



# Ireland

## and **Europe 2010:**

### An Unwelcome Critical Juncture?

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Ireland's relationship with the EU over the last 10 years was characterised by episodes of active engagement, elite indifference verging on hostility, and an uncertain and questioning popular discourse on European Integration. Following the IMF/EU/ECB bailout, Ireland together with Greece finds itself in an 'at risk' and 'on watch' category, a member state in trouble. The purpose of this paper is threefold. First, it traces the different phases of engagement with the EU over the last ten years in order to sketch the evolution of Ireland's European policy. Second, it analyses the impact of the economic crisis on Ireland's relationship with the Union and third it explores the impact of the Lisbon treaty on how the EU does its business. The interaction and intersection of the economic crisis and the new rules of the game in Brussels have altered the dynamic of Ireland's engagement with the EU. Ireland has to confront Europe. The word confront is used in a deliberate manner as Ireland and the Irish electorate have to confront how the European and the national interact, intersect, clash and combine. From the perspective of EU institutions and the other member states, Ireland was transformed very quickly from model member state to a problem partner. Europe's periphery which had displayed a convergence with the core as part of the internal market was once again facing severe budgetary and economic challenges. Ireland found itself bracketed with the PIGS (Portugal, Italy/Ireland, Greece and Spain).

### **Context and Phases of Engagement**

In 2000, Ireland's relationship with the EU entered a different and more challenging phase as Ireland grew in wealth and confidence. Once the big budgetary bargain, known

as the Agenda 2000 negotiations, was concluded in March 1999 and the Irish National Development Plan (2000-06) submitted to Brussels, Ireland's European policy began to lose its coherence and assurance. Cracks appeared in Ireland's official narrative on membership as the easy fit between Ireland's interests and preferences and the direction of integration began to diverge somewhat. There were a series of tough negotiations with the Commission on state aid, regionalisation and the stability and growth pact that led to a questioning of Ireland's traditional policy on Europe.

The first visible crack appeared in February 2000 with the official and public reaction to the use by the Council of an early-warning system in relation to Ireland's non-adherence to the recommendations issued to it in relation to the Broad Economic Guidelines. The Commission and Council were critical of an excessively loose fiscal policy at a time of strong inflationary pressure. The then Minister for Finance, Charlie McCreevy was unhappy with advice from the European Commission and the reprimand from the Council at a time of budgetary surplus. This was one of the first times when the European Commission was portrayed in Ireland as other than 'Ireland's best friend'. A number of ministerial speeches that could be characterized as 'soft euroscepticism' followed. The discourse changed. In July 2000, the Tánaiste, Mary Harney, in an address to the American Bar Association endorsed a neo-liberal Europe and ended by saying that she believed in 'a Europe of independent states, not a United States of Europe' (Harney 2000). The key to the minister's speech was her unease about the prospect that 'key economic decisions being taken in Brussels level' and the possibility that Ireland would be subject to excessive regulation (Harney 2000). These sentiments were re-produced in

an Irish Times article in September 2000 when she again used language reminiscent of De Gaulle and Margaret Thatcher.

The speech will be remembered largely because the minister suggested that Ireland was nearer to Boston than Berlin. The Boston-Berlin dichotomy entered into popular discourse. Another Minister, Síle De Valera, Minister for Arts, Culture and the Gaeltacht delivered the most Euro-critical speech ever delivered by an Irish Minister in Boston College, in September 2000. She said that ‘directives and regulations agreed in Brussels can often seriously impinge on our identity, culture and traditions’. She was not specific regarding the directives she had in mind and offered no concrete evidence to support her claims. In the speech, she called for a more vigilant, questioning attitude towards the European Union and more diligence in protecting Irish interests’ (de Valera, 18 September 2000). Neither of these speeches would have been made in the period of substantial budgetary transfers from Brussels. The speeches reflected uncertainty about Ireland’s place in Europe and the relative importance of the EU to Ireland.

