European Union: Commitment, Controversy, Crisis

Under the Treaty of Lisbon, member states cede some powers, get others

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Back in 1957 the idea of bringing forth a new union of European countries was beyond ambitious. Would sovereign nations with strong historical identities and institutions willingly cede some of their powers to the newly created European Economic Community? Six of them did: Belgium, France, Germany, Italy, Luxembourg, the Netherlands. Since then, the organization has grown steadily, evolving into what is now known as the European Union, adding members and strengthening its governing institutions. In Dec. 2009 the EU adopted a new treaty that expands its authority and control over the now 27 member states.

The Treaty of Lisbon was the subject of Christian Schneider’s address to an International Executive Roundtable presented by the University of Colorado Denver’s Institute for International Business. Highlights follow.

“There are now more powers emanating from EU headquarters in Brussels onto the national sovereign states, in particular concerning energy, intellectual property and humanitarian aid,” said Schneider.

■ Energy. “Europe depends on its energy from pipelines coming out of Siberia. Unfortunately, these pipelines go to Europe through Ukraine which has held the pipelines hostage while demanding price concessions from Russia. Meanwhile, Europe, which pays a winter ahead for its energy, gets colder and colder. For the last two winters Russia has had to grant price concessions to the Ukrainian government to open the pipelines. This is an untenable situation for the Europeans in terms of energy supply; consequently, a chapter in the Treaty of Lisbon sets objectives of energy policy and the development of new and renewable forms of energy.”

■ Intellectual property (IP). “One of the reasons that the American entrepreneur or foreign direct investor may be reluctant to manufacture abroad is the relatively diverse treatment of what constitutes intellectual property. Henceforth IP will have a pan-European approach so that investors will encounter no surprises as they cross borders.”

■ Humanitarian aid. “The EU can now act very quickly and send humanitarian aid anywhere in the world as it did earlier this year when it responded to the earthquake in Haiti.”

More democratic

National parliaments now have powers that give them direct input into EU legislation and a process to challenge legislation they consider unnecessary.

■ Companies and individuals can challenge regulatory measures of EU institutions without having to show proof that the measure is doing them harm. “Prior to the treaty, you had to have good cause and prove that the measure was anti-competitive and hurtful to your corporation.”

■ A member state that believes one or more of the new powers is of great concern to a national interest can pull an emergency brake and refer matters to the European Council for arbitration.

■ Under the treaty, the EU acquires a legal personality and takes on more democratic features including citizen initiatives. The legal entity can sue and be sued. It will have embassies that will interact with citizens and other governments. The EU Commission’s delegation in DC eventually will be turned into a EU Embassy.

Institutional changes

The Treaty of Lisbon amends the structure and composition of the main EU institutions, their scope and competencies. Some examples:

■ The European Parliament, which represents the interests of the people of Europe, has new extended policy areas including a reinforced role in the appointment of the European Commissioners. Although prospective commissioners are designated by their country, they still go through a series of interviews by Parliament.

“Most of the voting will be by majority; that is new too. A simple majority means only those present for the vote will count.

“This has been done in order to give Europe a better sense and better structure of democracy. Parliament is getting more powers and has larger numbers because there are more member states joining. The

EU Stats...

Population: About 500 million, ranked No. 3 after China’s 1.3 billion and India’s 1.06 billion.

Member States: 27

- Austria
- Belgium
- Bulgaria*
- Cyprus
- Czech Republic*
- Denmark*
- Estonia
- Finland
- France
- Germany
- Greece*
- Hungary*
- Ireland
- Italy
- Latvia*
- Lithuania*
- Luxembourg
- Malta
- Netherlands
- Poland*
- Portugal
- Romania*
- Slovakia
- Slovenia
- Spain
- Sweden*
- United Kingdom*

Eurozone members: 17

*Member states not currently using the euro as their currency.

“The three largest currency areas in the world – United States, euro area, Japan – together account for almost one-half of world output.”

- Christian Schneider
EU 27 has a population of about 500 million,” said Schneider.

■ The treaty has created the position of High Representative of the Union for Foreign Affairs and Security Policy which is also responsible for managing the European External Action Service (EEAS) made up of national civil servants, the Council and the Commission.

Rights and dignity
“A provision that has stirred controversy in the UK and among American businesses is the Charter of Fundamental Rights. It states that all Europeans have a certain right to dignity in the workplace; that workers must be consulted and informed before being fired or before a decision is made by the corporation that would negatively affect their personal wellbeing and that of their families,” said Schneider.

