

I won't speak much about Estonia. I will speak about the European Union and where it's going. I don't know whether you will like what I have to say or whether you will agree with what I have to say. But after 50 years of the EU as a model of peace, security and prosperity, expanding to make more or less liberal and democratic Europe a whole, I think many of us see the process as having ground to a halt. Old models don't seem to be working, enlargement seems to be dead, and I would say what we are faced with is a paradigm shift, or at least a decision point where we have to decide which paradigm to choose.

If we look at the EU, we see that there is a major change in the way that things, in the way governments were run with the creation of the EU. Pooled sovereignty, which people realize, was a way to overcome the depressing divisions and rubble remains of countries within the non-Communist side of the Iron Curtain. This was a brilliant move. I think we all can agree. Only the historically ignorant could refute or refuse to admit that the EU was a huge success. Getting Germany, France, Italy, Belgium, the Netherlands and Luxembourg to work together after World War II was one of the singular achievements, I think, of the 20th Century.

Not only did the EU bring prosperity, but also within NATO, security. For the first 30 years of the existence of the European Union, the implicit security idea behind the EU was that there, but for the grace of God, the Marshall Plan and the NATO umbrella, go we. Since we had the example to look at across the barbed wire.

I think there is little doubt that the EU model represents a unique approach to peace, security and prosperity. Unique, in that no multinational organization, or empire or anything else has managed to do what the European Union has done – to create out of chaos an economic and political entity that has quietly expanded to encompass most of what was considered Europe before World War Two. And did it because all its constituent parts wanted it. No one was dragged into this screaming and kicking. Voluntarily, European nation-states ceded that most hallowed of post-Westphalian notions, sovereignty, the view that internal policy – be it social, economic or human and civil rights – was not the subject of discussion by others. That was the premise of Westphalia, you will recall, the peace treaty that ended the Thirty Years War. Voluntarily ceding sovereignty was the redline that no had ever crossed before the EU, (although, we might argue that Article 5 of NATO is a possible exception). Empires had elicited, through conquest or other forms of annexation, a surrender of sovereignty, but always against the will of the populace and state, be it the partition of Poland or the annexation of the Baltic States under the Molotov-Ribbentrop Pact.

The question that we face today is, does what worked for the EU in the past apply as a guide to policy for the future? For it may indeed turn out that what worked in the past – a reliance on a strong trans-Atlantic presence, a willingness to put aside immediate national economic interest for a longer term general good, or enlargement as a mechanism to drive change and to guarantee liberal democracy and the rule of law – maybe, it's simply not politically possible any more. On the economic side, I don't think we have any doubts.

For this audience, I would highly recommend Barry Eichengreen's book *The European Economy Since 1945*, if you read that you will realize how fantastic economically the EU has been and that the free movement of goods, capital, people and, to the degree it is permitted, the free movement of services has only led to increased wealth generation on our continent. But, the question we need to ask 50 years after the creation of the European Union, and 55 or so after the Coal and Steel Community is whether we are still willing to engage in the same spirit of cooperation, the spirit of cooperation for all of our long-term benefit. And I'm not sure whether if we look at the tasks we face for the common energy policy today, which seem to be very, very difficult, and if we compare that to what Luxembourg, and Germany and France each had to do in order to establish the Coal and Steel Community, it seems that we don't have that spirit any more. Since it was no less, probably even more, difficult to create the Coal and Steel Community than it is today to develop a common energy policy, if you think about what the common energy policy entails and what was entailed by the Coal and Steel Community, but that spirit isn't there. I don't want to go into all the problems that we are facing, but rather I think we can all agree simply by looking at the news and the huge number of articles published in the last two weeks in connection with the anniversary of the European Union that the general tone is that things are not moving. That we are not getting where we want to be, that there's a slowdown, that the Constitutional Treaty is something that has just about ground to a halt and just about everyone is pessimistic about what can happen with that, and I would perhaps look at what the alternative is. But we forget that while it is true that it seems very difficult to move ahead with the Constitution, how we get over the French and the Dutch "no", how we deal with the UK, not to mention all the lesser disagreements that exist within the EU about the Constitutional Treaty, we forget that Europe is no less dynamic and it is constantly changing. In the past fifteen years since the collapse of Communism in Eastern Europe, the EU has changed beyond recognition from what it was 50 years ago as the EEC. From a Common Market, there has emerged a strong political union with its own foreign policy, in many of the countries its own money, and in half, or most of the countries, borderless frontiers. And in the past 15-16 years, since the collapse of Communism, the EU has grown from 12 to 27.

