PROJECT EUROPE 2030

Challenges and Opportunities

A report to the European Council
by the Reflection Group
on the Future of the EU 2030

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FROM MEMBERS OF THE REFLECTION GROUP TO THE EUROPEAN COUNCIL

Dear President and Members of the European Council,

We have the honour of submitting the report requested by the European Council, at its meeting in Brussels on 14 December 2007, on the challenges that are likely to face the EU in 2030 and how we might address them.

This Report reflects the work of a diverse group of individuals with diverse priorities and interests. It is the outcome of lengthy debates and discussions, and as such it represents both consensus and compromise. Not all the proposals have every Member's support, but every Member supports the majority of its contents.

The uncertainty which characterises our times has made the task entrusted to us particularly difficult. We were forced to base our analysis only on those long-term trends that are easier to discern.

Our findings are reassuring neither to the Union nor to our citizens: a global economic crisis; States coming to the rescue of banks; ageing populations threatening the competitiveness of our economies and the sustainability of our social models; downward pressure on costs and wages; the challenges of climate change and increasing energy dependence; and the Eastward shift in the global distribution of production and savings. And on top of this, the threats of terrorism, organised crime and the proliferation of weapons of mass destruction hang over us.

Will the EU be able to maintain and increase its level of prosperity in this changing world? Will it be able to promote and defend Europe's values and interests?

Our answer is positive. The EU can be an agent of change in the world, a trend-setter, and not just a passive witness. But this will only be possible if we work together; the challenges ahead are too large for any European country to address on their own. Our ability to influence developments beyond our borders will in turn depend on our capacity to secure solid growth and internal cohesion within the Union. This is the conclusion reached by our Reflection Group, following intensive deliberations and consultations with numerous experts and institutions.

All our members agree on one fundamental issue: **Europe is currently at a turning point in its history. We will only overcome the challenges which lie ahead if all of us - politicians, citizens, employers and employees – are able to pull together with a new common purpose defined by the needs of the current age.**

Since our group was established, Europe has seen a number of important developments, including the institutional crisis caused by the rejection of the Lisbon Treaty, and the recent financial crisis which has triggered a global recession.

The successful ratification of the Lisbon Treaty allowed us to end a long period of introspection which had distracted the Union from the major challenges affecting our future.

Unfortunately, the financial crisis, which was the result of shortcomings in the functioning and supervision of our financial institutions, is still with us today. The situation within the Union, and therefore our own reflections, have been deeply affected by the social, economic and political ramifications of the crisis. **At this crucial juncture, the EU needs to act decisively and together in avoiding protectionist temptations.**

This crisis, whose origins lie on the other side of the Atlantic, has affected Europe more than any other region of the world by uncovering structural weaknesses in the European economy that have long been diagnosed but too often ignored.

The crisis has therefore acted as a wake-up call for Europe to respond to the changing global order. As with all transformations, the emerging order will result in new winners and losers. If Europe does not want to be among the losers, it needs to look outwards and embark on an ambitious long-term reform programme for the next twenty years.

EU leaders must continue adopting measures to overcome the current crisis but these must be connected to the medium and long-term reforms which the Union needs. We speak of the Union because of our Single Market, because of our common currency and our stability and growth pact which mean we are interdependent. Europeans must tackle the crisis together, or each see our respective initiatives fail.

In order to exit fully from the crisis, we must continue the stimulus measures until our economies can function on their own. If spending is cut too early, our recovery could slip into reverse. Our top priority must remain creating jobs and growth. And those Member States that can no longer afford to spend, due to costly rescue operations, rising social expenditure and declining sources of revenue, will have to rely on the EU and other Member States to take the lead in setting up the conditions for economic recovery.

Strengthening economic governance in the EU is urgently needed if we are to avoid the asymmetric shocks which derive from the co-existence of our monetary union and single market with divergent economic policies. The origins of the crisis had little to do with the Euro and Stability and Growth Pact, but these mechanisms have not been sufficient to ensure economic convergence during the crisis. The EU needs to find solutions to the existing imbalances between Member States, by examining and **correcting the losses in competitiveness reflected in balance of payments and current account deficits.** These issues need to be included in the Union's convergence criteria and an instrument for ensuring monetary stability is needed to confront unforeseen crises.

If the EU is to avoid a repeat of the crisis, it must urgently undertake reforms to the functioning and supervision of our financial institutions. Today, these financial institutions have changed few of the practices which led to the crisis, except to significantly reduce their lending. It would be desirable for these reforms to be coordinated among the G20, but until this happens, the EU must develop its own regulatory norms and mechanisms for control and supervision. Our citizens will simply not tolerate another rescue operation on the scale we have witnessed.

Looking to the 2030 horizon, **Europeans will need a highly competitive and sustainable social market economy in order to maintain social cohesion and fight against climate change.**

This will require an ambitious reform programme with clear priorities and much more effective enforcement mechanisms than the Open Method of Coordination can provide. In this context, we assume that the Commission's new Europe2020 strategy will form part of this major endeavour.

The EU must therefore implement without further delay the structural reforms that are still pending from the Lisbon Agenda. This will require reforming the new strategy's implementation mechanisms, by means of a more effective system of incentives, to ensure that the objectives decided by the European Council and other European institutions are actually met.

Human capital is the key strategic instrument for ensuring success in the global economy. And yet, Europe has lost considerable ground in the race to a knowledge economy. Catching up will require a coordinated effort. Member States must mobilise the resources they agreed to invest in R&D, with the help of the private sector, and reform all aspects of education, including professional training. The Union must also act through its own revised budgetary instruments, while

making better use of the European Investment Bank and the European Investment Fund. Finally, we need to consider the possibility of opening up new sources of revenue, for instance through the imposition of a carbon tax.

The EU needs to implement a common energy policy with both internal and external dimensions that will allow us to achieve greater energy efficiency and savings of the kind advocated in the Europe2020 strategy, and diversify our energy supplies from third countries. Europeans also need to embark on a serious discussion about the need for safe nuclear energy in Europe, and to define the contours of a permanent system of incentives for the development of alternative energy sources.

The EU must continue leading the fight against climate change. Yet, in order to be more effective and relevant in the emerging world order it must avoid repeating the mistakes we made in Copenhagen. It will be necessary to develop a truly common negotiation strategy which would allow us to defend our interests better.

Europeans must tackle our demographic challenge. If urgent measures are not taken, our ageing societies will put unsustainable pressure on our pension, health and welfare systems, and undermine our economic competitiveness. Priority measures must include increasing the proportion of women in the workforce; facilitating a better work-life balance; reforming our approach to retirement, so that it is seen as a right and not an obligation; and developing a more pro-active immigration policy suited to our demographic and labour market needs.

The EU must strengthen the Single Market against temptations of economic nationalism and complete it to include services, the digital society and other sectors, which are likely to become the main drivers of growth and job creation in a market of 500 million users and consumers. **The strengthening and completion of the Single Market should be accompanied by improved tax coordination.**

Europeans must reform the labour market and modernise our corporate governance practices. If we are to fully realise the potential of the technological revolution, we must make major changes to our labour market structures. Some Member States have already implemented successful reforms based on the model of flexicurity; we have to learn from these experiences while adapting them to our different national circumstances. We must increase the employability of our workers and the flexibility of our companies in an economy that is in constant flux. Improving labour productivity must become a priority, and productivity gains must be made directly proportionate to levels of income.

Addressing these challenges will not require changes to the Treaty. Nor, in accordance with our mandate, does the report rigorously distinguish between the different levels of power or at what level action has to be taken. We are not concerned about who should act, but rather which is the right course of action to take, and without further delay. This also means that it is urgent to assess existing budgetary levels and priorities, including both the funding earmarked by the Union and that assigned by the Member States in pursuit of priorities agreed at EU level. When ambitious objectives are pursued with limited resources and weak implementation mechanisms, we have a recipe for disappointment.

If the EU is to achieve its goals, **the European Council and the Eurogroup will need to strengthen their leadership role, in coordination with the Commission and the European Parliament.**

As we embark on these reforms, we must take full advantage of the new tools contained in the Treaty of Lisbon to develop greater citizen participation in the Union; an effective internal and external security policy; more solid relationships with our neighbours; and the ability to represent our interests abroad.

The EU project should also become a citizens' project. Our citizens are convinced, often more than their leaders, as surveys show, that it is in the interest of the Union and its Member States for the EU to become a more relevant and effective global player, and to speak with one voice in its efforts to promote our common interests.

Our citizens demand greater European coordination in the fight against organized crime and terrorism, because they know this is the only way to address these challenges in an area where people are free to move across borders.

Our citizens realize that our wellbeing, development and security are linked to those of our neighbours, with whom we must develop especially close cooperation in pursuit of our common interests.

Our citizens know that our foreign policies will be more powerful and effective if we are able to act together in defence of our interests, and not in a show of disunity where each Member State competes for a starring role in the style of bygone years.

Our citizens want the European Union to serve their interests, and therefore expect their social, civil, family and employment rights to accompany them wherever they may move within the Union. It is by guaranteeing the portability of social rights that the Union will become more meaningful to our citizens.

All of this calls for a new compact between the European institutions and economic and social actors; and between different levels of power – national, regional and local. Above all, **the situation calls for strong political leadership,** a form of leadership marked by the capacity to sustain an honest and fruitful dialogue with citizens and to govern in partnership. Ensuring the support of our citizens will be vital, not only for the Union to withstand the social and economic impact of the crisis but also for it to undertake the structural reforms needed if Europe is to emerge stronger in the future.

The EU is more than a common market. It is also a Union of values. With the support of the citizens of Europe the EU can lead efforts to address major global challenges. Confronted by a crisis which they did not create, our citizens will only renew their belief in the European project if their leaders are honest with them about the scale of the challenges ahead, and if they are called upon to make efforts comparable to those that brought prosperity to Europe after the Second World War.

Sincerely yours,

Members of the Reflection Group

Felipe González Márquez, Chairman

Vaira Vīķe-Freiberga, Vice-Chair

Jorma Ollila, Vice-Chair

Lykke Friis (Until November 2009)

Rem Koolhaas

Richard Lambert

Mario Monti

Rainer Münz

Kalypso Nicolaïdis

Nicole Notat

Wolfgang Schuster

Lech Wałęsa

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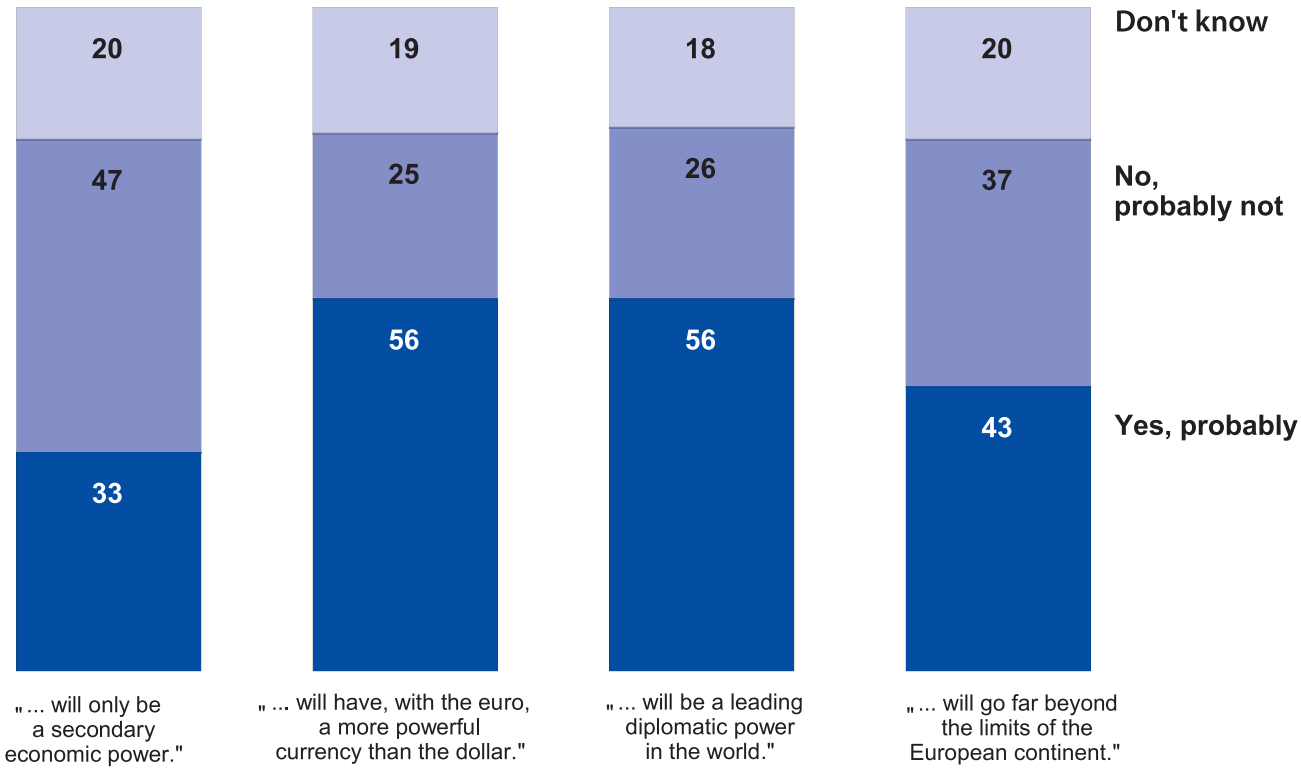
THE EU HAS A CHOICE

Since the end of the Cold War, the speed and scope of change has been breathtaking. The last twenty years have left nothing untouched: how we work, how we consume, how we travel, how we relate to each other, the reasons we empathise, the issues that scare us have all been transformed. And most of these changes have caught us by surprise. The global financial crisis is only the latest in a series of events which have shaken our convictions and belief systems. For the first time in Europe's recent history there is widespread fear that today's children will be less well off than their parents' generation. Today, we live an age of insecurity.

This situation poses an unprecedented challenge for the European Union. During most of its existence, it constituted an anchor of internal stability, creating peace, democracy and a fair share of prosperity on half of the continent following the Second World War. In time, it brought Europe's other half on board through a process of unprecedented political and economic integration. These successes allowed the EU to become the world's largest economic power, encompassing a single market and currency. And yet, as European citizens peer into an ever more complex and uncertain future, they do so without the common purpose which characterised the post-war years.

