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Europe must heed the lessons of Lisbon on energy policy

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The first six months of 2007 have been momentous ones for the European Union. In January, the accession of Bulgaria and Romania completed its eastern enlargement. In March, it set itself ambitious targets for a common energy and climate change strategy. And in June it reached agreement on a new draft treaty. José Manuel Barroso, European Commission president, and Angela Merkel, the German chancellor whose country then held the rotating presidency of the European Council, deserve their holidays: there could have been worse ways to mark the 50th anniversary of the Treaty of Rome.

The EU, however, needs more than a series of successful deals to redefine itself in a fast-changing environment. It needs a purpose and an agenda. The question, therefore, is how those three achievements relate to each other, and whether they jointly contribute to defining a path forward.

Let us start with enlargement. The addition of 12 new members that jointly account for one-fifth of its population but less than one-15th of its gross domestic product has changed the nature of the EU. However the challenge is frequently underestimated. In a nutshell, a more diverse membership calls for decentralisation but a larger membership also means that the transaction costs involved intailor-made approaches easily become excessive.

Nowhere is this challenge more apparent than for the Lisbon agenda for growth and jobs. Over and above the deficiencies of the governance system put in place to implement it, the very notion that the EU can set objectives and monitor the corresponding reform efforts for 27 countries whose GDP per capita differ by a factor of one to four is disputable.

How, for example, can it decide who should increase spending on research and development, assuming the EU as a whole needs to spend 3 per cent of its GDP? In a Europe of 27, efficiency calls for assigning responsibility to the EU in areas where it can add significant value, while keeping decisions decentralised elsewhere.

However, during the past decade, the EU has often been doing the opposite. This started in the mid-1990s, when the EU realised that its traditional integration agenda was running out of steam, and tried to reinvent itself with a joint reform agenda.

From the economic policy guidelines of Maastricht to the Lisbon agenda, the focus of the EU has been on economic competitiveness and reform. However, raising economic performance requires reforms at member-state level not at an EU level. Procedures and committees were created to bridge the contradiction, and this approach has delivered some results, but not many. It is likely to yield even lower returns in the enlarged Union.

These lessons must be learnt if the EU is to act successfully on energy and the environment. Beyond the specifics, what matters here is that a new experiment was launched that could either turn into a new Lisbon or help define new avenues for the EU.

The starting point is that Europeans collectively hold similar preferences as regards climate change and share a similar energy dependence. As pointed out by Lars-Hendrik Röller, Juan Delgado and Hans Friederiszick in a recent study, the underlying rationale for joint action is that the trade-offs between security of supply, climate preservation and competitiveness are likely to be less severe at the EU level than at national level.

Some countries have a competitive advantage in renewables, some have better access to diversified supplies. All would gain from specialising and from relying on a deeper market. And from a competitiveness standpoint, all would see an advantage in their main trading partners using the same price system as theirs.

Success is by no means guaranteed. There is a risk that governments have agreed on goals only, not on means, and regard energy security as too serious a duty to be shared with neighbours. If so, the common endeavour could turn into a kind of Lisbon II or fall victim to economic nationalism.

There is however another possible outcome, which would require defining what precise dimensions of the energy and environment policy belong to the EU, and what the Union needs to implement them.

Such an approach does not imply uniform energy choices but it does require a truly integrated market and caps on carbon dioxide emissions. Its logical implications are that those CO_2 emissions caps and the subsidies for renewables should be defined at EU, not national, level.

It also entails putting a common value on the risk of supply disruptions, as shortages would affect all member states in a true single market. In short, it implies that member states should be free to conduct their own policies but within the framework of a single EU price system.

If successful, the experiment has the potential to be an object lesson in how to address the challenge of diversity among 27 countries, and how to clarify the respective tasks of the EU and the member states. It could help in redefining the EU as what could be called a "Europe of public goods", where the assignment of responsibilities is based on preferences and economies of scale. From migration to banking supervision, there is an array of other policy fields where the combination of common policy preferences and a unified market could form the basis of new EU competencies. From agricultural support to value added tax rates, there is also an array of fields where decentralisation should take place. The upcoming budget review of 2008-09 offers an excellent opportunity for such a redefinition.

Will the new draft reform treaty contribute to such a purpose? If ratified, it will certainly help by extending the scope for decision by qualified majority voting and by removing the risk of stalemate inherent in the current voting system, in which a qualified majority amounts to near-unanimity.

But the new treaty is also in many ways an embodiment of the EU of the past and of pre-enlargement developments of the past decade. It does not include the clearer delimitation of powers initially aimed for after the negotiation of the Nice treaty, and tends on the contrary to institutionalise mission-creep and assignment overlaps.

Through the introduction of a longer-term presidency for the European Council, the new treaty also gives a stronger role to this body and a somewhat lesser one to the Commission, at the risk of reducing the Union's ability to take on specific tasks and be accountable for them. In short, the new treaty risks providing the institutional set-up for the Europe of Lisbon at a time when the EU needs to reinvent itself in the post-enlargement context.

This was probably unavoidable, as institutions always lag behind reality. But it also suggests that this fifth treaty change in less than 25 years is unlikely to be as lasting as some of its architects had hoped. The first semester of 2007 was a vintage one, but there is more to do.