These developments set the tone for the Nice I referendum in June 2001. When the ballot boxes were opened on Friday the 5th of June 2001, a shock awaited the Irish Government, EU institutions and the candidate states. The treaty was defeated by 54% to 46% on a very low turnout of 34%. In the aftermath of the referendum, the Government was faced with a difficult external and domestic environment. Externally, the Government tried to assure its partners and the candidate states that the defeat of the treaty was not a rejection of enlargement. Domestically, the Government set out to create

the conditions that would allow it re-run the referendum without being accused of ignoring the will of the Irish people. The Government's domestic strategy had three prongs. First, was the decision to set up a National Forum on Europe. Second was a strengthening of parliamentary oversight of European affairs and third was a declaration on Irish neutrality, known as the Seville declaration. The second Nice referendum, held on October 19<sup>th</sup> 2002, was passed by a sizeable majority of 63% to 37% with a turnout of 49%, significantly higher than Nice I. The second Nice referendum was followed by Ireland's very successful EU Presidency in the first half of 2004 that was marked by the welcome ceremony for ten new member states and the successful conclusion of the IGC on the constitutional treaty with Bertie Ahern chairing the European Council in June 2004. Irish representatives played a very active role in the Convention leading up to the constitutional treaty. It appeared as if Ireland's official European policy was secure with new moorings.

The Irish Government and the wider political system lapsed into indifference again following the Presidency notwithstanding the fact that popular concern with Europe was evident in the 2005 defeats of referendums in France and the Netherlands. The official narrative on Ireland's relationship with the EU was again tested in June 2008 when a majority of the Irish electorate voted against the Lisbon treaty; in a turnout of 53%, 53.4% voted no. This outcome was marked by a significant increase in the no vote as a proportion of the electorate, from 18% to 28%. An Irish Government was once again faced with navigating the difficult dynamics of domestic politics and membership of the EU. The advice to the Government from one of the key no voices, Sinn Féin, was clear:

‘The people have now spoken and the Lisbon Treaty is over. The ratification process should now end and the leaders of the EU’s 27 Member States must now negotiate a new treaty’ (SF Submission to the Government, 18<sup>th</sup> June 2008, <http://www.sinnfein.ie>).

There were three reasons why the Irish Government felt unable to accept this advice. First, the Government concluded that Ireland’s interests were best served if Ireland is perceived as a fully engaged and committed member state. The Oireachtas Committee, set up to analyse *Ireland’s future in the European Union: Challenges, Issues and Options*, agreed with the Government, concluding that ‘Ireland’s decision not to ratify the Lisbon Treaty has made the country’s long-term position at the core of the European Union considerably less certain’ (Oireachtas Report, November 2008, 3). Second, the Government was aware that, with the prospect of a UK Conservative Government, Lisbon was the last opportunity to secure treaty reform for a long time in the Union. Failure to ratify the Lisbon treaty given 7 years of negotiations could trigger disintegrative dynamics in the Union. Third, the Government did not accept that there was a better deal on offer to Ireland. Ireland had played a major role in negotiating the treaty in the first place and would be in a much weaker position going into any future negotiations.

In June 2009, the Government decided to ask the Irish electorate to think again about the Lisbon treaty having secured a set of legal guarantees on issues that were raised during the Lisbon campaign. On October 2<sup>nd</sup> 2009, the Irish electorate was asked to think again about its verdict on the Lisbon Treaty and returned a very different result. With a turnout of 59%, 67.1% of voters voted Yes and 32.9% voted No. Just two of the country’s 45

electoral constituencies voted No. The Lisbon treaty was endorsed by a majority of men and women, all age groups and socio-economic classes. There was a swing of 20% or over among women, young people, manual workers and those not working.