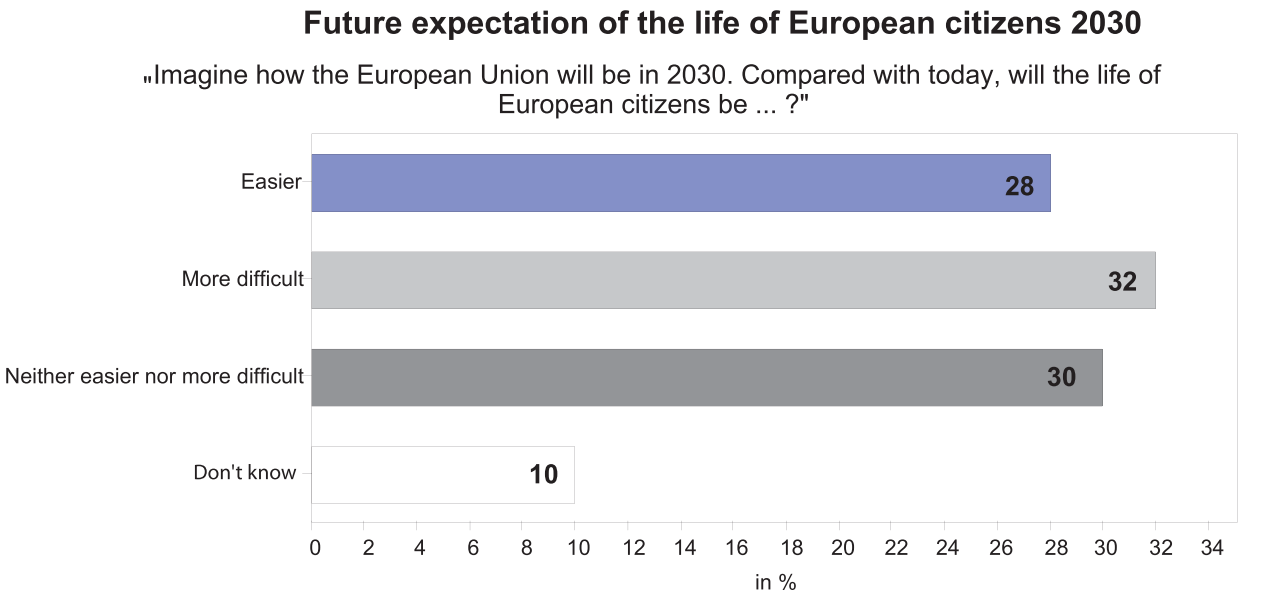
Future expectation of the European Union 2030

„For each of the following, please tell me if in your opinion, in 2030, the European Union ... ?"



in %

Source: Eurobarometer 6/2009; EU 27



Source: Eurobarometer 6/2009; EU 27

The EU's past achievements were focussed on its own corner of the world. During successive stages of integration, Europe's external environment remained relatively stable. Today the situation could not be more different. Rapid changes are sweeping across the world. In the next twenty years, there will not only be several poles of power, but the world's centre of gravity will also have shifted – to Asia and the global south, to new public and private actors, upwards to transnational institutions. The challenges which Europe faces today stem as much from developments outside its borders as they do from the EU's timidity in responding to them. If the Union is to secure its future, it will need to adjust its objectives and policies to cope with this fast-changing world.

Facing up to the world's dramatic transformations

If the last twenty years have been disruptive, the next twenty are likely to be even more unsettling. A new multi-polar world is emerging where power is more diffuse and international dynamics more complex. With slower growth than its main competitors, the EU's share of global wealth is inevitably declining. The EU's human capital has long underpinned its economy, based on cutting-edge innovation and creativity. But other regions are now moving ahead through higher levels of investment in research, technological development and innovation. By 2030 Asia is expected to be at the forefront of scientific and technological developments, producing high-value goods capable of transforming production and overall quality of life.

As the emerging economies catch up with living standards in the advanced industrialised world, the global consumption of energy is increasing. By 2030 world energy requirements are likely to be 50 per cent higher than today, with fossil fuels representing 80 per cent of supply. Dependence on energy imports is set to increase, with the EU importing nearly two thirds of its needs. In addition, the availability of energy and other essential resources is likely to be adversely affected by climate change and many predict severe shortages by 2030. Price volatility and supply uncertainties will also be exacerbated by political volatility in energy-rich countries. Renewable energy will have grown more rapidly than traditional energy sources, but by 2030 it will still only represent a small part of world energy supply. Compounding this trend is our failure to curb losses in biodiversity, with serious implications for long-term economic sustainability.

All this is taking place against a background of sweeping societal transformations in our countries. In an ageing society with almost twice as many people over-65 per worker as today, EU Member States will have to make considerable efforts to finance their social support

regimes and to retain older people in the workforce. As the domestic supply of labour and skills declines, Europe will need to attract more migrant workers, with consequences for our ability to manage societal integration. Finally, a technological and communications revolution is changing both our private and professional relationships, imposing new patterns of life and work which many find too difficult to cope with.

The choice for the EU is clear: reform or decline

Many of these developments have been accelerated by the current financial and economic crisis, the worst crisis of its kind since the Great Depression, and one from which the EU will take some years to fully recover. The crisis has highlighted the structural weaknesses which underlie most of the European economy: lower productivity, structural unemployment, inadequate labour market flexibility, outdated skills and poor growth.
At the same time, the softer impact of the crisis in countries such as China and India and their much faster recovery have led many to take a less benign view of the rapid changes affecting the world economy. Today there is concern that emerging economies might realise their full economic potential while taking advantage of Europe's structural weaknesses. In truth, current shifts in economic output can be mutually beneficial, leading to increased levels of investment, trade and consumption on all sides. But the EU cannot assume that the "rise of the rest" will necessarily result in a win-win situation. If the EU does not adjust to the needs of the global economy, there is a real danger that Europe's relative decline may become absolute.

After 50 years of consolidation, through both deepening and widening, the EU faces a fundamental choice. 2010 could mark the beginning of a new phase for the EU and the next 50 years could be about Europe's role as an assertive global actor or, alternatively, the Union and its Member States could slide into marginalisation, becoming an increasingly irrelevant western peninsula of the Asian continent.
Embracing a global ambition should not result in scaling back domestic reforms, far from it; external influence cannot be achieved without solid growth and internal cohesion throughout the European Union. But our current era has decisively become a global one, a transformation which is creating new winners and losers. If we do not want to join the losing ranks, we have to take bold action now.

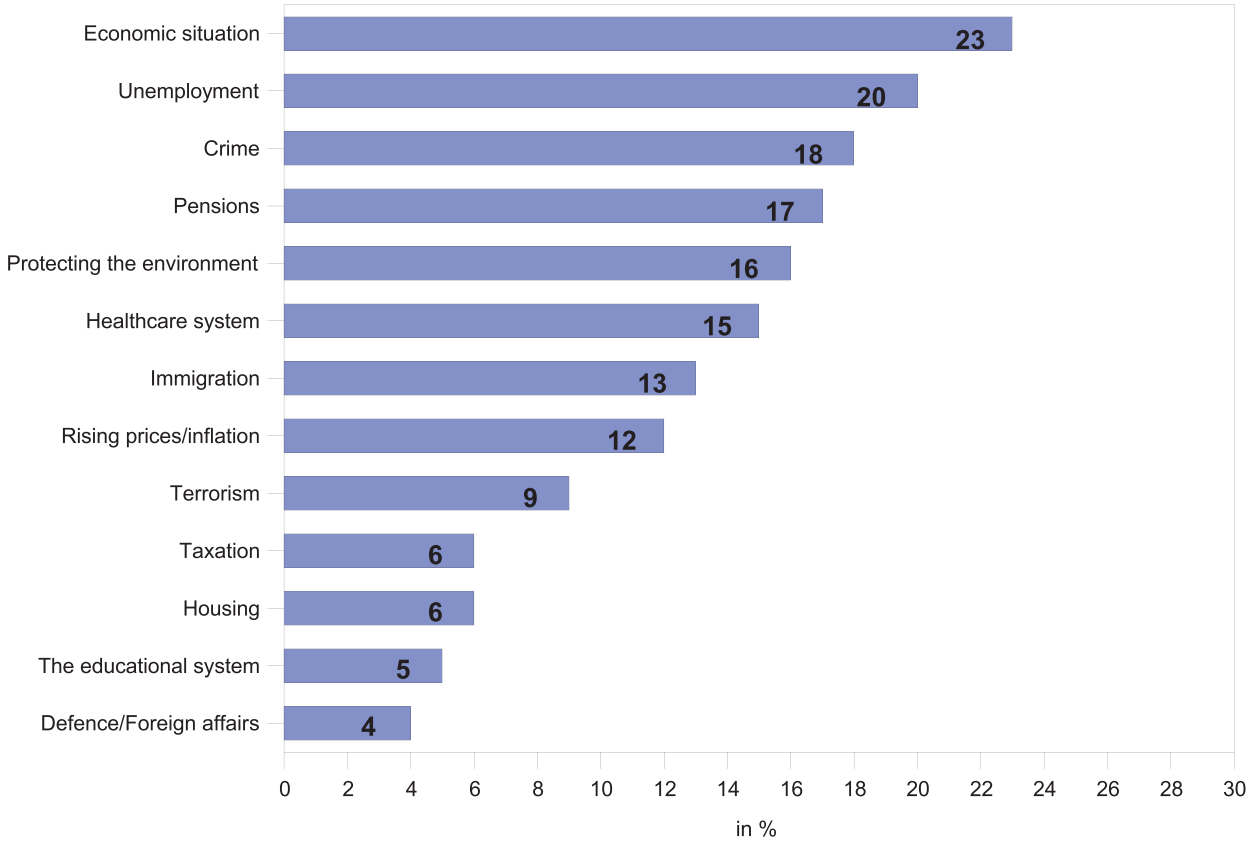
Why the European Union?

The challenges we face today are different to those of the past and call for different responses. Whether we look at relative demographic and economic decline, climate change or energy shortages the challenges can only be properly understood and tackled when situated in a regional and global context. This is where the EU as an entity, which is much more than the sum of its Member States, can demonstrate its value. By combining multiple levels of power, from the global to the local, the EU is more capable than any Member State of meeting the major trials of the 21st century. This will not happen automatically. Even if the EU enjoys the necessary structures and instruments, these need to be harnessed by the Member States with determination – and for the right purpose. Fundamentally, the EU's common agenda boils down to two overarching and integrated challenges: ensuring the sustainability of our social and economic model; and developing the means to support and defend this model, along with our common values and interests, in the global arena. The Commission's new 'Europe2020' agenda should therefore be supported, yet ultimately will need to be embedded in a broader perspective.

For the EU to become an effective and dynamic global player, it will also need to shift solidarity to the heart of the European project. Solidarity is not an unconditional

Important issues facing in 2030

„Still imagining what 2030 will be like, in your opinion, what will be the two most important issues facing (OUR COUNTRY) in 2030?" (MAX. 2 ANSWERS)



Don't know : 8 %

Source: Eurobarometer 6/2009; EU 27

entitlement – it depends on individual and collective responsibility. As such, it can and must inform EU policymaking and relations at all levels, between individuals and generations and between localities, regions and Member States.

Yet European citizens are still hard-pressed to find answers to their problems in the EU. If our mission is to be shared, politicians and citizens must take ownership of the European venture. If governments continue as and when it suits them to treat the EU and its institutions as alien or hostile, there is little hope of creating the kind of popular identification with the EU which is needed for its success. On the contrary, renewing the support of its citizens by enabling greater participation and transparency is what a successful EU requires.

RENEWING EUROPE'S ECONOMIC AND SOCIAL MODEL

At the heart of the European community is a distinctive economic and social model, referred to as a 'highly competitive Social Market Economy' in the Lisbon Treaty. A number of variants of this model exist with qualitatively varying performances, but they all fit broadly within a common framework. Based on the idea that economic growth should be pursued through the market for social ends, the model enjoys wide public acceptance. It helped transform Europe after the Second World War into an area of powerful industries and services with strong employment creation potential which, in turn, allowed for a fair system of social protection. A "virtuous circle" was thus completed, binding together solidarity, responsibility and competitiveness.

Yet against the background of new domestic and global pressures, this model needs to be re-defined and adapted to a changing context. In the last two decades, the EU's potential to generate growth and jobs, and consequently to improve living standards, has lagged behind that of its main trading partners. Although some of its Member States have managed to break this mould, overall the situation continues to this day. By revealing structural weaknesses in the European economy, the current financial and economic crisis has acted as a wake-up call. Faced with the increasing competitiveness of the emerging and developed economies, the EU must embark on a bold new reform programme aimed at achieving higher economic efficiency.

At the same time, the consensus that exists around the model depends on a continued balance between its social and market dimensions. This balance has been

Market in the city – in the end, all business is local. Photo: Schubert

Vocational training and education programmes for professional success. Photo: Hass

disrupted over time as social inequalities have increased. For some EU citizens, social exclusion and poor working conditions are still a reality. The answer to this problem is not an end to economic reform. On the contrary, a renewed emphasis on increasing economic efficiency needs to go hand in hand with new social policies. In other words, the sustainability of Europe's economic and social model will depend on our ability to restore a dynamic equilibrium between the economic, social and environmental dimensions of development.

The quest for growth and jobs

A strong and globally competitive economy characterised by high productivity is a precondition for improving living standards. Economic growth is increasingly based on technological change and enhanced specialisation in the context of deepening globalisation. These developments affect workers and companies as well as the operation of markets and the management of companies through a process of structural change. Digitalisation is increasing the scope for outsourcing, and the ICT-revolution may give ample scope for growth in productivity for decades to come.

The EU can enhance the growth process by further developing the internal market, e.g. in the area of services, as well as by fighting all forms of protectionism and enhancing a successful completion of the Doha round. Unnecessary burdens on labour and companies must not stifle the growth of dynamic and innovative service production while entrepreneurship and risk taking should be encouraged. Our shared vision is that technological change, globalisation and ageing populations call for urgent structural reforms with a view to enhancing flexibility, competitiveness and dynamism.

Reforming the labour market is central to creating more and better jobs. Member States should aim at improving three key aspects of their labour markets: the flexibility and security of their workforce ("flexicurity"); labour mobility; and the culture and management practices of enterprises. Workforce participation rates must also be increased (see section on demography below).

