchange for using French regional airports. While initial subsidies are considered legal, current EU legislation demands that they be dropped after three years. The case is pending.

IBM was subjected to two separate anti-trust investigations, both relating to its market power in part of the computer hardware sector. One complaint, filed by competing software firms, claims that IBM illegally tied its mainframe hardware to its own operating systems. The other, launched by the Commission, relates to the market for systems maintenance services in view of IBM's products.[36]

As a consequence of the Irish financial and fiscal crisis, the Commission authorised several *emergency measures for three Irish banks*, namely the Anglo-Irish Bank, the Irish Nationwide Building Society, and the Allied Irish Bank, including recapitalisation transactions and financial guarantees.[37]

Another chapter in the lengthy history of the debate on the *common EU patent* was opened when a broad majority in the Council came to the conclusion that further progress could only be made under the rules of Enhanced Co-operation

33 *European Commission/RAPID:* IP/10/12.

34 *idem:* IP/10/45.

35 *idem:* IP/10/208

36 *idem:* IP/10/1006.

37 *idem:* IP/10/1765.

and submitted an official request to this end; the Commission consequently drafted a concrete proposal in December, to be adopted in early 2011.[38]

3. Agriculture and Fisheries

In a detailed communication, the Commission proposed a number of plans for a reform of the *Common Agricultural Policy* (CAP) as regards the planning period from 2014 to 2020, leading to an exchange of views in the Council that generally welcomed the communication and accepted it as base for further discussions. The respective Council committees and other preparatory bodies were mandated to analyse the proposals in detail, in view of a first policy debate in December 2010 and the adoption of agreed Council conclusions in March 2011. The Commission expects to be able to present its legislative proposals in July 2011, leading to an implementation in time for the beginning of the new planning period. While the proposal contains further moves away from direct market interference, it does not address several important questions relating to the CAP's effect as a non-tariff based barrier to international trade.[39]

In view of the *Common Fisheries Policy* (CFP), the Commission continued its overall evaluation, based on a Green Paper launched in 2009. Taking into account the results of a public consultation, the Commission aims to propose new legislation on CFP reform in the summer of 2011.

4. Cohesion Policy

In the area of regional and cohesion policy, a host of existing measures unfolded as planned in the 2007-2013 general framework. The Commission reported that, between 2007 and 2010, € 93 bn. in EU funds were disbursed in the context of the Union's cohesion policy.

One notable development was the launch of a Commission proposal for a *European strategy for the greater Danube region* and its 115 m. inhabitants. The strategy aims to support economic progress across all sectors and the improvement of environmental conditions in the region.

5. Transport

In the first half of 2010, an *eruption of the Icelandic volcano Eyjafjallajökull* caused the dispersal of large quantities of volcanic ash in the air space above the

38 *Council of the European Union:* 17668/1/10 REV 1; *European Commission:* COM(2010) 790 final.

39 *Council of the European Union:* 16348/10.

EU's territory. The subsequent protracted limitations on air traffic were largely handled in a co-ordinated effort of national air traffic control agencies while the Union appeared both unprepared and inflexible in its immediate reaction. Several proposals were launched in order to increase preparedness and the quality of the Union's joint policy response, not least by expediting the implementation of a system of joint air traffic control and the expansion of the European Aviation Safety Agency (EASA).[40]

The Council adopted a decision on the implementation of a protocol to the 2007 US-EU *'Open Skies' agreement,* contributing to further de-regulation and establishing a common framework for foreign investments and regulatory co-operation.[41]

Furthermore, the Council reached a political agreement on a draft directive facilitating cross-border *exchanges of information on a number of traffic offences* that considerably jeopardise road safety, enabling prosecuting authorities to trace offenders across national borders and impose sanctions accordingly.[42]

6. Environment

In the area of *waste recycling,* the Commission proposed a strategy to access the potential benefits of using bio-degradable waste from parks, gardens, and food production, currently accounting for 88 m. tonnes of waste p.a., through a series of recommended measures at Member State level and an overarching consolidation of EU legislation.

After the concerted effort of the EU at the Copenhagen summit on climate change, further discussions were held to set the strategic aims for the subsequent meeting in Cancún. Member States could not agree on a unilateral increase in emissions savings targets from 20 % to 30 %, a fact that was deplored by the Parliament.[43] The College of Commissioners appointed at the beginning of the year, however, comprises a dedicated purview for a Commissioner for Climate Action (*Connie Hedegaard*) and saw the establishment of supporting administrative body, the new DG CLIMA.

40 *Council of the European Union:* 9280/10.

41 *idem:* 9913/10.

42 *idem:* 17409/10 & ADD1.

43 *European Parliament:* Climate: EU should move to 30% emissions reduction target, say MEPs, 25.11.2010.