The evolution of Ireland's engagement with the EU since 2000 leads to the following conclusions. The Irish political and administrative elite struggled to develop a road map for Ireland's engagement with the EU in the post economic catch-up era. The strategy of concentrating on a number of key priorities that characterized Ireland's European engagement up to 2000 could not survive the Celtic Tiger era. Twice in the decade the political elite failed to persuade the Irish electorate of the merits of a European treaty and had to engage in remedial action at domestic level and with Ireland's partners in a complex series of national and EU level negotiations. This absorbed an enormous amount of political and diplomatic capital and had a negative impact on attitudes towards Ireland in the other member states and in EU institutions. It took two referendum defeats to re-focus the political and administrative elite on the EU. But this was characterized by trouble-shooting rather than sustained engagement. Ireland's standing in the system suffered. Also because Ireland had to devote so much attention to the referendum outcomes, it left little diplomatic and political capital for intervening in broader EU issues and policy. Damage to Ireland's reputation has been greatly exacerbated by the economic crisis.

## **The Economic Crisis**

The collapse of Lehman Brothers in September 2008 exposed the fragility of Ireland's economic model. A construction and property led bubble undermined the liquidity and solvency of the banking system. A state guarantee to the banking system in turn transformed a banking crisis into a sovereign debt crisis. Ireland's domestic failures were brought sharply into focus by the severity of the economic downturn since the latter half of 2008. Ireland faced a multi-crisis arising from the banking crisis, the public finance crisis and the real economy crisis (NESC <http://www.nesc.ie/dynamic/docs/NESC-2009-Executive-Summary.pdf>). These in turn had profound social costs for individuals, families and communities. The domestic crisis has led to a wider reputational crisis for Ireland in Europe and internationally. Gone was the image of Ireland as *Europe's Shining Light* that adorned the *Economist* in 1997. In 2004, an *Economist* article under the by-line 'The Luck of the Irish' began with the sentence 'Surely no other country in the rich world has seen its image change so fast':

([http://www.economist.com/surveys/displayStory.cfm?story\\_id=326107](http://www.economist.com/surveys/displayStory.cfm?story_id=326107))

In 2004, that meant for the better. The reversal of fortunes arrived with equal speed; Paul Krugman's op-ed in the New York Times in April 2009 carried the title *Erin Go Broke* (<http://www.nytimes.com/2009/04/20/opinion/20krugman.html>). Clearly the EU's model pupil had a make over and the plastic surgery left deep scars. The interlocking crises identified by the NESC report were caused by profound failures in Government, public administration, state-society relations, regulation and the financial services industry,

particularly the banking sector. Key actors proved incapable of identifying, quantifying and guarding against the risks that Ireland was running since 2002.

The two years that followed were punctuated by a worsening of the banking situation and the public finances with the result that Ireland had to call on the support of the Euro Group and the other member states. The rapid deterioration of the situation in November 2010 brought the European Commission, the ECB and the IMF to Dublin to negotiate a bail out. Ireland had come full circle from dependence on the UK, to interdependence within the EU, to dependence on international institutions. Elite and popular attitudes towards the EU and IMF were an admixture of relief at their arrival followed by resentment when the terms of the agreement became public. It was clear from the Government's PR machine that they held the German Chancellor, Angela Merkel, responsible for the worsening of the situation because of her assertion that the senior bondholders would have to share the cost of the banking crisis with Europe's public authorities. A significant increase in the cost of borrowing for Ireland ensued. This was followed by a decision by the ECB that it could no longer act as lender of last resort to the Irish banking system given that it had already pumped over €130 million of liquidity into the country's financial system. While these two interventions affected the timing of the bailout, a bailout was inevitable given Ireland's mounting sovereign debt and the attitude towards Ireland in the financial markets.

Ireland's dependence on the EU and the terms of the bailout could well have long lasting effects on Ireland's relationships with European institutions and the other member states. Although there is no public opinion data yet available, the discourse and narrative on the bailout in the Irish print and electronic media is replete with references to what was done

to Ireland, to Ireland as victim. In popular lore, the other member states, particularly Germany, were motivated by saving their own banks rather than assisting Ireland. Given the economic and financial interdependence in the EU and the democratic foundations of the member states, all Governments must be attentive to their domestic electorates. The German Government and other governments in the EU were concerned about their banks and financial systems but it was Ireland that put itself in a position whereby help would have to be sought from the EU/IMF. The residue of the crisis could have a lasting and damaging impact on Ireland's engagement with and attitudes towards the EU.