The capacity of the workforce to adapt to constant shifts in production is a key element in maintaining productivity. Labour flexibility needs to have its counterpart in labour security. In a fast-changing world

it is not jobs that need to be protected, but rather the person who loses a job by enhancing his or her employability. "Flexicurity" is the best way to provide this protection, by allowing workers to take advantage of shifting labour markets and make the transition to better jobs. Central to this approach is the capacity to acquire and adapt skills over the course of a lifetime, combined with the conditions for transporting skills between and within Member States.

Today, it is still difficult for workers and entrepreneurs to access and understand the rules and regulations which apply to taking up employment or starting a new business. While "red tape" cannot be legislated out of existence, it should not be a barrier to mobility. Most importantly, social security rights should, once and for all, be readily transportable between Member States. The recognition of qualifications across the EU needs to be ensured, and multilingualism encouraged. The EU should also develop a new "professional transition policy" in order to encourage and facilitate transitions between jobs as well as support the Union's social dimension.

Finally, far-reaching changes are needed in the culture and management practices of enterprises if efforts to upgrade the skills of their workforce are to succeed. Companies will need to be more supportive of workforce initiatives and open innovation to improve competitiveness through new production processes and technologies. They will also need to foster a culture of ownership in the enterprise.

Realising Europe's social ambitions through new targeted policies

This new push for economic reform must be accompanied by new targeted measures aimed at enhancing security and solidarity for the individual. Social support systems deserve robust protection against abuse or "moral hazard". Rights and entitlements must be balanced with responsibilities and obligations. In particular, social security systems should be adapted in favour of rapid reintegration into the labour market rather than long-term support of people of working age.

In light of the existing division of competences on social policies, priority should be given to clearly defined and commonly agreed targets, as recommended by the 'Europe2020' agenda. Member States should take the lead in eliminating unfair situations which result from two-tier labour markets in which groups of employees benefit from the protection of long-term contracts, whilst others remain unprotected and under constant threat of dismissal.

Likewise, Member States should dedicate adequate resources to fighting against social exclusion, poverty, and gender discrimination, by, for example, implementing existing EU legislation to ensure agreed minimum standards. A crucial part of this endeavour will involve empowering job-seekers and other social partners. The improvement of the information available at the European Employment Service (EURES) and the extension of the availability of e-infrastructure to houses, schools and businesses, would mark a solid start.

By providing adequate coordination in the area of social and tax policy, the EU can support the capacity of its Member States to pursue social objectives in accordance with their individual preferences without causing distortions of competition or undermining the Single Market. The European Investment Bank and European Social Fund should be fully harnessed in support of anti-poverty and social cohesion goals agreed at EU level.

The EU should also contribute to the objective of a healthy European population – a crucial economic and social asset – in particular through the development of healthcare, well-being and age-related industries and services.

Finally, in view of the crisis, the business community should assume its responsibility by committing itself to self-regulation in the areas of ethics, accountability, social and ecological awareness, anti-discrimination, life-long training and continuous improvement in working conditions.

Creating a win-win situation: a new deal for the Single Market

The above social and economic measures need to be flanked and supported by a fully functioning Single Market. The development of the Single Market has long been hampered by two simultaneous processes: a resistance in some Member States to applying internal market, competition and state aid rules; and a tendency in other Member States to oppose even moderate initiatives of tax coordination that could improve the functioning of the Single Market and remove the concern that the Single Market may hinder the pursuit of social objectives. Left unattended, these trends would aggravate the bias of tax systems against job-creation and the difficulties of Member States in addressing inequalities. They would also lead to a race to the bottom in social protection and would exacerbate the opposition to integration. In short, the economic and the social dimensions of development would enter into a lose-lose situation.

The current economic crisis has further underlined the need for adherence to the rules of the Single Market. Retrenchment into economic nationalism would only make the exit from the crisis more difficult and the European economy less competitive. And yet, in many Member States, both at the level of public opinion and amongst political leaders, protectionist reflexes are only too prevalent.

Against this unfavourable background, a re-launch and completion of the Single Market are unlikely to happen without a new strategy or deal. Such a deal should consist of a commitment to extend – within specified deadlines – the Single Market to those areas where it is still lacking or where it is insufficiently developed, first and foremost the area of services, including the financial sector. This should be matched by initiatives, if not further integration, in the areas of cohesion, social and tax policies, respecting the need for EU competitiveness. At the same time, efforts to advance towards a low-carbon economy must go hand in hand with measures to enhance social inclusion, particularly in relation to education, employment, information, health and banking services.

Enhanced economic governance: in the interest of stability and convergence

The global financial crisis and growing economic divergences between Member States have also made the case stronger for enhanced economic coordination in the EU. Renewing the convergence efforts undertaken in the 1990s – thus leading also to the enlargement of the Eurozone – is essential to the economic success and unity of the EU in general, especially for the Eurozone. These convergence efforts should be based on the following measures:

- Giving leadership for economic coordination to the European Council, while fully respecting the role of the Commission and working closely with the European Parliament, the Commission itself and other relevant economic institutions; reinforcing and extending the coordination responsibilities of the Eurogroup in relation to both the internal and external management of the monetary Union.

- Reinforcing procedures for supervision of national budgets to ensure transparency as well as the sustainability of public finances; encouraging Member States to harmonise their budgetary processes and calendars.

Stuttgart's new Trade Fair Centre: one of the world's largest photovoltaic roof systems.

Photo: © Dirk Wilhelmy for Planet Energy and Projektgesellschaft Neue Messe

- Strengthening macro-economic co-ordination by extending it to private debt, to the balance of payments and, more generally, to the conditions for ensuring competitiveness.

- Enhancing overall budgetary credibility by creating a financial instrument aimed at combating unexpected crises and asymmetric shocks while taking into account the risks of moral hazard.

- Strengthening the functioning and supervision of financial institutions to counter excessive leverage and risk-taking

- Enhancing the EU's investment effort by defining a growth target for the investment component of Member States' public spending; increasing the resources of the European Investment Bank and the European Investment Fund; and adapting the European regulatory framework to attract more long-term investors and to favour prudent banking that caters the needs of the real economy over financial speculation.

The challenge of environmental sustainability

The task of redefining Europe's economic and social model is further complicated by the challenge of environmental sustainability. It will not only require the EU to rethink its spatial planning, cities and transport, education and consumption habits, but also its growth model. A 'New Industrial Strategy' is needed to champion new green technologies and sustainable industrial processes. In support of this, the EU should:

- Pass a European Innovation Act simplifying funding opportunities and empower the European Institute for Innovation and Technology to set up innovative joint programmes across the EU;

- Establish a Small Business Research initiative giving innovative, young and small businesses access to public procurement markets;

- Improve the added value of the agriculture, farming and food industries, whilst reducing their negative environmental impacts by increasing access to new technologies and strengthening consumer awareness;

- Create or label a series of European Research Centres within the European Institute for Technology, focusing on renewable energy, energy efficiency, ICT for sustainable development and transportation networks, biotechnology and nanotechnologies;

- Adopt a low-carbon transition strategy to set a vision for a low carbon economy in 2030, and the actions required by the EU and Member States to make this a reality.

Avoiding the pitfalls of the Lisbon Strategy

If the EU is serious about reform it must make proper adjustments to its governance structures and resources. This was the lesson of the "Lisbon Strategy", whose promise to deliver on European competitiveness became mired in weak implementation mechanisms. Above all, the link between common guidelines set down at Community level and their implementation at national level, in accordance with each country's internal distribution of power, should be strengthened through an effective 'name and shame' peer pressure mechanism, as well as positive incentives, financial and other. Last but not least, assessment procedures should focus on outcomes rather than inputs or processes.

All of this needs to be combined with more coherent use of the EU's own financial resources, those of the European Investment Bank and those in Member State budgets, pooling together the funding destined to cover agreed priorities. Above all, our focus must be on creating growth and jobs. Not just any kind of jobs, but those adapted to the knowledge society; and not just any kind of growth, but growth which is sustainable and defined by more than just GDP. This is where Europe's future lies.

GROWTH THROUGH KNOWLEDGE: EMPOWERING THE INDIVIDUAL

Knowledge-based and creative industries and services have expanded significantly over the last two decades, becoming the central pillars for employment and economic dynamism in Europe. The days when the EU's competitive advantage could be measured in wage costs are long gone. Today, intelligence, innovation and creativity have become the relevant benchmarks. They are Europe's insurance for future prosperity. We live in a world which demands not only high value products and markets, but also, increasingly, high value skills.

And yet, Europe is falling behind in the skills race. On current investment trends, by 2025 Asia may be at the forefront of scientific and technological developments at the expense of the EU and United States. It is estimated too that by that date nearly a million Chinese and Indian students will study abroad, bringing a wealth of talent and experience back to their Asian homelands. This contrasts with the relatively small number of European students studying outside Europe. In tertiary-level education, the EU is equally lagging behind, with only 27 universities amongst the world's top 100, compared to 57 in the United States. The EU is also poorly represented in political, business and environmental debates taking place beyond its borders.

The EU cannot afford to be complacent when confronted with this trend. A better use of human talent will be the key strategic instrument for ensuring upward mobility for individuals and progress for European society at large. If the EU is to realise the promise of the knowledge society, it must deliver excellence at all stages of the education process; continuously upgrade the skills base of its population according to need; and create a social, economic and regulatory environment in which research, creativity and innovation can flourish.

Developing all talents. Photo: Kunsch

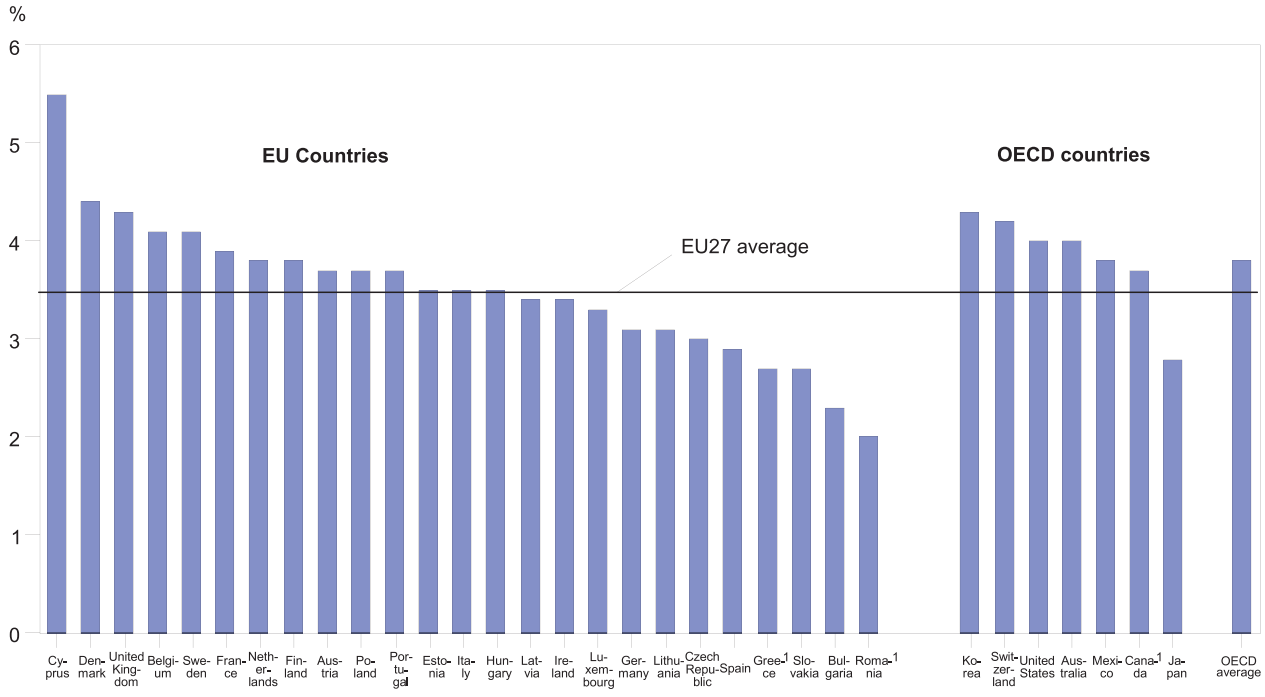
The quest for excellence and relevance: upgrading education and skills

A solid educational foundation at primary and secondary school level can have a huge influence on a person's ability to progress through life. Too many European citizens and third-country nationals living in Europe do not have access to education systems of the highest quality. Urgent action is needed to address this situation, including providing teachers with the professional recognition they deserve; developing flexible and open curricula capable of nurturing curiosity and creativity among children; and strengthening links between public education systems, business and society.

Similarly, there are not enough first-rate universities in the EU, making Europe less attractive to top-qualified graduates. The EU needs to remedy this situation by building a network of top-level higher education establishments able to rival the best in the world. The quest for excellence does not preclude a parallel effort to promote greater access to university education with a view to improving average education levels among the wider population. Excellence requires critical mass and competition, in effect a "common space" for students, universities and academic research.