I think we would be kidding ourselves if we believe that the next 15 years will not bring changes in the EU just as large as the ones we have all witnessed in all of our living memories, assuming you are over a certain age. One thing is also clear: the EU with its almost half a billion population and 27 member states with its current method of decision-making will not long remain the way it is today. Decision-making and institutional arrangements that were appropriate, that worked well for a weakly and loosely bound free-trade area comprised of the

original six founding members simply will not work for a large and powerful political union. Consensus on moving in one direction or another, which was possible when a small group of Prime Ministers came together, no longer works. The paralysis that comes from an inability to agree on energy policy or services liberation, the PCA with Russia, assistance to Ukraine or Georgia, attitudes towards the United States, attitudes towards northern Africa, the fact that we cannot agree is not a state that can be maintained for long. Something will be undertaken. The sole question is what will be undertaken in order to come out of the current impasse. The solution will come at a time when, as Timothy Garnton Ash recently wrote, Europe has lost its plot. It can neither decide nor even agree on the most elementary and vital issues, such as whether or how to continue to enlarge, or anything else very fundamental.

The most logical solution, at least for simplifying decision-making is to adopt the Constitutional Treaty, which Chancellor Angela Merkel is doing her best to accomplish during the German Presidency. The Constitutional Treaty was written precisely to simplify decision-making in a far larger EU than the treaties that we operate on now. But after the French and Dutch “nos” in their respective referenda, where, like most “no” referenda, the voters answered completely different questions than the ones they were asked – neither the voters in the Netherlands or France answered the question do you want a Constitutional Treaty, they answered different questions, not whether they wanted the Constitutional Treaty. But given that it looks like the Constitutional Treaty is going to be problematic for a while, different solutions have been proposed. One, and the most likely, scenario is partial passage of the Constitutional Treaty text, the part that deals with institutional arrangements and the charter of fundamental rights. On the other hand, since the Treaty was a compromise among different states and representatives, it is also quite likely that any solution that does not include the entire Constitution will dissatisfy one party or another, which may in turn veto that.

Let me turn a little bit to what this means.

We tend to think that we, the new members of the EU, Poland, the Czechs, the Hungarians, the Poles, and the Baltic States are especially dynamic, in terms of economic growth, which is probably true. But we should not lull ourselves into thinking that others will sit still just because their economic growth is low. Besides, economic growth is one thing that has changed dramatically in our region, but political moods shift too. Many believe that the “no” votes in France and the Netherlands were caused by dissatisfaction with the 2004 enlargement and by the new competition entailed by the entrance of these members to a more or less level playing field that existed before. Although protest votes do not explain the whole result of the French and Dutch referenda, opinion polls nonetheless show that a deciding factor were the votes of those who did not want further enlargement or who did not like the enlargement to Eastern Europe.

Since the 2005 referenda, Europe has changed even more. Back then, the 2004 enlargement was still considered more or less positive, but even that understanding has changed in the past half-year or so, three-quarters of a year. I'm sure all of you read the international press, and since the middle of last year have noticed that the treatment of new, East European member states has become far more negative. I won't go into those articles, you've read them – be they in the English, German or French press, and if you read other lesser languages like Finnish, they appear there as well, not that Finnish is a lesser language, it's just that I can read Finnish.

Now it can also be that the picture was not particularly helped, in fact it can be said that it got worse when coincident with the entrance of Romania and Bulgaria, when one or two members from those countries joining the European Parliament allowed for the first time in European Parliament history for there to be enough extreme rightwing, xenophobic members of the EU to form a faction or a group receiving funding from the European Parliament. Again, it wasn't that the Bulgarians and the Romanians were rightwing extremists – they just had one or two people – and they had the same type of views from France, from the UK, from Austria, but bringing in these two countries brought in a few members to the European Parliament. And what did the press say, “Bulgaria and Romania's gift to Europe – a nationalist, extremist, rightwing parliamentary group in the Parliament. From a PR point of view, we are not doing well. By we, meaning we East Europeans. When the new member states do things that were completely typical and in no way unusual before, for the older member states, there is a different approach. When, for example, Poland uses the exact same veto – the kind of veto that was used previously by older member states –regarding the Russian-EU PCA in response to the Russian ban on Polish meat products – this is not an unknown tactic in the EU –but it is just that with Poland it is somehow different. And it is precisely the kind of thing that so-called old Europe has done all along.