7. Justice and Home Affairs, Immigration

The Council adopted an *Internal Security Strategy* for the European Union that seeks to consolidate existing measures and mechanisms while strengthening the degree of co-operation in the areas of judicial affairs, criminal prosecution, border security, and disaster management.[44]

In parallel, the Council voted to establish a *Standing Committee on Operational Co-operation in Internal Security* (COSI) as demanded by the post-Lisbon Art. 71 TFEU. The Committee held its first meeting in March and is faced with the task of co-ordinating all operational aspects of judicial co-operation, criminal prosecution, and border protection between police forces, customs authorities, and border protection agencies, including EUROJUST, EUROPOL, and FRONTEX.[45]

The Council adopted a European Pact to combat *international drug trafficking*, initially focusing on cocaine and heroin. It constitutes a joint strategy that should guide Member States in their efforts to disrupt supply lines and to trace the financial proceeds from the drug trade.[46]

Negotiations on the EU's *accession to the European Convention on Human Rights* (ECHR), a specific requirement of the Lisbon Treaty, were officially launched in July 2010. The Commission conducts these negotiations on behalf of the Union.[47]

After the European Parliament's refusal to accept the first version of a bilateral agreement between the US and the EU regarding certain financial transaction data (*SWIFT agreement*) in February 2010, a new treaty was negotiated, taking the Parliament's concerns into consideration. The amended agreement received parliamentary consent in July 2010.[48]

8. Social Policy

The Council agreed on a directive to *increase the duration of parental leave* for employees from three to four months for both parents, aiming to improve the existing possibilities for working parents to raise children while ensuring equal

44 *Council of the European Union:* 5842/2/10; *European Commission:* COM(2010) 673 final.

45 *Council of the European Union:* 16515/09; 5949/10.

46 *idem:* 8821/10.

47 *idem:* 10630/1/10 REV 1.

48 *idem:* 11222/1/10 REV 1; REV 1 COR 1; REV 1 COR 4.

treatment of men and women. The directive enforces a revised agreement between the social partners at the European level.[49]

Both the Council and the European Parliament agreed on the foundation of a € 100 m. *European instrument for micro-finance* in order to facilitate employment and social integration in the context of the effects of the financial crisis. It aims at providing the unemployed and other financially marginalised groups with access to credit up to € 25,000 in order to start their own businesses.[50]

The Council furthermore adopted new general *guidelines for Member States' labour market policies* and agreed on a directive on the status of self-employed women, enabling them to enjoy maternity benefits.[51]

For the first time in the EU's history, the Council agreed on a mandate for a project under the framework of *Enhanced Co-operation:* in regard of international aspects of the law on divorce, 14 Member States agreed to participate in a measure that will enable married couples from two different Member States to be legally protected in cases of divorce and separation.[52]

9. Health and Consumer Protection

The Council passed a directive updating the EU's provisions on the *taxation of tobacco products,* raising taxes on cigarettes from € 64 to € 90 per 1,000 cigarettes and setting a minimum tax rate of 60 % of the average sales price.[53]

In view of *air travel security measures,* the Commission decided to adopt a more consumer-friendly posture regarding the limitations on fluids in passengers' hand luggage. The proposed draft regulation aims to phase out existing limitations, switching to a system based on the detection of liquid explosives instead of a blanket ban. The Commission estimates that all EU airports will command the necessary infrastructure by 2013.[54]

10. External Relations and Enlargement

In the area of *external trade policy,* the EU concluded two agreements in 2010: an Interim Agreement on trade and related matters with Serbia, pending the entry

49 *idem:* 16945/09; 5922/1/10 REV 1.

50 *idem:* 4/10; 6778/10; 6778/10 COR 1; 6778/10 ADD 1; 3/10; 6779/10; 6779/10 COR 2; 6779/10 ADD1.

51 *idem:* 14338/10; 14338/10 COR 1; 14917/10 ADD 1; 18/10; 10899/10 ADD 1.

52 *idem:* 9898/2/10.

53 *idem:* 17778/3/09 REV 3; 6221/10.

54 *idem:* 17098/09.

into force of an EU-Serbia Stabilisation and Association Agreement (SAA), and the EU-Montenegro SAA, which replaced a previous Interim Agreement. The EU-South Korea Free Trade Agreement is due to be ratified in early 2011. Negotiations with the following countries or regions are currently under way: India, Singapore, Malaysia, Canada, Colombia and Peru, Central America, MERCOSUR, the Euromed group, Ukraine, China, Iraq, and Russia. Negotiations with the following are currently on hold or suspended: ASEAN, Kazakhstan, Iran, Belarus, the GCC, and Libya.[55]

The *Common Security and Defence Policy* (CSDP) saw a continuation of two military missions (EUFOR Althea, Bosnia and Herzegovina, and EUNAVFOR Atalanta, Gulf of Aden/Somalia) and the launch of a third, EUTM Somalia. Eleven existing civilian missions continued into 2010, although the EU SSR mission to Guinea Bissau was terminated before the end of the year.