The administrative and financial autonomy of universities must also be encouraged, as this is the most effective way to increase private funding for higher educa-

Expenditure on primary and secondary educational institutions as percentage of GDP (2006)



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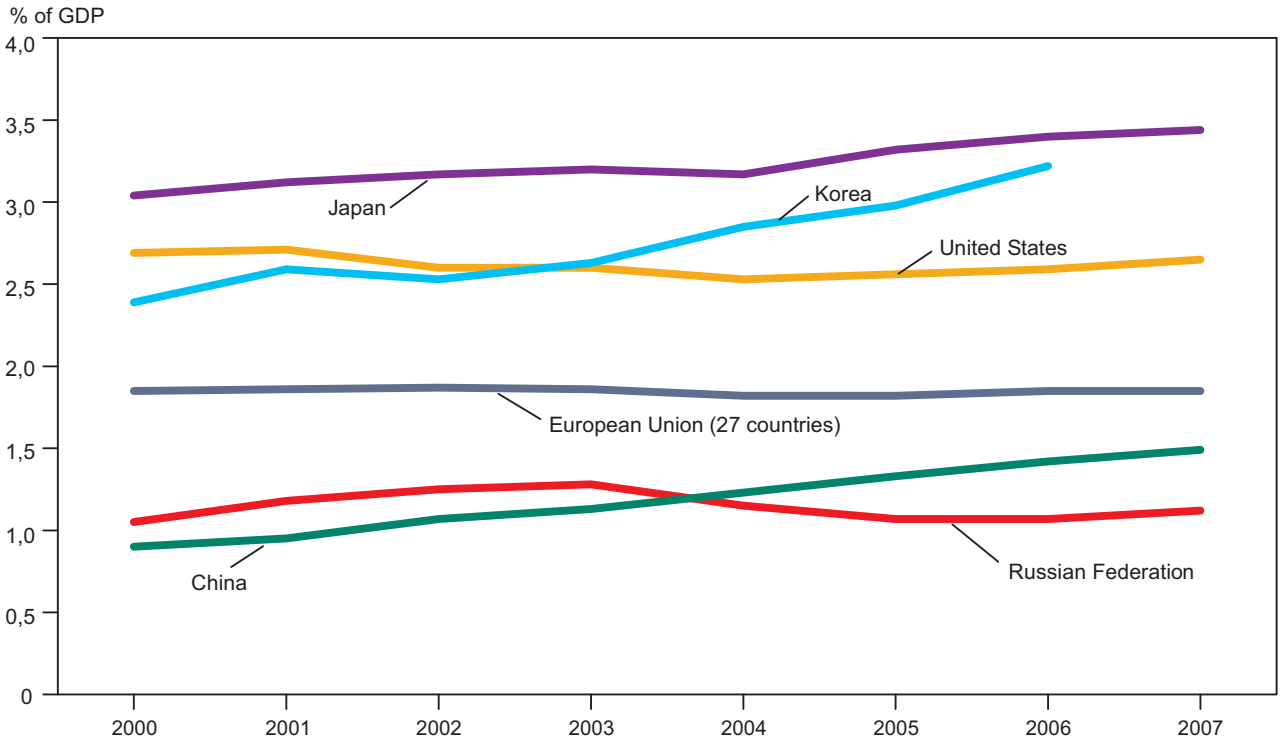
[1] Year of reference 2005.

Source: Eurostat, OECD

Gross domestic expenditure on R&D in percentage of GDP



Source: OECD

tion. As future beneficiaries, high income students should contribute to the mounting cost of education while a system of scholarships and student loans should be made available to students who need financial support. Competition between universities must also be promoted, as should governance models based on accountability and transparency.

University systems characterised by clientelism and corporatism must be thoroughly challenged. The focus must shift to ensuring that universities have greater exposure to the real economy in Europe and the rest of the world. This reform process should include measures to increase student mobility, by encouraging greater up-take of the ERASMUS programme and by providing advantages to students holding diplomas from more than one country. Universities must do more to provide graduates with the skills needed by industry.

Indeed, correcting the mismatch between the supply and demand for expertise must become one of the top priorities of the educational system. This will require a strong emphasis on skills upgrading in order to prepare individuals for employment transitions as well as the use of new technologies and skills. The necessary precondition, in turn, will be the realisation of a flexible, life-long learning culture, where individuals are able to return to education at any point in their careers under conditions similar to the young. "Learning to learn" must become a guiding principle throughout the education system.

Towards a European Research Area: raising the stakes for R&D spending

Despite numerous calls for substantial increases in R&D spending, the last decade saw relatively little change – the EU's expenditure remains at 1.8 per cent of GDP. A concerted effort is needed in Europe to reach the 'Europe2020' target of 3 per cent expenditure on R&D and the creation of an "Innovation Union". This must include budgetary reallocations and greater private sector funding. EU centres for pre-competitive applied research should be developed (public-private partnerships between states, regions and private industry) together with increased support for investigator-driven free research through the European Research Council.

To this end, it will be crucial to simplify the procedures for accessing public funding, including EU funds. This would above all benefit small dynamic businesses, which are often the driving force for forward-looking innovations. Today, SMEs account for half of the EU's GDP although they benefit from only 15 per cent of R&D programmes. New forms of partnership are needed between researchers at publicly-financed universities and researchers at privately-financed companies to ensure a continuous pooling of knowledge throughout the process of research and innovation. In particular, more funding is needed for applied research that would benefit SMEs.

Excellence must be the main criterion for granting public aid both at national and EU levels. The role of the European Research Council must be expanded and strengthened, with funds allocated strictly on the basis of peer reviewed excellence, actual or potential. Likewise, the EU must encourage the development of "European poles of excellence" while ensuring that this process of concentration would not lead to the creation of "intellectual deserts".

Last but not least, the European Research Area must become a reality – an area without borders where all scientific potential, wherever it is, can be fully tapped thanks to the free movement of researchers, ideas, technologies and capital. This process of "Europeanization" must itself be part of a more general openness to the world. Transfers of knowledge have now become the indispensable complement to the traditional drivers of globalisation based on material and capital flows.

A regulatory framework for unleashing innovation and creativity

Europe often finds it difficult to translate scientific research into new products, new patents, new entrepreneurial activities and new jobs. A lack of competition in service markets inhibits innovation, raises costs and limits growth. Financial services, next generation digital services, energy solutions and services to promote health and learning have all huge potential. The EU is well placed to become a leader in the new service industries, but only if service providers are supported by a Europe wide market and a new regulatory environment where innovation and creativity can actually flourish.

Free global markets that respect intellectual property rights are the essential breeding ground for innovation. It is therefore important that Europe remains committed to improving market access both inside and outside Europe, most effectively through the completion of the Single Market, both in regard to services and new technologies. At the same time, the EU must reform the rules on intellectual property, for instance through the creation of a straightforward European patent system that is affordable, quick and reasonable, and offers effective protection on a European scale.

In this context, it will equally be important to put in place the measures needed to reinforce risk capital markets and the availability of seed capital. In particular, SMEs – which are very often at the forefront of innovation – need more adequate support mechanisms, including access to risk capital, to help them compete in the global marketplace.

The creative economy will continue to evolve faster than the political processes intended to support or regulate it. Every day it reveals new horizons and revolutionary prospects. Flexibility and responsiveness must therefore be the backbone of any regulatory framework in this field. Facilitating a culture of risk taking and entrepreneurship is even more important. Only this will allow the EU to fully reap the rewards of research and experimentation, and with it to create new jobs.

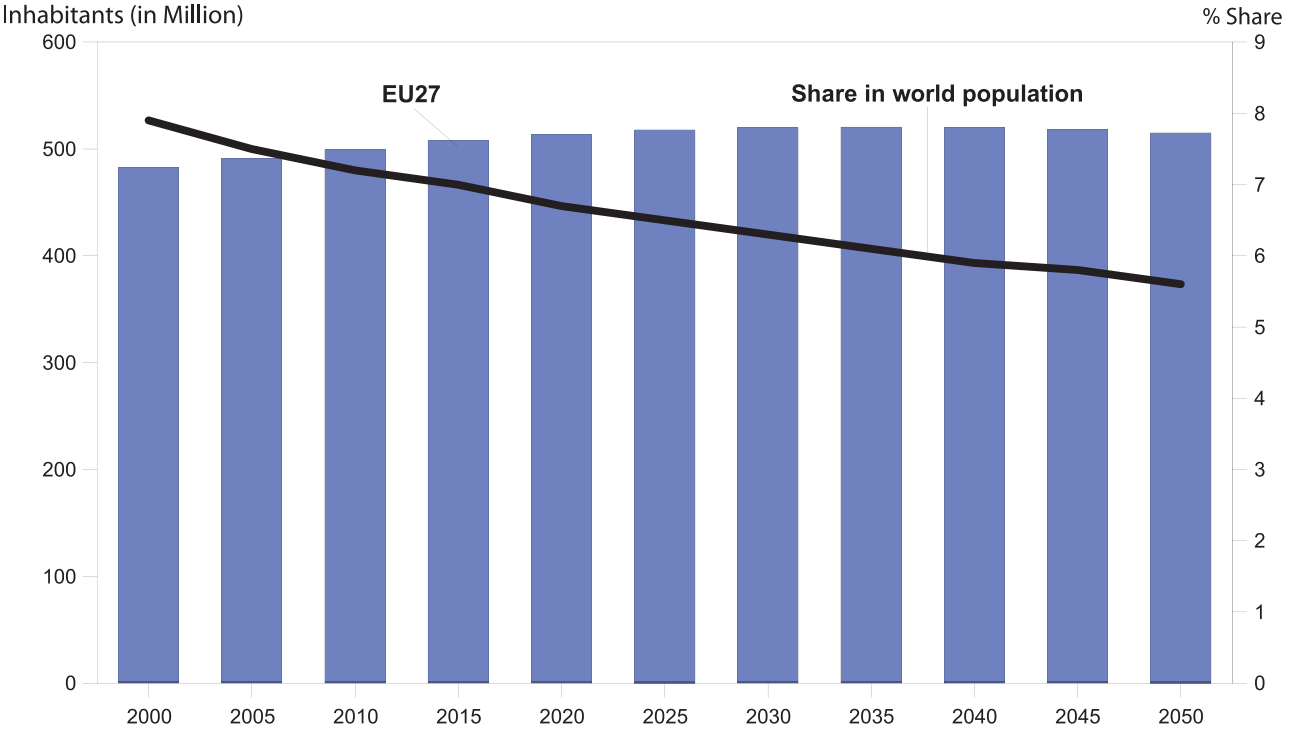
THE CHALLENGE OF DEMOGRAPHY: AGEING, MIGRATION AND INTEGRATION

The combination of ageing populations and a contracting domestic labour force is set to have drastic consequences for Europe. Left unchecked, it will translate into unsustainable pressure on pension, health and welfare systems, and into negative outcomes for economic growth and taxation. If Europe is serious about moving towards a knowledge society, efforts to enhance economic efficiency and upgrade the skills of the existing population must be complemented with active measures to address this demographic challenge. Not least, it must include a concerted effort to make the EU an attractive destination for immigrants. Without migration, the EU will not be able to meet future labour and skills shortages. It will also see a reduction in cultural diversity and experimentation, prerequisites for creativity and innovation.

Europe's demographic trends are becoming entrenched

Europe combines the demographic extremes of very high life expectancy and very low fertility. In most EU Member States, life expectancy - currently 75 years for men and 82 for women on average – is set to increase by an additional 15 to 20 years in the course of this century. With women giving birth to 1.5 children on average, and more and more women foregoing children altogether, Europe's population is ageing and its native-born labour force declining. Bearing in mind Europe's current average retirement age (62 years for men and just over 60 for women), in the absence of compensatory policies, in the next 40 years Europe's support ratio

Developement of European population 2000 to 2050 and share in world population



Source: Eurostat population projection; UN Population Prospects (2008 Revision)

will deteriorate sharply, leaving four contributing workers to support every three retired people. Urgent action is needed to counterbalance these negative trends.

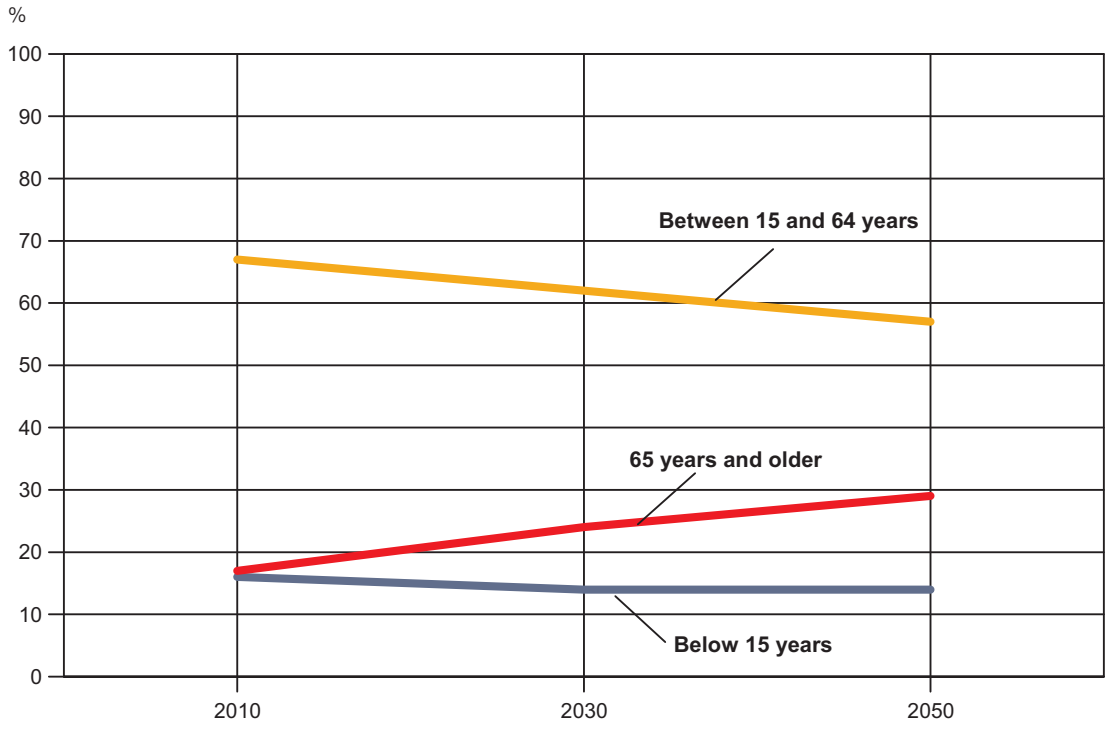
To begin with, family-friendly policies aimed at stabilising or increasing fertility levels should be put in place. Additionally, the impact of reduced domestic labour forces, including the related issues of financing healthcare and pension schemes could be partly offset by increased productivity. Steady growth in productivity would allow for a revised allocation of resources that could help fill the increasing gap between pension receivers and contributors.

But with European demographic patterns becoming entrenched, the impact of these measures will not be sufficient. In the end, the European Union's demographic challenge will only be addressed through two sets of complementary actions: boosting labour market participation rates; and implementing a balanced, fair and pro-active immigration policy.