“The charter also regulates paid maternity/paternity leave stipulating 16 weeks of paid leave. Member states may go beyond this number and often do; Sweden, for example, has a parental leave policy that provides for more than a year of leave at descending levels of pay.”

Three countries – the UK, Poland and the Czech Republic – did not sign on to the charter, “fearing, among other reasons, a loss of their national sovereignty,” said Schneider.

“But such is diplomacy that you sometimes have to make exceptions to accommodate the interests of all parties.”

Under the treaty, a member state can exit the EU, something it was not previously able to do. The member state must first notify the European Council – the EU’s decision-making institution that represents national interests – of its intention to secede. A withdrawal agreement is then negotiated. “Because every member state has received huge funding over the years and is so tied in with the wellbeing of all the other member states, there is a vested interest on the part of the EU to retain the country,” said Schneider. “If after two years of negotiations the two sides fail to come to agreement the member state is released.”

However, there is no quitting the eurozone. “If you are a euro country you have the currency, ATM machines, cross-border pricing, export/import duties and tariffs all calibrated to the euro. You’d have to retool all your machines, build new ones and then you’d again be subject to currency fluctuations without the protections of the single currency euro. So once in the euro you stay there,” said Schneider.

Euro crisis
Schneider pointed out that the 17 countries that comprise the eurozone have a combined population of around 385 million and roughly match the US in terms of economic size. The eurozone has the world’s largest export share and its capital markets are second behind the US. Membership requirements are stringent and “many members today wouldn’t qualify; everybody is in deep trouble.”

■ A Greek tragedy. “Greece had been living beyond its means, running up a deficit of 13.6 percent in 2009 way over the allowed maximum of 3 percent of GDP set by the European Monetary Union which administers the euro.” Panic ensued in London and Wall Street and the value of the euro dropped by 10 percent.

Greece’s financial picture turned darker when “a new government revealed that the country had been cooking its books and delaying settling bills.” The sound heard around the world was the bursting of the credit and property bubbles which then hit Ireland and Spain and spread across the weaker eurozone countries.

The eurozone heads of state came to the rescue with a financial aid package amounting to euro 80 billion in bilateral loans from EU member states and euro 30 billion from the International Monetary Fund, for a total of euro 110 billion. “The goal is to reduce the budget deficit by 11 percent by the end of 2013, to under 3 percent of GDP by 2014,” said Schneider.

In the face of citizen protests, Greece has begun to introduce reform laws for the first time in decades pertaining to radically high pensions, corrupt healthcare and taxes.

The EU requires Greece to open up and deregulate the economy to restore competitiveness. “They are by no means out of trouble but they have come a long way.”

Irish woes. Ireland was doing well, attracting foreign investors, building its IT sector and creating jobs. Then they made a mistake. “Their troubles resulted from the lead banks following an unsustainable housing bubble, such as what happened in the US. In Sept. 2008, the country became the first eurozone government to enter recession when the residential and commercial property markets slumped and property values collapsed,” said Schneider.

“The Irish crisis is not a Greek-style development. In the first quarter of 2010 they declared themselves to be out of the reces-

The eurozone is learning the lessons of the Greek crisis by evolving and adapting.

■ The pain in Spain. “Spain is unusual among the eurozone countries in that its financial problems stem not from the government but from the private sector. The country’s national debt stock is about 53 percent of GDP – among the lowest in the eurozone – but private sector debt is 178 percent.”

How did that happen? According to Schneider, the private sector borrowed excessively during the boom, mainly to fund home building rather than productive investment. “Consequently, there are a lot of bad debts in both the corporate and banking sectors which undermine the ability of healthy companies to attract funding.”

Spain is now trying to balance the need for austerity with the need to use public spending to keep a sluggish economy growing amidst an unemployment rate of 20 percent.

Schneider expressed positive feelings about the prospects for Spain and Ireland. These are situations that can be controlled and fixed over time. Greece is much more complex because it touches so many sectors. The country is still on quicksand and needs to be fortified.”

Eurozone’s future?
Despite the problems in the eurozone, there is no fear of a currency union demise, said Schneider. Instead, the eurozone is learning the lessons of the Greek crisis by evolving and adapting. Among the reforms:

• a euro 750 billion plan to protect eurozone countries that might in the future be unable to finance themselves in credit markets;

• the establishment of three pan-EU watchdogs (based in Frankfurt, London, Paris) to oversee the supervision of banks, insurers and securities markets throughout the EU and calibrate the level of systemic risk their businesses pose;

• the creation of a European Systemic Risk Council to assess threats to regional financial stability.