### **The Post-Lisbon EU**

Assessing the changing dynamics of the EU and how its does its business goes well beyond the Lisbon treaty itself. The EU as it approaches the second decade of the 21<sup>st</sup> century is facing a testing time as it confronts the structural constraints of the European system, the rapidly changing global geo-politics and geo-economics, fuzzy borders and an existential threat to the Euro. Faced with past crises, the EU has always found the political and institutional capacity to confront its challenges. Its distinctive model of internationalisation has proved robust in the past but its reach may have extended beyond its grasp. The economic crisis has exposed serious flaws in the system of economic governance that underpinned the Euro. The Growth and Stability Pact was weakened as a constraint when both Germany and France did not adhere to its limits. The ECB proved ill-equipped to monitor and manage credit flows to Europe's financial system. The German Government found itself required to take on a leadership role at a time when it is very reluctant and hesitant to do so. The post-war German state elite has passed as has the assurance that Germany and the EU were two sides of the same coin; that to be German

is also to be European. Of all of the large European member states, Germany behaved in the past on the basis that its own interests with those of the EU were enmeshed. This is no longer the case as a new and younger political elite has taken over post-unification. It was with great difficulty that Germany agreed to a stabilization fund of €750 billion in May 2010 and its activation for Greece. This was deeply unpopular in Germany and was followed by a constitutional challenge in the German Constitutional Court. The Chancellor came under intense pressure to ensure that the fund is put on a permanent basis by getting EU wide agreement to treaty change.

The predominantly domestic nature of democratic politics in Europe acts as a major constraint on Europe wide systemic leadership. Angela Merkel as German Chancellor has limited political space within which to evolve a European wide response to the current crisis. The federal nature of the German political system ensures that electoral politics are a regular rather than a cyclical feature of domestic politics. The Franco-German relationship, once the bedrock of developments within the EU, is no longer as stable as it once was. The relationship will however play an important role in crisis management in the years ahead. In an EU of 27, the inter-state and intra-state dynamics are far more complex than in the smaller EU. Additional interests, cleavages, voices and concerns have to be mediated and managed. On a whole range of issues such as the international role of the Union, energy policy, the Euro, financial regulation and the future of the internal market, the member states are divided.

Notwithstanding the impact of the economic crisis and the manner in which it has absorbed political and official attention, it is important that within Ireland, attention is paid to the Europe wide impact of the crisis. Ireland must actively engage in the search

for European solutions. There are major disagreements within and across the member states about how the crisis should be addressed. This was clearly evident at the 16/17<sup>th</sup> December European Council. There are those who argue that fiscal consolidation and austerity should take precedence but this is countered by those who argue that this will reduce growth and hence make the debt crisis worse. There are those who argue that Europe's rescue fund should be increased and those who are implacably opposed to this. There are those who argue that the design faults in the Euro must be addressed and those who argue that this is not feasible politically in a fragmented Europe. The EU and particularly the Euro face major challenges but have yet to find economic and fiscal solutions that will attract the support of the member states. At the core of the Euro is a major cleavage between those states that are fiscal conservatives, Germany, the Netherlands, Finland and Austria, on the one hand, and France, on the other. This goes back to very old debates from the early 1970s onwards between the so-called 'economist' and 'monetarist' approaches to EMU. Together Germany and France make up half of the economy of the Euro and as such form its core. The tensions between them on economic governance may not be bridgeable.

Three scenarios provide a useful way of thinking about the crisis and how it might evolve:

- Ad Hoc Muddling through;
- Contagion and system failure;
- EU monetary and fiscal governance.