Expanding labour market participation: a *sine qua non*

Devising and implementing effective work-life balance strategies (leave arrangements, tele-working, etc.) is the first step to increase labour force participation. The objective must be to provide the conditions in which people, in particular women with young children, and older workers, can remain in the workforce. Despite a higher life expectancy, women are retiring early and their overall employment rates are lower than

Population by agegroups in EU27 2010, 2030 and 2050



Source: Eurostat (Convergence Scenario)

Municipal services fulfilling the needs of migrants. Photo: Hass

those of men – 58.3 per cent as against 72.5 per cent. Responding to this will require an increased focus on equal opportunities and non-discrimination, as well as child care programmes and school systems supporting working parents.

The second step will involve removing the legal, administrative and cultural barriers to promote greater intra-EU labour mobility. Key instruments in this regard include the full portability of welfare and pension rights, improved language training, full recognition of academic degrees as well as professional skills throughout the EU and the development at all political levels of a truly non-discriminatory environment.

Last but not least a major shift is required in our approach to retirement. Current early retirement practices should be discouraged. Retirement should become an option for individuals rather than an obligation. Working life should be prolonged through an increase in the actual as well as the statutory pension age. Adult education and training programmes, salary schemes, working conditions and pension systems should be adapted to create a labour market for 50–70 year-olds by making recruitment and employment of older workers more attractive.

Immigration policies: towards a pro-active approach

Even if internal measures aimed at boosting labour market participation could be fully realised, they will not be sufficient to compensate fully for the consequences of demographic change on future labour supply. The reality is that by 2050, in the unlikely absence of immigration, and at constant labour force participation, the EU labour force would decline by around 68 million workers. Since not all immigrants become economically active, a net gain of some 100 million people would eventually be needed to fill the gap. Realistically such a large net intake over the next 40 years is neither likely nor necessarily desirable. Nevertheless, migrant labour will be part of the solution to Europe's future labour and skills shortages and the EU will need to develop a pro-active approach to immigration.

In general there is a need in Europe for a shift in attitudes. Too often, immigration is perceived as a burden to be shouldered rather than an opportunity to be seized. Europe has much to learn in this regard from Australia, Canada and the United States, with which it is in direct competition for talented and skilled immi-

grants. Drawing on the experience of these countries, the EU needs to develop a common immigration policy with the aim of attracting the most qualified, talented and motivated immigrants while taking measures to prevent the loss of human capital in sending countries A common immigration policy for the EU should set out a specific medium- to long-term strategy for targeting skilled immigrants. Clear information promoting the advantages of setting up in Europe should be readily accessible. There is also a need for an agreed approach around common criteria for the acceptance of immigrants (a points-based or assessment system), while taking account of particular needs in Member States.

Yet Europe will only become an attractive destination for skilled immigrants if the latter feel accepted, have full access to formal labour markets and the possibility to set up their own businesses. Wide-ranging integration initiatives are needed at EU and Member State levels, but particularly at the local level, which is often best-placed to identify and meet the needs of immigrant and non-immigrant populations.

Once established legally in the EU, immigrants should enjoy the same social rights as EU nationals. The potential within existing immigrant populations to boost labour force participation should be tapped through investment in language, vocational training and general education, combined with determined anti-discrimination strategies. All forms of discrimination against immigrant workers and their families should be removed.

Language training together with the mothers. Photo: Kunsch

People on the move: exercising control and responsibility

As it applies to a space largely without internal frontiers, the proper functioning of a common European immigration policy needs a credible system of managing the EU's external borders, including a co-ordinated system of issuing visas to third-country nationals – also addressed further below in the context of the EU's external and internal security.

As tens of millions of third-country nationals lawfully cross the EU's external borders every year, it is also essential to enhance control and verification mechanisms inside the EU. This would ensure that the burden of migration control is not unilaterally shifted towards the EU´s external borders and the countries securing them.

There is also a need for a common approach to irregular immigrants. The EU needs to iron out inconsistencies between Member State policies and behaviour towards persons without legal access to the labour market. This should include harmonising the rights of irregular immigrants across the EU to avoid specific "call effects" in one Member State that may affect another.

Addressing irregular migration should also include combating the culture of employing irregular immigrants, in particular in the building and agriculture sectors as well as in private households, still evident in several Member States. This will require, among other measures, enhancing internal controls on work and residency permits in those countries with high numbers of irregular immigrants.

Maintaining credible external and internal controls should not, however, undermine the EU's determination to remain a place of safety for refugees, in line with its core values. European asylum policies need to ensure that political refugees enjoy the right to seek asylum and have their claims processed fairly within the EU27.

Efforts to stem illegal immigration and people trafficking must also include measures to protect vulnerable individuals and communities from exploitation through unacceptable labour practices or other forms of abuse, including human trafficking. This calls for a permanent dialogue between countries of origin and the EU which is consistent in its application and which complements the EU's development policy.

Furthermore, the EU needs to acknowledge the linkages between migration and development and formulate policy responses that take full advantage of the synergies which exist between them. A successful recruitment policy will inevitably lead to a brain drain which could undermine the development process in sending countries. The EU should do its utmost to avoid this, helping them to build up the human capital needed for their development.

Bi-lateral development agreements should include efforts to promote orderly immigration through mobility partnerships as well as recruitment and readmission agreements. The elaboration of such policies should take account of the potential benefits for development of return migration and two-way mobility between sending and receiving countries. Permanent residence status in the EU, for instance by way of a "blue card", could encourage the circular migration of those who want to return to their countries of origin for an extended period of time.

Finally, the EU should invest in the higher education systems of sending countries in order to build up skills which can later be shared. In a nutshell, the aim should be training, not draining.

ENERGY SECURITY AND CLIMATE CHANGE: A NEW INDUSTRIAL REVOLUTION

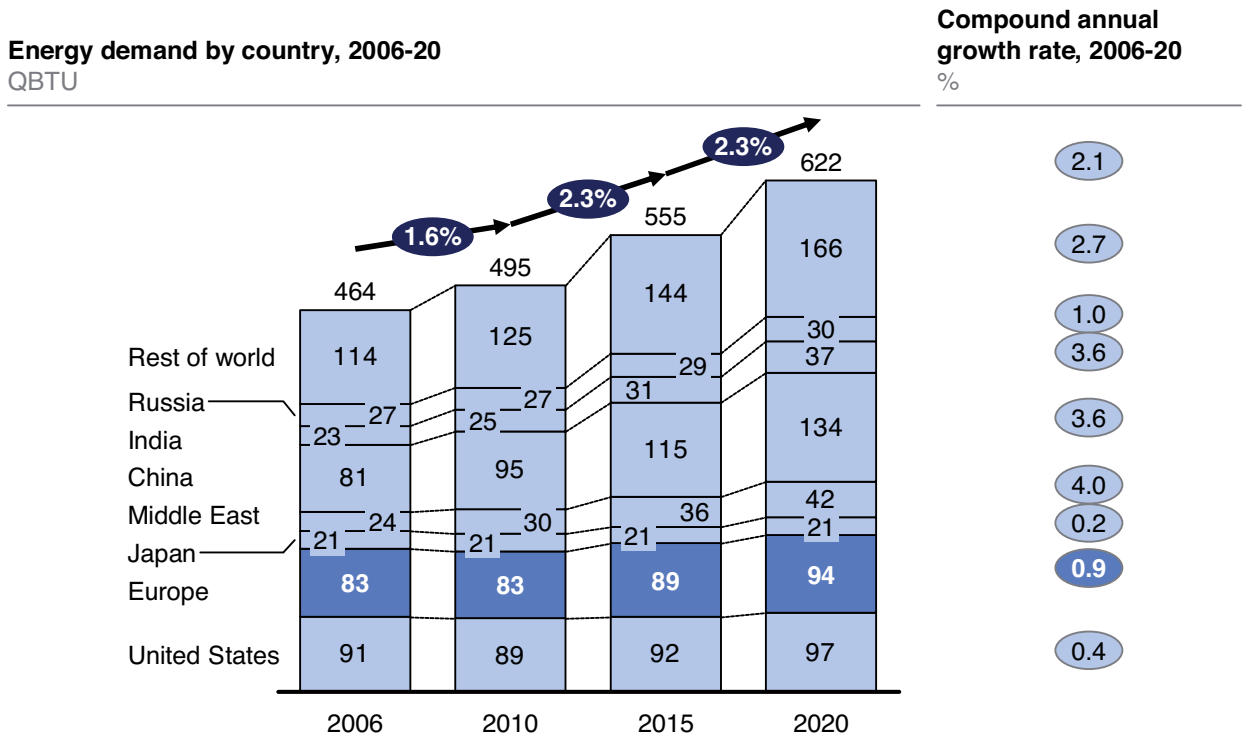
If left unaddressed, by 2030 the energy situation in Europe will be one of increasing need and declining supply. Dependency on high priced imports of oil, gas and coal from third countries will increase from its current 50 per cent to about 60 per cent while fossil fuels could represent up to 80 per cent of Europe's energy mix. On top of this, supplies will be drawn from some of the world's most politically volatile areas. Given the sheer energy intensity of our economies, the scope for vulnerability and turbulence is immense.

As if this were not enough, the impact of climate change on the global economy could dwarf the impact of the current financial and economic crisis. Failure to take adequate measures could result in a significant rise in the planet's temperature by the end of the century, leading to the disappearance of whole regions, huge flows of climate refugees and to billions being left without water. At best, we would face changing patterns of desertification, rising sea levels, severe drought and higher temperatures – with all their respective consequences.

The challenges we face are enormous and call for an urgent response along with a huge mobilisation of resources. For instance, carbon productivity (how much GDP we get for every tonne of carbon we emit) will need to increase ten-fold to meet existing carbon

Exhibit 10

Long term energy-demand growth will rebound after the downturn passes



SOURCE: McKinsey Global Institute Global Energy Demand Model 2009

McKinsey & Company

emission targets; and we need to achieve this in "only" 40 years. The potential for social, economic and political destabilisation is therefore real. Yet to tackle these Herculean tasks, we cannot simply rely on the market. Instead, wide ranging public interventions and support are needed to initiate a "new industrial revolution". The EU must transform this challenge into a real opportunity.

The societal and commercial benefits of a new industrial revolution

The industrial and behavioural change needed to bring this about will not be easy. But the rationale is clear. The annual cost of reducing greenhouse gas emissions is estimated at about 2 per cent of world GDP while failure to act is estimated to cost at least 5 per cent of the GDP each year. At the same time, the development of a sustainable green economy provides wide-ranging technological, business and commercial opportunities which need to be grasped. There is a real opportunity for the EU to exercise moral and political leadership in this debate without losing sight of the tangible economic and industrial benefits. But it must do so swiftly, before others race ahead.

Likewise, there are important gains to be made from the implementation of a coherent European Energy policy, including: the completion of a genuine, liberalised Single Market in the energy sector, a strong European investment policy in new technologies and in major common energy infrastructures, a common external position, and a common fiscal approach contributing to fund this investment policy. This would end the practice of defending national champions, paving the way for the emergence of European champions and the separation of transmission networks of companies which generate and/or distribute electricity or gas ("unbundling"). The remaining bottlenecks in this area must be removed, linking "energy islands" once and for all to the European network.

The main winners from these changes would be European consumers. High energy prices remain a significant burden on individual households, making up 15 percent of their total expenditure. Similarly, in certain energy dependent sectors, high energy prices undermine the fundamental competitiveness of European industry. The EU cannot remain complacent in the face of these challenges. It must come to the assistance of its Member States by developing a truly common and integrated energy policy, targeting energy efficiency, diversification, dependency and the fight against climate change.

Starting with the 'low-hanging fruits': revolutionising energy efficiency

Achieving energy savings in industry, transport and construction as well as in domestic appliances is the most effective way to reduce carbon emissions and external dependency. It is also the quickest way that the EU can achieve tangible results. Obviously, the cheapest and cleanest form of energy is energy that is not consumed. Whilst there is nothing new about enhancing energy efficiency, it nonetheless needs to be expanded and solidified as a key objective for all Member States.

To this end, the headline target for energy efficiency should be raised to 50 per cent by 2030, from the currently agreed 20 per cent by 2020. The EU can advance this objective by applying stricter efficiency standards for domestic appliances and new buildings, along with more ambitious vehicle emission targets. It should also encourage innovative public-private partnerships for energy-efficient investments while setting and monitoring Member State compliance with efficiency targets.

Wind power is one option to use renewable energies. Photo: German WindEnergy Association

The quest for more sustainable power generation

The search for viable renewable energy sources has to be stepped up. There are a range of promising options available, including wind power, solar power and biomass. Europe should also move away from oil as the primary source of fuel for transport by encouraging bio-fuel standards and electric and hybrid vehicles. Yet for all this to happen, the EU needs vast investments to upgrade its energy grid and to develop intelligent energy networks (smart grids) which can handle future power sources and minimise power losses, finally leading to a fully integrated system of energy supplies.

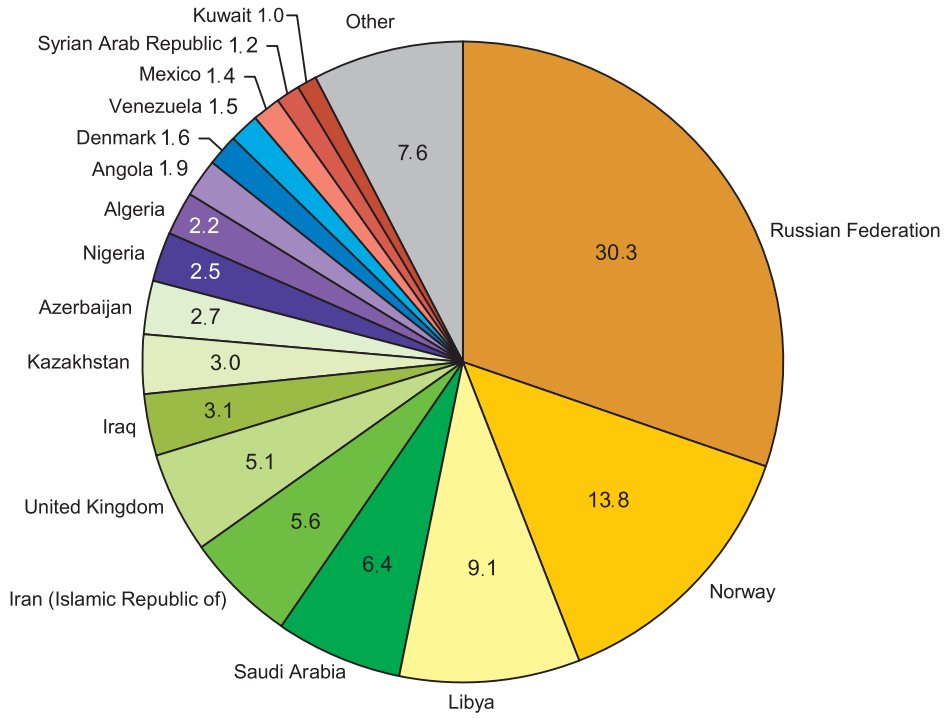
The development of carbon capture and storage (CCS) systems needs to be backed up by firm decisions on a range of issues which can no longer be delayed. These include the appropriate level of subsidies, a legal framework, and a roadmap for developing CCS beyond the demonstration phase. In order to move from the experimental to the operational stage, the EU needs to research, develop and test new technologies and processes for capturing and storing CO_2 safely underground. The search for a more viable energy mix must also involve recourse to nuclear energy. Europe cannot afford to relinquish this important source of power, but unlocking investments in nuclear energy requires a greater level of regulatory certainty, as well as the further development of safety standards. Finally, significant R&D efforts and innovative public-private partnerships are needed to develop next generation energy technologies. The EU urgently needs a few headline projects in this context, such as the installation of solar power centres in Northern Africa and the creation of wind power farms in the North Sea.