In terms of the *enlargement process,* negotiations with the three existing candidate countries of Croatia, Macedonia, and Turkey continued through 2010. In the case of Croatia, 22 of the 32 negotiation chapters opened between 2005 and 2010 have thus far been concluded successfully. Accession negotiations with Iceland were launched in July 2010.

IV. Budget and Personnel

Under the *new budget procedure* as introduced by the Lisbon Treaty, the Council and the European Parliament were involved in a protracted struggle concerning the *2011 budget level* after MEPs had initially demanded a 6.2 % increase, resulting in strong opposition from the British and Dutch governments. Eventually, a budget plan authorising € 126.5 bn. was passed on 15 December, amounting to a 2.9 % rise.[56]

The personnel and expenditure levels as authorised for the year 2010 are detailed in tables 1-3 as follows:

55 *European Commission:* EU Trade – Overview of FTA and other Trade Negotiations, updated on 1 March 2011, www.trade.ec.europa.eu; *European Commission:* EU Trade - Overview of Regional Trade Agreements, updated on 10 September 2011, www.trade.ec.europa.eu.

56 *European Parliament:* Parliament adopts EU budget for 2011, www.europarl.europa.eu, 15.12.2010.

Table 1: EU Personnel in 2010 – Budget Authorised Levels

Institution	**Permanent Posts**	**Temporary Posts**
Commission	25,710	469
Parliament	469	989
Council	3,504	68
Court of Justice	1,493	434
Economic and Social Committee	675	35
Committee of the Regions	469	37
Other Institutions	808	183
Total	**37,805**	**2,215**

Table 2: Allocation of the Union Budget in 2010 (€ 141,5 bn.)

Budget Area	**Share of EU Budget**
'Sustainable Growth' (includes research, education, competitiveness, trade, structural funds, cohesion funds, social policy)	45 %
'Natural Resources' (includes agriculture, fisheries, environment)	42 %
'A Global Player' (includes accession, neighbourhood and partnership policy, development and humanitarian aid, CFSP)	6 %
'Citizenship, Freedom, Security, and Justice' (includes migration, justice, consumer protection, culture, youth, European Solidarity Fund)	1 %
Other expenditure, including administration	6 %

Table 2: Sources of the Union Budget in 2010

Source of Funds	**Share of EU Budget**
Gross National Income-based	76 %
Value Added Tax-based	11 %
Customs and agricultural duties	12 %
Other sources	1 %

Source (tables 1-3): *European Commission:* EU General Budget, 2010.

V. Summary and Outlook

If the year 2009 "challenged and changed" the EU,[57] the subsequent twelve months revolved around dealing with the consequences of both the challenges (the financial, economic, and fiscal crises) and the changes (the Lisbon Treaty). The fiscal instability in a number of Member States led to healthy debates on the future of the Eurozone, the necessity to further co-ordinate macroeconomic policies, and the question of intra-European fiscal transfers. While it is now possible to issue European bonds on behalf of Eurozone members in financial difficulties, this mechanism remains the exception and not the rule. Member States have agreed to create a permanent stabilisation facility after the current framework expires in 2013, sending a strong signal to the financial markets. However, these measures need to be accompanied by rigid fiscal supervision and a credible threat of sanctions in cases of non-compliance. Furthermore, the question of a *gouvernement économique* remains far from settled: both the proposals of the *van Rompuy* Task Force and the Franco-German Deauville initiative remain until now unimplemented. The term 'economic governance' is in danger of becoming an arbitrary semantic vehicle, open to very different interpretations. Most importantly, any measures adopted – and this also applies to the long-term strategy "Europe 2020" – need to be implemented thoughtfully and with regard to each Member State's particular set of pre-conditions; a one-size-fits-all solution is certainly doomed to fail.

The need for medium- and long-term stabilisation also applies to the new institutional framework, first and foremost the EEAS. The High Representative needs to show that her new institutional capacity amounts to more than a unified administrative structure. Only a continuing and intensive dialogue with Member State's governments can lead to a meaningful European foreign policy agenda. The EEAS needs to interact with national diplomatic services and establish a good working relationship with Member States' embassies abroad. This is particularly important in times of crisis, as is the case regarding the spreading popular revolt in North African and Middle Eastern Arab countries. The EU should avoid playing a passive role in this historical development which may shape regional relations for decades to come.

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57 *Fehrmann, T.,* The EU in 2009, op. cit., 152.