Already before all the bad press of the past year there has been much that bothered the older member states. First there was the question of cheap labor and “social dumping” – a term that I'm not sure what that means, but it's used. Even though already in the 1980s, it was clear that the enlargement to Spain, Portugal and Greece, who were also supposedly resources of cheap labor, it was clear that this issue was completely blown out of proportion and with economic convergence this was basically resolved. Nonetheless, we do know how the image of the “Polish plumber” was used in the French referendum with great success. And this was appealing to xenophobia basically in order to stop the Treaty. There are additional problems with the new member states. They tend to have more liberal economic views than the old, as we clearly saw during the Services Directive, where we saw that the new member states, generally, parliamentarians especially in the European Parliament, had a more liberal view and tended to side with the UK, along with the Danes.

Also many new member states have different kinds of tax systems. We tax less than the old member states and many countries use a flat rate income tax, Estonia, Latvia, Lithuania, Slovakia, for example.

Last, but not least, to make life difficult for all of us, is the old member disenchantment with the new members from Eastern Europe on our foreign policy choices. The new member states do not evince the same anti-Americanism, that already since the 1960s is *comme il faut* if not *de rigueur* for those who wish to be *salon fähig*. The new member states' attitude toward the Iraq war, which, after all led the French President to issue his famous statement about badly brought up children who don't know when to shut up, is another example of where differences in foreign policy choices have come up. And we can also tag on a whole range of issues among the new members where there are different views specifically in foreign policy regarding continued enlargement (especially toward Ukraine), attitudes towards Russia, a more friendly attitude towards Israel, and these are all things that unfortunately divide us.

If we sum up these things: a decision paralysis due to the lack of a constitutional agreement and a deepening divide, I would say, between new and "difficult" states (to which we can also add the UK perhaps, and on the opt outs on the ESDP, Denmark) and on the other side integrationist, or older members, and I think if we put those together, we should be a little worried about where we will go.

Let me outline a few possible directions.

First of all I can say that one solution to this impasse is a *Directoire*, or a Europe of Large States. A few months back we could read how the EU Commission Vice-President Günther Verheugen suggested that small EU states should in the future perhaps be unrepresented in the Commission. Naturally, this met with criticism from the small states, but let's admit that the suggestion carried in it the frustration of what a treaty-less, or absence of a treaty in the EU of a half a billion brings about. There is no point in protesting this, I don't think it will come about, but we could also reasonably ask whether there is any correlation between the size of a country and the ability or IQ of the commissioner that it sends there. In my experience there is not that much correlation.

Unfortunately, few in fact have noticed that a *Directoire* or directorate of large EU member states has been operating already for some time, quietly and without much of a to-do. Since 2003, the G6, the so-called G6, of the EU large countries – Germany, UK, France, Italy, Spain

and now Poland has been meeting regularly, but informally, to discuss important issues without the participation of the small. The Interior Minister of the current Presidency, Wolfgang Schäuble said that we need to do this. I'll translate back into English what I wrote for my Estonian-language paper, basically, more or less what he said was "If we try to deal too much with questions at formal meetings of the Council not all states are satisfied with its effectiveness. Informal preparations on the part of the G6 increase effectiveness, if it is done properly, and added that every large EU country that meets before the Council like this should basically inform and coordinate positions with smaller EU member states."

That the so-called large, and with the exception of Poland, older member states gather and coordinate their position before the small members are allowed to the discussion table, to my mind, is one of the best justifications for a European Constitutional Treaty and reason to enact it. If the Constitutional Treaty does not quite sit with one or another small member state, then the small states should be prepared to admit that things will be decided without us at all.

What I personally fear is that these informal meetings might become a more formal Directorate or even a Core. I would say that this is a creeping Core-ization in the EU, which Schäuble himself considers a very good model for this kind of cooperation the Prüm Treaty, signed in 2005 by seven EU members – Belgium, Germany, Spain, France, Luxembourg, the Netherlands and Austria – which deals with crime, terrorism, and illegal migration. It is a treaty among EU members but is completely outside the EU legal space, so it deals with EU issues that are core issues for the EU, but seven countries in the EU decided to have a separate treaty outside the EU legal position. And I think we should get worried when formal, treaty-based structures consisting solely of EU member states, but outside EU legal space, begin to work in the EU.