Reducing the EU's external energy dependency

The era of cheap oil seems to be over with new supplies increasingly remote, difficult to access and more expensive to exploit. At the same time, the EU will continue to depend on external sources for its energy supply for a considerable time. Today this is the case for 90 per cent of its oil supplies; 80 per cent of its gas; and 50 per cent of its coal. Of its gas imports

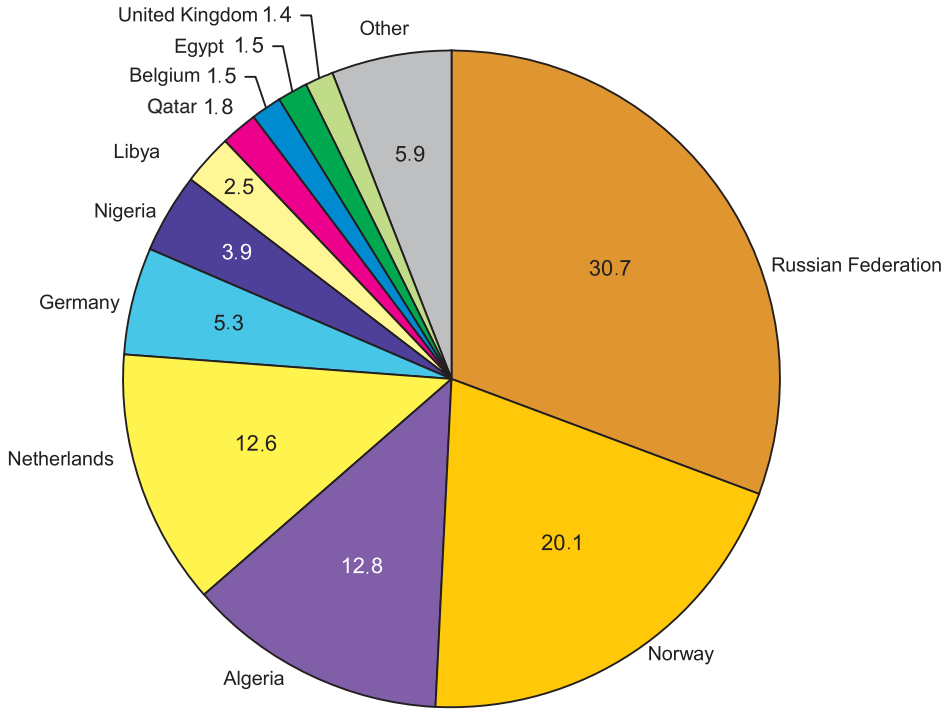
Imports of crude oil in EU27 by country of origin 2007

Share in total crude oil imports



Imports of natural gas in EU27 by country of origin 2007

Share in total natural gas imports

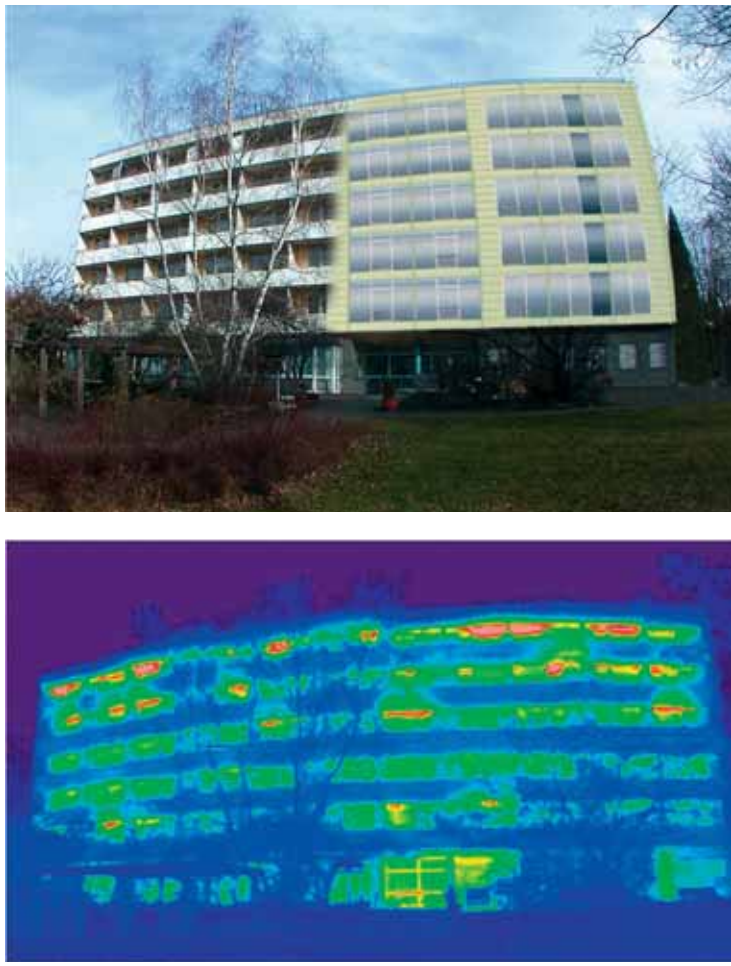


Source: Eurostat

alone, 42 per cent are currently from Russia. There is no chance of becoming energy independent, but the EU must strive to increase its energy security by all possible means.

To begin with, there is still considerable scope for increasing gas production within Europe. The EU should support and grow its domestic gas production by opening new frontiers of potential gas resources, by removing licensing barriers and by allowing investments in frontier areas, such as the Arctic. In addition, there is significant potential to develop unconventional energy sources such as tight gas and shale oil, for instance in Central and Northern Europe.

These strategies must subsequently be backed up by new endeavours to mitigate the EU's vulnerability to external shocks. This means establishing reliable and lasting relations with its principal suppliers, Russia in particular, while diversifying the supply routes and methods, including alternative gas pipelines and developing liquefied natural gas imports. To this end, the EU needs a common strategy and an assertive external policy to better defend its interests in the international arena.



Energetic refurbishment of buildings.

Photo: Görres

Leading the fight against climate change

Climate change can only be addressed effectively at the global level. The outcome of the UN summit in Copenhagen was therefore a bitter disappointment as its non-binding agreement is unlikely to be sufficient to fend off dangerous global warming. Additionally, Copenhagen has demonstrated that the EU still falls short of being accepted as an indispensible interlocutor and player at the global level – and this despite its efforts to lead by example by committing itself to an ambitious objective: reducing by 2020 its emissions by 20 per cent while increasing both its energy efficiency and its share of renewables by 20 per cent as well.

This must not mean that the EU should downgrade its efforts to become a leader in the fight against climate change. On the contrary, in the follow-up negotiations the EU should push for an agreement to make sure that the pledges given at Copenhagen by developed and developing countries are realised. In doing so, the EU should defend its legitimate interests, ensuring that the outcome of any new agreement helps sustain the objectives of Europe's economic and social model, for instance through a targeted strategy of conditionality. However, for this to happen, the EU must also do more work at home. This includes improving the functioning

Forests form an essential part of the landscape and of the local climate. Photo: ccvision

of its carbon market, the largest such market in existence. It is now generally accepted that the carbon price at the heart of this market is problematic and the emissions trading system lacks the clarity and predictability required by industry. Eventually, a price must be established at a level which has the dual effect of dissuading carbon emissions while encouraging investment in the development of viable, new, clean technologies. This should go hand in hand with supplementing the market mechanism with CO2 taxes. As some Member States have already done, the EU must urgently coordinate these fiscal measures in order to avoid market distortions.

Furthermore, the EU needs to seize the economic opportunities of a transition to a low carbon, resource-efficient, climate-resilient economy. This must include providing additional support, incentives and an appropriate infrastructure to facilitate the creation of green industry leaders. In a low carbon economy, many new industry segments will emerge, such as electric vehicles, energy efficiency solutions, water effectiveness services, biomass generators, carbon capture and storage providers.

Representing 1 per cent of global GDP redistribution, there are important economic gains to be made in this new economic area. While the EU continues to be the global leader with 40 per cent market share in renewable technology exports, the allocation of both R&D resources and financing into these technologies is clearly faster in China and the United States. The EU needs to make sure that it can consolidate its lead through appropriate increases in the reallocation of resources and funding.

Finally, the agriculture sector, accounting for around 14 per cent of global greenhouse gas emissions, cannot be spared. Forests and soils act as natural sinks for carbon. Halting ongoing tropical deforestation, reforesting marginal areas of land and sequestering more CO2 in soils through changing agricultural practices would increase carbon sequestration. The EU should therefore redirect CAP resources towards environmentally-friendly agriculture and stockbreeding, taking an active part in reforestation efforts both at the EU and the international level.

INTERNAL AND EXTERNAL SECURITY: THE ETERNAL CHALLENGE

Over the last twenty years, we have witnessed a shift from a bipolar world order, followed by a brief "unipolar moment" dominated by the US, to a gradually unfolding multi-polar system. In this new world order different centres of power coexist in a more unstable environment. Old threats, including nuclear weapons, persist in new forms (proliferation), while new threats have emerged. These new forms of insecurity – which include financial instability, environmental degradation, energy dependence, organised crime and terrorism – are more diverse, less visible and less predictable than ever before.

Globalisation has also increased our sense of vulnerability by dissolving the boundaries between internal and external forms of security. Armed conflicts in a distant continent can threaten Europe's internal stability by causing large inflows of refugees. Likewise, weak cooperation on law-enforcement in European countries can jeopardise efforts to combat terrorism abroad. All security risks are in turn interlocked, with poverty and instability in failing states becoming a breeding ground for terrorism and other types of criminal activity. Addressing 21st century security challenges therefore requires global and anticipatory responses, which only an actor the size of the EU can provide.

Towards a European Security Model

The EU has long committed itself to maintaining and developing an "area of justice, freedom and security" aimed at facilitating the everyday life of its citizens. However, the terrorist attacks in the US in September 2001, Madrid in March 2004 and London in July 2005 clearly demonstrated the need for more effective and

EU NAVFOR Somalia - operation Atalanta. Photo: European Union, 2010

coordinated action at EU level to tackle terrorism and other cross-border security problems. These include human trafficking, the smuggling of persons and illegal substances, money laundering, the exploitation of women and children, natural and man-made disaster, cyber-crime, intellectual piracy and, of course, corruption.

We now need to take decisive action and implement a new 'European Security Model'. Drawing on the vision and objectives contained in the recently adopted 'Internal Security Strategy', the model must prioritise the interests of European citizens while addressing the rapidly evolving challenges of the 21st century. It must protect individual rights and freedoms; improve cooperation and solidarity between Member States; focus on the causes of insecurity and not just the effects; prioritise prevention; engage with citizens; and recognise the interdependence between the internal and external dimensions of security in establishing a 'global security' approach with third countries.

To date joint action in this field has been hampered by Member State resistance to sharing information and coordinating policies in relation to law and order, which remains one of the most political sensitive issues in domestic politics. However, this resistance flies against the wishes of European citizens, who want the EU to become a more relevant security actor. It also ignores the substantial instruments and resources that the EU has acquired over time in the field of security, not least through the recently adopted Lisbon Treaty.

Building a culture of cooperation: security as a trans-national public good

The security challenges we are facing require a genuine EU-wide approach, huge cooperation efforts, common institutions and proper funding. A new culture of cooperation is needed in numerous fields, including judicial cooperation, law-enforcement, border control and health, social and civil protection. This will require increasing the powers of existing agencies and instruments, such as Europol, Eurojust, the Situation Centre, Frontex and the Counter-Terrorism Coordinator. It will also require setting up new bodies, such as a European centre of good police practices.

In addition, the following issues should be prioritised:

- Improve systems for exchanging information in relation to network funding, trafficking routes for weapons of mass destruction (WMD), recovery after terrorist attacks and long-term preventive measures.
- Create a European civil reserve team of specially trained units ready to be deployed at short notice, shaped along the lines of the military component.
- Develop a more integrated external border management system by reinforcing Frontex with a European body of specialised personnel available to support the Member States.
- Iron out inconsistencies in Europe's Asylum System in particular by standardising the definition of a refugee.
- Create a unified visa policy and a European consular service within the European External Action Service (EEAS).

Eurocorps

Too often, policy formulation in this area is driven by events, so a balance has to be found between advancing security and protecting individual freedoms and human rights. Where to strike the balance between these two inseparable elements will vary over time, depending on circumstances, thus requiring on-going political debate across the EU. Even in cases where security risks are at stake, clear limits to accessing personal data and constraints on exchanging them should be strictly respected.

Above all EU Member States need to acknowledge that internal security depends to a large extent on securing a safe external environment. Cross-border security challenges do not stop at the frontiers of the EU. Enhancing the security and freedom of European citizens will therefore require taking complementary action beyond the EU's borders.

External security: overcoming the structural limitations

For over ten years now the EU has developed important instruments under the concept of a Common Security and Defence Policy (CSDP). These include a Military Committee and Military Staff, performing early warning and strategy planning functions, and a European Defence Agency. It also has access to an array of civilian personnel trained to provide assistance to local populations in conflict-torn areas of the world. These civilian capabilities are increasingly important for addressing what is now widely known as 'human security' – the notion that national and global security cannot be separated from the well being of individuals and the communities where they live.