The first scenario is the strategy that the EU has adopted up to now. Faced with the deterioration of the Greek public finances, the EU struggled to come to an agreement of how the Greek crisis should be addressed. Following protracted negotiations, a European Financial Stabilization Mechanism (EFSM) was agreed. The Council regulation relied on Article 122 of the TFEU, an article that was originally designed to address natural catastrophes or terrorist attacks not economic crises. This was accompanied by a 110 billion Euro three year EU/IMF bailout for Greece agreed by an emergency meeting of EU Finance ministers in May. The deal was highly conditional on fiscal consolidation in Greece. The first rescue of a Euro member state was designed to prevent wider contagion given the volatility and fragility of the financial markets. A rescue fund of €759 billion was agreed to protect other vulnerable states. The volatility of the situation is underlined by the fact that the next state that needed rescuing was Ireland, although Portugal and Spain were regarded as more vulnerable in May. By November, Ireland was in bailout territory as the EU, ECB and IMF arrived to negotiate the terms of an €850 billion deal. This represented a loss rather than a pooling of sovereignty that has heretofore characterized Ireland's engagement with the EU.

The strategy of muddling through has bought time for the Euro member states but has not prevented contagion. The financial markets have yet to be convinced that the Euro member states are capable of managing the sovereign debt problems of some of its members. Bond yields continued to widen in the aftermath of the Irish rescue. At the same time, there is considerable anger among the public about the fact that investors have emerged unscathed while Europe's taxpayers pick up the tab. Ad hoc muddling though is far too weak a policy to tackle the gravity of the problems facing the Euro and the EU. It

is unlikely to survive as the strategy of choice although it may survive in the absence of agreement on a strategic European response.

The second scenario is a worst-case scenario, a spreading of contagion and eventually system failure, failure of the Euro. The Euro Governments, ECB and other European institutions have repeatedly asserted their commitment to the Euro but their assertions are wearing thin. Ollie Rehn, the Commissioner for Economic and Monetary Affairs claimed recently in Athens that:

"We will not stop until we have accomplished our mission. We are now in the decade of fundamental reforms," he said. "We are all in the same boat in Europe ... We all need to work together as Europe to safeguard financial stability and protect economic recovery and jobs."

<http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/10/738&format=HTML&aged=0&language=EN&guiLanguage=en>

The governments remain deeply divided about how to address Euro related problems and have failed to convince the markets. If contagion spreads to Portugal than Spain will follow with all that implies for the scale of the rescue that would be required. There is already pressure on Italy and Belgium. Spain represents over 9% of the Euro economy and is thus bigger than the Irish, Greek and Portuguese economies combined. The IMF has made public its concern about the slow and disjointed manner that Europe has addressed the crisis:

<http://online.wsj.com/article/SB10001424052748703296604576005253248598590.html>

Pressures on the cost of borrowing for Portugal and Spain eased in the first week of December as the ECB continued to buy government bonds. This has bought some time but has not eliminated the dangers of contagion. If the contagion spread to Spain, the future of the Euro itself would be threatened. It could well lead a German Government to opt for the return of the Deutschmark or some version thereof with Austria, the Netherlands and perhaps France. The remaining Euro states could find themselves in an outer tier or forced to re-establish a national currency. While this scenario seems unlikely at this juncture, it has become possible if not yet probable. Given the dangers of sliding into this scenario, it is important to assess and document the costs of such a development. Interestingly, the *Economist*, a magazine not noted for its support of the EU and Euro, ran a piece entitled ‘*The euro is proving horribly costly for some. A break-up would be even worse*’ recently (2<sup>nd</sup> December 2010). Having examined the costs of losing the Euro, the article concluded by focusing on Germany:

If the economics of pulling apart the euro look dubious, the politics risks detonating a chain reaction that would threaten the fabric of the single market and the EU itself. The EU and the euro have been Germany’s post-war anchors. If it abandoned the currency, at huge cost, and left the rest of the euro zone to fend for itself, its commitment to the EU would be in serious doubt (The Economist, 2<sup>nd</sup> December 2010).

It would be unwise to think that even if the costs of a Euro failure are high, that it could not happen. The ECB has warned that the Governments that they cannot rely on it to

solve all of the Euro's problems. This means addressing the institutional and policy faults that lie at the heart of the Euro.