But we can also say that in the EU legal space there are already two rather effective structures, where there are no new member states except for Slovenia – the Eurozone and the Schengen. In the case of Schengen, we do think that well perhaps by next year you won't have to worry so much about it that the new member states should be able to join next year.

When it comes to the Eurozone, it's a little more complex. Because, basically if you look right now at where the new member states are, their chances for joining the Eurozone are fairly small, there where the countries want to join, and other countries don't even want to join. Basically this comes from the fact that all these countries, mine for example, if you have 11% growth then you're not going to have very low inflation. It's just impossible to avoid, you can't have one without the other. If you look at the possibilities offered by fiscal coordination in the Eurozone, it should be clear to every thinking person that one of the most effective solutions for

the crisis of indecision would be to build a political superstructure on the Eurozone. If part of Europe already coordinates its fiscal policy, it's obligated to follow strict rules on deficits and other issues, then how long until some people arrive at the understanding that questions so closely tied to fiscal policy as tax and social policy should also be coordinated?

It didn't take much time, because in 2005 December, Guy Verhofstadt, the Prime Minister of Belgium came out with his booklet, *The United States of Europe*, which proposed precisely this. Frustrated by the failure of the Constitutional Treaty and the paralysis of decision-making, Verhofstadt proposed that a smaller group of member states within the EU could form a political core, with which others may or may not join, based on whether they want to.

Building the internal structure of the EU based on the Eurozone might be appealing to some, not only because it is logical, but also as a way to solve internal tensions. Political integration might be much easier in the Eurozone without them. And you won't have to deal with opposition to tax harmonization, opposition to social harmonization, where you might have a much different attitude to enlargement.

The question is, what is difficult to answer is how probable is a political structure based on the euro. On the one hand, if Angela Merkel manages to move us forward on the Constitution, then I think it's less probable, on the other hand if the frustration with our inability to reach decisions in the EU continues, then the probability increases.

And I will conclude shortly.

Many of us in Eastern Europe will say that let them harmonize tax policy and let them harmonize social policy, that's OK with us. But what will we think when this same Core Europe comes about and starts to harmonize its Russian policy or its US policy or its energy policy without the participation of the new member states? Having just finished a long struggle to get into the EU, once again to be on the outside all over again. And how much can we influence decisions made on the inside when we are once again on the outside.

I think I have painted a somewhat bleak picture, but I think this is completely a possible scenario and direction for the EU to move toward and this is why I am such a strong supporter of the Constitutional Treaty. Because I think the Constitutional Treaty is the one way to avoid the

picture that I have painted today. The problem with the Constitutional Treaty is that everyone finds something in it that they don't like. We don't like it, you don't like it, and the French don't like it. But if we each find something we don't like, and say therefore no Treaty, then I come back to my initial point which is that the EU will not sit around and do nothing. It will do something and it will find some solution. And what I've tried to outline here are the possible solutions.

So if we don't have a Constitutional Treaty, it is going to be either a Directoire, or it's going to be a Core, and I don't see much option for anything else other than say dissolution of the EU. But I think no one's going to really allow that. No one's going to say "Oops", let's stop because it's too successful, and it has been too successful for 50 years.

But I think what we need to do is to go back to the original ideas that we had – or which we didn't have because (a) I was three years and secondly, the East Europeans didn't have much of a chance to think about these things, because most East Europeans were on the other side of barbed wire – but we need to go back to the original spirit of the Coal and Steel Community, the initial spirit of the Treaty of Rome, and try to really place ourselves in the position of how difficult it was for them back then to overcome, for the first time ever, the Westphalian idea that our immediate national interests are second to the combined interests of the EEC at the time, understanding that it benefits all of us.

So that's my plea basically, for everyone to take seriously the Constitutional Treaty, since I had been undecided reading all these articles saying how bad the Constitutional Treaty is and exploring the alternatives to the Constitutional Treaty. For those of you who know German, Elmar Brok has put it very nicely, which was "der Fassung oder der Hofstaat". If you don't do a Constitutional Treaty you are going to get a Core, "der Fassung oder der Hofstaat" sums it up very nicely.