So far, the EU has launched 22 observation, peacekeeping and stabilisation missions worldwide. These missions, frequently carried out in cooperation with NATO, the UN and other international organisations, have enjoyed the backing of a majority of European citizens. However, when the total military spending of EU Member States (about 50 per cent of the US military budget) is compared to output (EU overseas force projecting capabilities amount to only 10-15 per cent of US capabilities), the system is clearly found wanting. EU Member States fail to maximise the scale effect and synergies which are needed to ensure the best global performance.

Overall, the EU suffers from one overarching structural limitation: the fundamentally national nature of European defence systems. Without military resources of its own, the EU depends on the voluntary contributions of its Member States and these are often inadequate. National military resources are still often based on territorial defence against a land invasion, even in Member States where such an invasion is improbable. In general, there is insufficient investment in the type of capabilities needed to respond to new security situations (rapid deployment forces, strategic air transport, helicopters, communications, military police). .

With 1.8 million soldiers under arms – half a million more than the US – the EU is not capable of deploying a 60,000-strong rapid intervention force and it finds it hard to deliver a 5,000-strong force for a Common Security and Defence Policy (CSDP) mission. In fact, 70 per cent of European land forces are unfit to operate abroad, when nowadays conflicts require deployable and sustainable expeditionary forces.

In general, the nature and scope of CSDP missions have tended to be piecemeal and forced by exigencies rather than responding to an overarching plan or strategy. Furthermore, the EU has no common funding for its missions. Among the Member States there is no fair burden-sharing, leading to disincentives against participating in military missions.

This is also true of the civilian dimension of EU missions, where less than half of the personnel committed by Member States tends to be deployed, leaving missions without sufficient stand-by specialised teams and experience on the ground. To remedy this, the EU must encourage its Member States to respect their commitments and create truly operative civilian rosters of judges, policemen, engineers and other experts. This would imply a truly operational and well-staffed European Operations Headquarters tasked with planning, deploying and monitoring civilian/military operations abroad.

The EU also has an economy of scale problem in relation to its industrial and technological arms market: it costs Europe much more to produce far fewer products than other arms suppliers like the US. The EU must therefore develop a single European defence market and joint procurement. The success of the EU's Single Market can and should be extended to the defence field through the enhancement of the European Defence Agency and by lessening the barriers still protecting national markets.

A European vision of collective defence

The Lisbon Treaty has provided a number of important tools to help Member States resolve these challenges. Through its innovative system of permanent structured co-operation, the Treaty allows Member States to advance in parallel and at different speeds in order to achieve specific aims, depending on their willingness and capacity. Pioneer groups of states will now be able

Soldier of the Kosovo Force (KFOR) talking to Albanian construction workers in Kosovo.

Photo: dpa, picture alliance, 13.12.2006

to increase their ambition level in terms of the deployability, interoperability and sustainability of their forces, allowing them to field more capabilities for CSDP, NATO, UN and other missions.

The Lisbon Treaty should also enable Member States to overcome shortcomings relating to the CSDP's funding by calling for the deployment of an 'initial fund' to support common missions, which would then be supported by the payment of 'urgent funds' during the planning of operations.

However, whether one talks about increasing common funding for CSDP missions, encouraging Member States to volunteer more troops or fill the vacuum in EU strategic planning, the main shortcoming facing the EU in the defence field is the divergent strategic outlooks which exist among and between Member States. There is still no consensus in European capitals about the overall purpose of increasing EU defence capabilities..

The EU needs to agree on a long-term vision of EU defence, which could be laid out in a White Paper with clearly defined priorities in terms of threats, engagement criteria and earmarked resources. This vision must spell out a coherent division of responsibilities between NATO and the EU, based on an objective assessment of the comparative advantages of each. Unless EU Member States are able to agree on a workable strategic concept for the EU, the latter will be unable to fill the existing gap between the expectations of CSDP and its operational capabilities and resources.

EUROPE IN THE WORLD: BECOMING AN ASSERTIVE PLAYER

If the EU is to deliver on its ambitious agenda, it will need to become a much more assertive player on the international scene. From increasing Europe's economic competitiveness to racing ahead in the knowledge economy and providing its citizens with freedom and security, the challenges at stake are global in nature and only international strategies will be able to address them.

Furthermore, as power shifts away from Europe and the United States, the rules of international engagement are themselves being redefined. In this turbulent landscape, the EU can no longer afford to muddle through. It needs to become a driving force in shaping the new rules of global governance, or risk being left behind. To advance purposively, it will also need to champion an international environment that will enable the EU to promote its agenda.

Defending European interests in a changing world order

Over the last two decades, European countries have made important gains from increasing global interdependence. However, the financial crisis and instability affecting food and energy prices have highlighted the dangers of asymmetric dependence, particularly in relation to suppliers of scarce resources. Interdependence is not just a fact, but our chosen way of life in a EU dedicated to facilitate exchanges of all sorts.

Yet interdependence cannot be taken for granted. As countries respond to the financial and economic crisis by asserting their autonomy on a range of issues, the risk of de-globalisation may become real. The EU must forestall this eventuality by proactively defending an ideal of responsible interdependence whereby the various actors uphold their commitment to the sustainability of the system.

Defending responsible interdependence will in turn require a world where the major players support and agree to work within a system of multilateral governance. But this objective is based on a fragile consensus, for the benefits of multilateralism are not always apparent to states that did not play a role in shaping the institutional architecture set up after the Second World War. A new grand bargain therefore needs to be struck that takes into account the concerns of emerging and existing powers about the existing rules, while insisting on the importance of multilateralism, inclusiveness, equity, sustainable development, collective security, respect for human rights and the rule of law and fair trade practices.

Finally, Europe will only thrive in a competitive world if it promotes the key elements of a renewed European growth model, based on competitiveness, inclusion, social responsibility and environmental sustainability. Other global players, in particular emerging economies, will follow their own trajectories, making it all the more important for the EU to identify shared interests and common modes of operation through multilateral and bilateral discussions.

In this context, the EU must build a global economic strategy that takes into account the euro as the world's second reserve currency and deals with the negative impact of global economic imbalances on Europe's competitiveness. The EU should work with its partners towards more balanced and flexible monetary relations and consider the possibility of a global partnership in which countries wishing to peg their currency would do so against a basket of currencies rather than the dollar alone.

In the short term, the EU agenda should prioritise the promotion of ILO initiatives, such as the Global Social Floor or the Decent Work Agenda, while ensuring that they are in line with the principle of open markets. It should also build on its solid commitment to "Fair

Trade" to encourage other parts of the world to do the same as an important contribution to international solidarity.

Enhancing the EU's toolbox

European citizens have expressed their desire for the EU to take on more responsibility for their interests and values on the global stage. But what sources of power can the EU lean on in order to carry out this mission? Member States should increasingly understand and rely on the EU as a power multiplier, which helps them achieve goals which they otherwise could not.

Yet a Union of 27 Member States pooling their sovereignty in order to reach common decisions is not an obvious global powerhouse. The fact that EU decisions on foreign policy are taken by consensus is widely seen as a handicap. The EU's power to influence depends on our ability to overcome divergent national interests through the shaping of common positions. The European Union must therefore persist in our efforts to achieve greater coordination in order to speak with one voice, or at least orchestrate our polyphony. In a coherent way.

This process will take time, but must start by improving the linkage between national and EU policies and by Member States increasing their participation in collective actions. Through the sharing of national perspectives and experiences, these exchanges should make diversity a strength for EU foreign policy, not a weakness.

The Lisbon Treaty has helped in a number of ways to strengthen the EU's foreign policy toolbox. For instance, the enhanced cooperation procedure, if used in moderation, can work as a palliative where divergences remain on important issues. The new European External Action Service (EEAS) should be fully developed and staffed with a view to helping the EU identify its common interests and work out joint policies, after due coordination of the national positions.

Nevertheless, the root of the problem remains: the gap between the EU's capacities in the areas where it is entitled to act (economy, trade, development aid, competition policy) and its lack of real common instruments in the area where its original remit has expanded: foreign and security policy. Compared to the panoply of economic and legal instruments at the EU's disposal, its military and political instruments are much weaker.

The EU as a continental hub: maximising the power of attraction

For many people around the world, the EU remains a critical reference point, an alternative model for traditional inter-state relations and a transnational community of law which has brought prosperity and cohesion to a region formerly torn apart by hot and cold wars. This 'soft power' is the EU's greatest asset. The EU must become a continental hub through strategies of inclusiveness and engagement. These strategies were used with great success in the EU's successive rounds of enlargement.

The EU must stay open to potential new members from Europe, assessing every candidacy on its own merits and compliance with the membership criteria. These are in fact the "true limits of Europe". In line with this policy of engagement and inclusiveness, the Union must honour its commitments with regard to the current official candidates, including Turkey, and carry on with the negotiation process. At the same time, it should offer far-reaching agreements to potential future candidates as an intermediate stage prior to the launch of accession negociations.

The EU's power of attraction must also remain the centre-piece of its evolving neighbourhood policy.

Visit by Catherine Ashton (right), High Representative of the Union for Foreign Affairs and Security Policy and Vice President of the EC, to Moscow, where she takes part in the Middle East Quartet meeting from left to right: Tony Blair, Middle East Quartet Representative, Hillary Rodham Clinton, US Secretary of State, Sergueï Lavrov, Russian Minister for Foreign Affairs and Ban Ki-Moon, UN Secretary General.

Photo: European Union, 2010

It must develop an enhanced role in stabilising its immediate surroundings by building on the existing 'European Neighbourhood Policy', 'Eastern Partnership' and 'Union for the Mediterranean'. These partnerships should be used to create a regional space of democracy, human rights, development and free trade. They should also offer fair access to the EU market and ultimately a space for the free movement of people to the benefit of the EU and its partners. Moreover, the EU should manage a strategic co-existence, modernisation and region-building policy with Russia.

An open and inclusive approach must also be extended to the EU's cross-border cooperation with other regions, including ASEAN, MERCOSUR or SADC. In these and other relationships, the EU and its Member States must take into account the perceptions, expectations and concerns of the rest of the world. While the EU is widely seen as an attractive example of regional integration, it often squanders this potential by adopting a patronising tone. We must use our reputation wisely and bolster our credibility as a negotiating power.

Translating strategies into action

The impact of the EU's external action will in large measure depend on its ability to adapt to the many challenges it will face in the run up to 2030. Securing the EU's economic strength and internal cohesion will therefore be an indispensable condition for the EU to be able to project its power externally. But when devising its external position, the process of policy formulation must not only be driven by events. There is an urgent need for a common European strategic concept.

This concept should pull the EU's diplomatic, military, trade, and development policies together with the external dimensions of its common economic policies (EMU, energy, transport, etc). Only by merging all its available tools will the Union be able to act as a transformative power and contribute to reshaping the rules of global governance. By means of a White Paper, which would be regularly updated, the strategic concept would help to define the Union's long-term priorities and become the reference framework for day-to-day external action.

The EU is the greatest donor of foreign aid. Photo: European Union, 2010

This could be done by setting up a European forecasting and analytical unit, as part of the European External Action Service and working in close cooperation with national centres under the principle of shared intelligence. Such a unit would help focus attention on the need to continuously revisit current policies. In addition, a European diplomatic academy would contribute to a sense of common diplomatic culture.

Only by developing such a strategic approach to its external affairs will the EU be able to translate its huge financial effort (the world's largest by far) more effectively into political leverage. It should use its structural advantage to pursue smart development and trade policies. For instance, the EU should pursue climate change mitigation support in the poorest regions, which climate change hits the hardest and which have contributed the least to global warming. It should also continue its effort to "trade away poverty", especially through agricultural imports. This will require politically difficult decisions by European leaders, including bringing the Doha round to a conclusion.

The strategic use of the EU's varied tool-kit should also allow it to become a more effective promoter of democracy, the rule of law and human rights. A policy of conditionality that empowers democratic actors and discourages the abuse of power by authoritarian regimes must be used more wisely. This will require holding discussions with civil society partners, including associations of women and minorities, and not only government interlocutors; bottom-up interventions to bolster the rule of law around the world; and a more consistent approach to election monitoring. In the next two decades, this governance agenda must become multilateral to the greatest extent possible.

Last but not least, it will be necessary to develop an EU approach to global governance reform. The EU should lead the reform effort to make international institutions more legitimate and conducive to shared responsibility, while promoting its own interests in the process. This should include simplifying and bundling together its representation, especially in international economic fora. As long as single EU representation is not achieved, EU members represented in international organizations should previously coordinate their positions and defend them unanimously.

THE EU AND ITS CITIZENS

Throughout the history of European integration, the relationship between the Union and its citizens was mostly characterised by a "passive consensus". However, in recent years this relationship has begun to change. Europeans have become more demanding of the EU and also more critical of its performance, casting doubts on the legitimacy of the European project. This was illustrated with a bang in the negative referenda which took place in France and the Netherlands, and subsequently in Ireland. Public ownership of the EU will only return when our populations are confident that their values and interests are better served by the Union. Strengthening this sense of ownership must become the driving force of all our collective action.

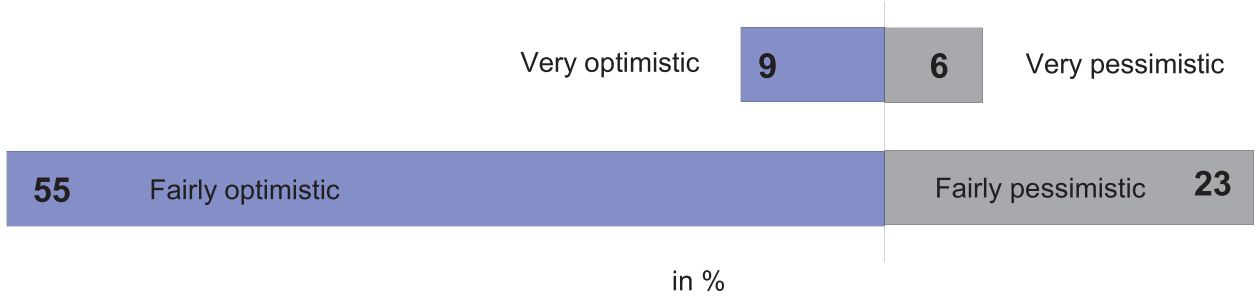
Taking good governance seriously: sharing, explaining and delivering

Delivering "good governance" is by far the EU's most powerful means of ensuring the continuous commitment and engagement of its citizens. Underpinned by the principles of openness, participation, power sharing, accountability, partnership and effectiveness, good governance must also conform to the principle of "subsidiarity" – the notion that decisions should be taken at the most effective level and as close as possible to the citizen.
The EU endeavours to deliver on these principles through a system of 'multi-level governance', where competences are shared – rather than split – between various levels of authority. In practice, multi-level governance is a system of agreed, binding and cross-cutting networks that operate between localities, regions, national authorities and EU institutions, as well as between labour and business associations and other non-governmental organisations. By working through these networks, and within their own communities and municipalities, European citizens can have a say in areas of importance for the future of the EU.