This brings us to the third scenario, the reform and strengthening of the Euro's monetary, economic and fiscal governance. To date, the EU has responded to the crisis with four inter-related pillars, (1) fiscal consolidation, (2) the European Stabilisation Mechanism (ESM), (3) reform of economic governance and (4) a strengthening of the financial system. The new President of the European Council found himself quickly embroiled in the evolving crisis when he was given the task of chairing a High Level Group to make recommendations about economic governance in the EU. The recommendations involved enhancing the discredited Stability and Growth Pact (SGP), sanctions, attention to debt and macro-economic surveillance. At the European Council of 16/17 December, the European Council decided on the creation of a permanent crisis mechanism to replace the ESM in 2013 and on the text of the treaty amendments that will be required to establish such a mechanism. The text of the draft decision was:

"The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality."

[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/118572.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/118572.pdf)

Following the receipt of an opinion from the European Parliament, the ECB and the Commission, it is intended that the European Council will adopt a decision which will

require the approval of each member state. It is intended that it will come into force on January 1, 2013. Senior bond holders may be required to take what is known as a 'haircut' in the event of sovereign debt problems on a case by case basis under the new regime. The establishment of a permanent mechanism is designed to deal with the fact that the current facility is temporary and the German Government's insistence that this be enshrined in a treaty. Agreement on the mechanism does not address the question of the status of senior bond holders up to 2013.

The initiatives and instruments that have been created to date may well be insufficient to address the scale of the challenges. The economic crisis has led most euro member states to run high government deficits, deficits that are being funded by euro-denominated government bonds. Governments are going to continue to have to borrow at a high level for a number of years to come. The refinancing needs of Europe's governments are accompanied by the needs of the banking system. The Commission estimates that around Euro 1.8 trillion of bank debt will need to be financed over the next 24 months. The battle between Euro governments and the markets are set to continue. It is far from certain that public power will prevail.

The difficulty of adopting additional mechanisms and strategies was underlined by the conflict concerning Jean-Claude Juncker's call for the launch of Euro bonds to deter speculation against the weaker countries. Germany immediately rejected the Luxemburg-Italian proposal on the grounds that it would push up the cost of borrowing for Germany. The Chancellor said:

issuing common euro bonds would set the wrong incentives for member states, which needed the discipline of bond markets to run responsible budget policies. Asked about Juncker's criticism, she said: "We should work calmly and focus. That is my contribution."

Germany is also opposed to increasing the size of the stabilization mechanism, a proposal that emanated from Belgium. This brings the centrality of Germany sharply into focus. Going beyond the current ad hoc muddling through crucially depends on the attitude of Germany and its senior political office holders. Ideas that are not backed by Germany will simply not fly. There is a debate opening up in Germany. At a political level within the Bundestag support for the Euro appears strong. The Finance Minister, Wolfgang Schauble, seen as the only remaining heir to Kohl has argued that a common Eurobond may be necessary but would have to be accompanied by treaty change and fiscal harmonization

[http://www.europesworld.org/NewEnglish/Home\\_old/Article/tabid/191/ArticleType/ArticleView/ArticleID/21726/language/en-US/AplantotackleEuropesdebtmountain.aspx](http://www.europesworld.org/NewEnglish/Home_old/Article/tabid/191/ArticleType/ArticleView/ArticleID/21726/language/en-US/AplantotackleEuropesdebtmountain.aspx)).

The leader of the SPD, Frank-Walter Steinmüller has also argued in favour of Eurobonds if backed by closer integration (Financial Times, 17<sup>th</sup> December, 2010). The Franco-German relationship will play a crucial role as this evolves as these two countries usually try to work out their differences at a bilateral level prior to major EU meetings. However the differences between them on economic governance and the manner in which they run their domestic economies remains a major constraint to a European response to the crisis and to the continuation of the Euro.

## **How the EU Does its Business**

In addition to the economic crisis, the member states and European institutions are trying to come to terms with the shifting balances across European institutions. The Lisbon treaty, which was almost eight years in the making, was finally ratified in a world that had moved on from the world in which it was conceived. The treaty included a significant number of provisions that altered the way business is done in Brussels. It is too early to draw definitive conclusions about inter-institutional relations and new roles as the Lisbon treaty becomes part of the living constitution of the system. The most important impact of the Lisbon treaty was to add two new roles to the governance of the EU; the permanent president of the European Council and the High Representative of Foreign Affairs and Security Policy.

These two roles were not just institutional but added two new faces, Herman Van Rompuy, a former Belgian Prime Minister, and Lady Catherine Ashton to the European public sphere. The role of Council President also opened a space for inter-institutional rivalry with the President of the Commission, Barroso. The treaty enhanced the role of the European parliament and national parliaments and made provision for petitions from European citizens. A phased alteration in the voting system in the Council formed part of the treaty. The most significant changes in Lisbon related to the operation of the European Council and the Council of Ministers, inter-institutional relations and the further expansion of the parliament's role.

The European Council is the formal locus of political authority in the Union. The permanent president of the European Council is not an executive role but is influential

because it is permanent, supported by a staff and has a role in agenda setting and follow-up after Council meetings. The existence of the role meant that Herman Van Rompuy was given the role of chairing a *Task Force on Economic Governance* when the economic crisis deepened. He cannot act however on his own and must go with the grain of what is acceptable to the heads of state and government, particularly those representing the big three, Germany, France and the UK. There have been a number of teething problems with the new role such as Van Rompuy's preference for too many meetings of the Council and the need to work out a *modus vivendi* with the Commission President.

The G20 in Seoul offers an insight on how that relationship is evolving. Both office holders attended the G20, representing Europe as one delegation. Van Rompuy spoke on foreign and security policy, Barroso on environmental policy and energy. They sent a joint letter to the G20 and issued a joint statement at the conclusion of the meeting. Their respective staff engaged in intense bilaterals to work out how Europe's two presidents will work together. Tensions have been reported between their respective *cabinets*. However it is essential that the two office holders contain the tension because a competitive Commission-Council relationship would be detrimental to both.

A number of tentative conclusions may be drawn concerning the emergence of this new role. First, it has further enhanced the European Council as the strategic core and agenda setter of the EU. Second, although the new President knows he must maintain a working relationship with all 27 member states, some capitals are more important than others. Third, there is an increasing tendency to 'task' the Commission with particular jobs

which impinges on the Commission's right of initiative. The Commission must guard against becoming a secretariat to the European Council. Fourth, the link between the office of the permanent President of the European Council and the rotating presidency needs to be worked on. The Council secretariat must adapt to reorganize the flow of information. Existing mechanisms such as the General Affairs Council should be properly used to ensure that the European Council is not treated as a working group for all issues coming before the Union.

The High Representative for Foreign and Security Policy exercises in fact three roles, the role of High Representative, Vice-President of the Commission, and Chair of the Foreign Affairs Council. Lady Ashton who holds this new role in the EU has spent her first year largely although not exclusively focused on establishing the new European External Action Service (EEAS). This has involved tense negotiations with the European Commission about the transfer of its staff and policy responsibilities to the EEAS and with the member states about the allocation of key posts within the EEAS. The exercise was highly contested within the EU institutions and across the member states as they jockeyed for plum positions. It will take a considerable number of years for the EEAS to bed down as its impact on the projection of the EU internationally and its impact on member state diplomatic services becomes clearer.

The European Parliament's formal powers were again extended by the Lisbon Treaty. About forty new policy areas are to be covered under the co-decision procedure, which is now known as the "ordinary legislative procedure". This is a large extension of policy

areas to which the ordinary legislative procedure is to apply and it is now the main method of legislating in the European Union. Most significantly, new areas, which fall under this procedure include: provisions under Title V TFEU for the Area of Freedom, Security and Justice such as border controls, legal immigration, judicial cooperation in civil matters with cross-border implications, and judicial cooperation in criminal matters and police cooperation; the market organisations under the Common Agricultural and Fisheries Policies; the common commercial policy; intellectual property rights; and measures relating to the use of the euro as a single currency. Traditionally, these areas were seen as the more important areas for the European Union and its Member States.