In a multi-level governance system, each level of authority – the European, national, regional and local – exercises its powers according to its respective statutory responsibility. As such, the system is designed to create the conditions in which Member States – irrespective of their size, population or economic weight - can grow together, while respecting their national cultures, languages, religions and regional and local characteristics. At the same time, the system respects the sovereign right of Member States to decide on the

Future expectation of the European Union 2030

„Would you say that you are very optimistic, fairly optimistic, fairly pessimistic or very pessimistic about the future of the European Union?"



Don't know: 9 %

Source: Eurobarometer 6/2009; EU 27

modalities for the devolution of power within their own borders.

The availability of multiple entry points through which citizens can engage with the legislative process should provide the EU with the legitimacy and flexibility it needs to address the challenges arising from globalisation in a digital, interdependent, network-oriented and open society. However, multi-level governance will not provide the public with a sense of ownership automatically. It is a complex system, which needs to be harnessed, nurtured and above all communicated to the public.

There is consequently a strong need for more transparency and accuracy in the way we communicate EU policy-making. The image of the EU which is conveyed to the public must be balanced, reflecting both strengths and weaknesses, rather than an idealised or overly pessimistic account. Instead of focusing on a communication policy which sometimes verges on propaganda, it would be preferable to communicate on policies, explaining frankly what is at stake and the different options available. Not least, Member States must be accountable for what they do in Brussels and for what they do to implement EU decisions.

Yet, at the end of the day, good governance will be judged by its results. The EU has already brought numerous benefits to the lives of its citizens – for instance through the Euro, cohesion policy, common agricultural policy, Schengen – even if the credit for these achievements is not always attributed to the EU. But there is still a lot of work to be done. Surveys consistently show that the public has high expectations of the EU in such sensitive policy areas as security, terrorism, energy and climate change as well as foreign policy. The EU should rise to this challenge by developing new objectives and a more results-oriented rationale. In short, it must avoid rhetoric and explain in plain language how it adds value to its citizens' lives.

Using Lisbon's new tools: political citizenship in practice

Good governance and a stronger focus on output are sine qua non for citizens to support the EU. Yet on their own they might not suffice. In spite of all the EU's past achievements there is a worrying indifference, if not disenchantment, towards the European project. We can no longer ignore this challenge. We need to refresh the pact between the EU and its citizens by making use of the entire range of tools provided by the Lisbon Treaty to galvanise the public's support and participation.

The Treaty of Lisbon reinforces the concept of 'political citizenship' by opening up the possibility of a popular initiative on legislative matters and increasing the role of national parliaments. Time will show the extent to which these innovations contribute to the emergence of a European public space, increase political awareness and strengthen the legitimacy of the Union. Today, there is no true European political arena and politics is likely to remain an essentially national pursuit. But if the Union is to increase its legitimacy, it must do its utmost to enhance European political citizenship. To this end, the EU should:

- Develop political rights. The Lisbon Treaty's current provisions should be enhanced: firstly, by encouraging Member States to grant voting rights in national elections to nationals of other Member States after a certain period of residence and tax payments; secondly, by "Europeanising" European Parliament elections through the introduction of cross border lists; and finally, by using national parliaments as conduits for the public to engage in European political debates.

- Make elections more meaningful for citizens. European elections have until now failed to engage the interest of citizens. If this is to change, citizens must

At the 2009 European citizens' summit, citizens from all 27 EU Member States discussed the national recommendations.
Photo: Toussaint/ifok

have more knowledge about EU policies; above all they must be able to identify with European politicians. For future European parliamentary elections, the EU's political parties should present truly European programmes and choose candidates for the post of Commission president.

– Ensure more publicity and more transparency. This is needed both in relation to high-level decisions, such as the appointment of the permanent President of the European Council and the High Representative, and in the day-to-day work of the EU. There are numerous ways of achieving this, including more systematic use of digital resources (e-governance); the introduction of a European dimension in public media; and providing incentives for private media to broadcast programmes on the EU.

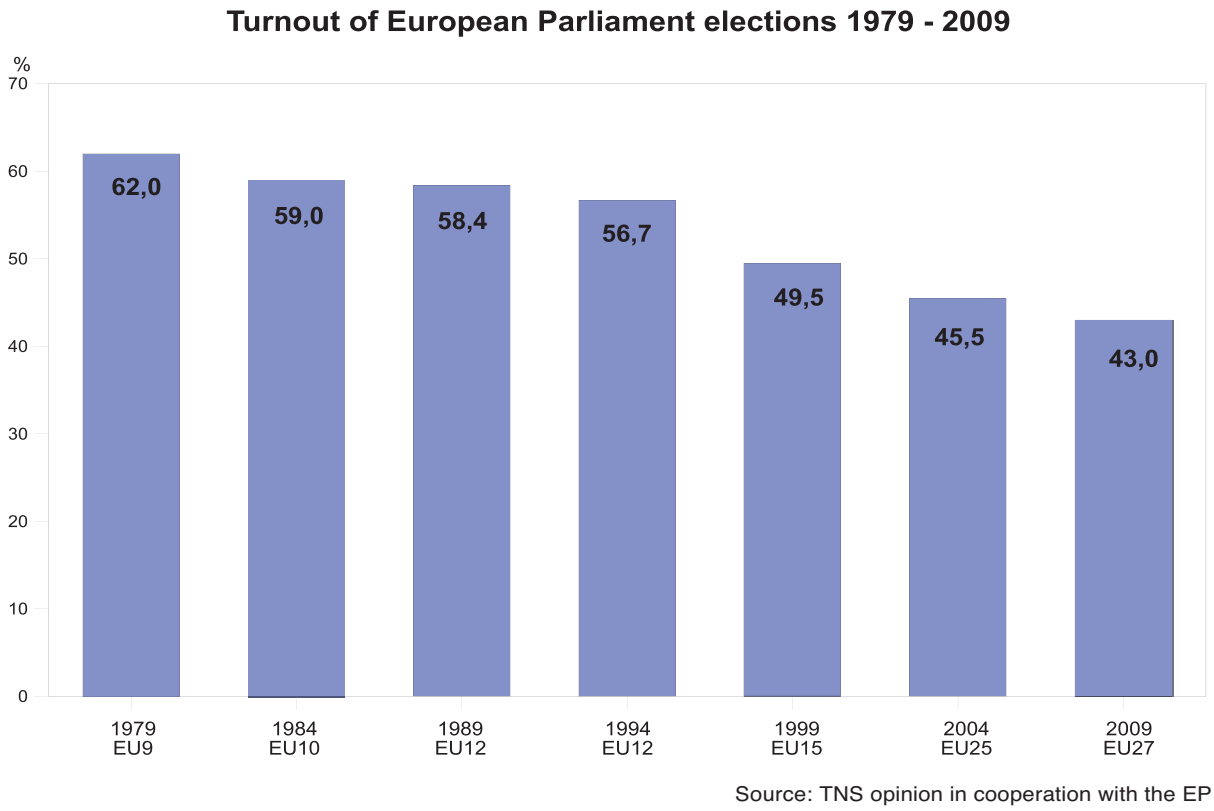
– Encourage greater European participatory democracy. Civil society should be consulted as a matter of course and on an ongoing basis in the legislative process. To this end, the Economic and Social Committee and the Committee of Regions should be consulted more systematically by the Commission and the Council.

Fostering ownership and identification: a bottom-up approach

If we want citizens to take full ownership of the European project, the EU needs a shared understanding of its history, its day-to-day realities and its future. The historical origins of the EU, born out of the ashes of the Second World War, are well known. This knowledge must be nurtured and promoted, not only to prevent a return to the brutality of the past, but also to provide a reference for the rest of the world.

The Lisbon Treaty also provides a comprehensive set of rights and benefits for citizens to enjoy in their day-to-day life. Based on the principle of non-discrimination, this 'social' dimension of European citizenship includes, among others, the right to move, reside and work freely within the territory of the Member States, and the mutual recognition of qualifications.

Unfortunately, protectionist or corporatist reflexes within Member States still regularly prevent EU citizens from enjoying these rights. Action should be taken on four fronts in order to address this problem:



Source: TNS opinion in cooperation with the EP

- Strengthen information services provided by local authorities to raise public awareness of the rights and benefits associated with EU citizenship.

- Create a specific administrative instrument that would provide proof of European citizenship for individuals to use on a voluntary basis in order to access residence, employment and social security rights.

- Provide citizens with the option of resorting to a European legal status (the "28th regime") which would apply to contractual relations in certain areas of civil or commercial law alongside the current 27 national regimes.

- Establish a system for evaluating the impact of EU law, making full use of the Commission's powers in this respect, and develop measures to strengthen the enforcement and application of EU law at national level. The European Parliament and national parliaments should play a leading role in this process.

If properly implemented, these measures will enhance the public's appreciation for European law and institutions, but they will not in themselves create a "sense of belonging" to the EU. This can only develop over time, in particular among Europe's younger generations. Schools can play a crucial role in fostering identification with Europe among children, by providing instruction in European languages, using text books on Europe's common cultural heritage, and offering courses on European citizenship. Exchange programmes, based on the hugely successful example of ERASMUS for university students, should be extended to include primary and secondary school exchanges as well. A "European civilian service", designed and implemented in coordination with Member States, could also offer young people a platform to contribute to missions of general interest inside and outside the EU.

We all have multiple identities which include local, regional and national elements. There is no doubt that these primary forms of identity will remain the key reference points for citizens for a long time to come. But these elements have to go hand in hand with an emerging 'European' identity based on shared understandings of EU's history, the practical benefits deriving from EU citizenship, and a common vision of Europe's future and place in the world. It is only by clearly spelling out the EU's common agenda and purpose in the 21st century that our citizens will develop a stronger sense of ownership of the European project.

BUILDING ON THE EU'S STRENGTHS

Many people still see 2030 as a date far into the future and dismiss the validity of predictions. But we should be under no illusion. The world is experiencing a period of rapid and far-ranging global transformations which will continue to have a significant impact on the lives of our citizens. The last twenty years may have only provided a hint of what the future has in store. The next twenty years are bound to accelerate and exacerbate many of the trends we are witnessing. Think long-term but act with determination now – this message must shape European policy-making in the current age of insecurity.

In the coming years, the EU will need to pursue an ambitious agenda. It will need to bring the EU, its Member States and its citizens closer together; renew Europe's economic and social model at a time when internal and external forces challenge its sustainability; create the knowledge society by empowering the individual; make the most of changing demographic patterns and immigration; turn energy scarcity and climate change into opportunities for societal and economic development; strike the right balance between freedom and security; and contribute to shaping the world so that Europe's values and interests are safely taken care of.

A common agenda and vision for Europe's future

These goals and ambitions will require a step change in the approach of national governments to the EU. Too often they fail to realise that, in an increasingly interdependent and multi-polar world, their long-term interests are best served by pursuing them at the European rather than national level. They have failed to mobilise the support and participation of citizens which is essential to the legitimacy of the project. More often than not Member States have withdrawn into themselves, focussing only on their national interests, to the detriment of the wider European interest. The EU urgently needs a shared understanding of how to realise its ambitious agenda. It needs to identify the measures required to adapt to the global era, and the costs and implications of standing still. In short, it needs to communicate a common vision of how Europe can secure its future. The choice we face is therefore clear: build on the strengths of the EU and use its collective weight to become an assertive and relevant player in the world, or cultivate fragmentation and contemplate the possibility of absolute decline in a world where the rules are defined by those who matter.

In the interest of our citizens

Europe's strengths are real. With the biggest market on earth, a quarter of the world's trade and the donor of two thirds of development aid, the EU matters. It offers a joint infrastructure providing citizens with a wide array of rights, services and opportunities. EU policies and programmes have helped to create an interconnected policy area spanning communications, transport, social questions, research and education. By organising and regulating these so called "common spaces", the EU acts as an enabler of activities for its citizens, companies and governments.

The EU also inspires positive perceptions. The Union is one which many aspire to join, either by accession or immigration. It boasts an excellent quality of life, reflected in some of the highest life expectancy figures in the world. The EU governance model – "governing in partnership" – is an example of effective regionalism: a common public space with pooled sovereignty and capacity to define common interests, strong institutions and the primacy of the rule of law. It has sound underlying strengths: political stability, solid legal foundations, achievements in social and economic cohesion and rich cultural and ethnic diversity.

The EU is more than a common market. It is also a union of values, embodied in a commitment to human

rights, peace, freedom and solidarity. These values have universal significance. With the support of European citizens, scientists and politicians at all levels, the EU can lead international efforts to address major global challenges, including social cohesion, climate change, sustainable development, and peace between nations.

Last but not least, the EU has the capacity to think and act in the long-term interests of European citizens. Member states are frequently constrained in their actions by day-to-day political realities which militate against long-term planning. European policy-making is less prone to these short-term pressures, and thus has more scope for introducing new proposals. With the adoption of the Lisbon Treaty, the EU now also has the tools it needs to put its proposals into action, including enhanced cooperation and simplified revision procedures. Now more than ever, the EU is able to focus on the long-term interests and needs of its citizens.

So the question before us is this: can we build on the strengths of the Union to our common advantage? Globalisation and the re-balancing of power in the world provide an important new rationale for joint EU action. But only on solid foundations can the EU become an actor to be reckoned with on the global scene. This mission requires political courage and collective ambition, solid pragmatism and a clear sense of ideals worth fighting for. At home and abroad. Let us pave the way. Together. Now.

Photo: European Union, 2010

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