The European Parliament now shares equal and joint responsibility with the Council for the whole of the budget of the European Union, in other words the annual budget will be co-decided. The Lisbon Treaty removes the distinction between “compulsory” and “non-compulsory” or “discretionary” expenditure, and it introduces a Conciliation Committee to manage negotiations between the European Parliament and the Council. As a result of the extension of co-decision, the relationship between the European Parliament and the Council has been altered.

The European Parliament has become more assertive post-Lisbon. The Council and COREPER had not yet adjusted to this. The Council needs to develop better modes of interaction with the European Parliament in order to assist in prioritising and planning the legislative agenda, particularly since there are many pieces of financial legislation which will need to be fast-tracked over the next 12-18 months. The Council decided not to

participate in the Framework Agreement between the Commission and the European Parliament. This was a strategic error by the member states as it ties the Commission more closely with the parliament without the Council balance.

The European Parliament is “professionalizing”, it is more structured than previously, and it has increased staff resources. This facilitates greater internal and external activity by the European Parliament and makes it an increasingly important power node in the European institutions. There is a greater coherence in the political groupings of the European Parliament, which are increasingly playing a stronger role than national groupings of MEPs. The role of the Socialist Group in the appointment of Catherine Ashton is a case in point. Equally, the heads of Government now meet before European Council summits as part of their respective groupings. The strengthening of the party groupings enhances the ‘political’ character of European policy making.

## **Reflections**

Given the uncertainty surrounding the debt and Euro crisis, it is more appropriate to end with reflections rather than conclusions as the target is moving and will continue to move. The European Union faces five testing years as it struggles to meet the challenges of the inter-related sovereign debt and banking crises. Those countries with bail-outs will return to the market at some stage during this period and the demands of re-financing banking and sovereign debt remain challenging across the EU. Electoral cycles in the member states should not be forgotten; six Land elections in Germany in 2011, the French Presidential election in 2012 and the German federal election in 2013 among others. The member states will seek to implement the agreed treaty change and binding decisions will be taken to enhance the surveillance of domestic budgetary and macro-economic policy. As of now the Euro states have only two mechanisms to assist countries in trouble-bailouts and the buying of sovereign debt by the ECB. These two mechanisms on their own are unlikely to prove sufficient to prevent contagion which means that additional solutions will be sought. Germany may if the Euro crisis deepens agree to Euro bonds but if it does, it will be accompanied by demands for fiscal harmonization.

Ireland having started the decade wondering if it continued to need the EU ended the decade in a state of dependency on the EU and the IMF. During the course of the decade, the Irish elite struggled to steer a course for Ireland within the EU and was twice rocked by the defeat of European referendums. This brought the weak knowledge of EU related matters among the political class and the wider public into sharp relief. A societal

recognition of the importance of the EU to Ireland, however, meant that a majority of the Irish public would if asked rethink a decision on a European treaty. The long term impact of the IMF/EU/ECB rescue package on Irish public opinion is difficult to assess. It will lead to a hardening of Euroscepticism among a section of the electorate but could also lead to an increase in the proportion of the electorate hostile to the EU. How such hostility would be channeled depends on developments in the Irish party system.

Ireland now finds itself as a weaker state within a changing EU. There is a danger that the preoccupation with the economic crisis might translate into inertia in relations with Europe. Repairing Ireland's battered reputation is a major challenge for the next Government. Ireland will need a proactive Foreign Minister with very strong communication skills. A new Government will also provide an opportunity for an assessment of how Ireland conducts its European and foreign economic policy. Events in Europe are moving very quickly, too quickly to repair Ireland's reputation and standing and too quickly for Ireland to have an influence on emerging European solutions. The price of German agreement to Euro bonds may carry conditions that Ireland would not want to agreed to.

## **References**

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