

**Keynote Address on European Union Foreign Policy**

**Concluding Session, EU Enlargement:**

**Implications for the EU and Australia**

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**National Europe Centre Paper No. 92**

Address to the National Press Club, Canberra

Thursday 17 April 2003

The war in Iraq has undeniably been a setback in our attempts to create a common European foreign policy. This is not wholly surprising since it raises such difficult issues even if the conflict itself was mercifully quick. What are the consequences for our relationship with the world's only super-power and its relationship with us? And relations between the west and the Islamic world, and prospects for peace in the Middle East? How can we deal with global threats like weapons of mass destruction without strengthening institutions of global governance like the UN? Member States have been and continue to be all over the place on Iraq, even if there is more common ground at the level of public opinion. The usual attempts to paper over differences through insipid declarations have fooled no-one. The immature and vulnerable side of European togetherness has been starkly revealed.

Yet at the same time, we are witnessing a real triumph of European foreign policy – the imminent enlargement of our Union to ten new countries in Central and Eastern Europe on 1 May 2004. This historic development underlines the force of our most effective foreign policy instrument. A policy that grew from a determination to lash France and Germany inseparably together. Two countries that had fought three wars in the previous 70 years, with the cost of so many lives from all our countries. How would Asia look today if China and Japan had followed a similar course?

The UK held back at the start, fearing that the project was too ambitious. That it would not work. This tragic miscalculation has coloured Britain's relations in Europe ever since. This is why, for example, the UK was not able to influence the original design of the Common Agricultural Policy which today is the main cause of friction in EU-Australia relations, despite the significant reforms in recent years. Yet overall, European integration has been spectacularly successful: 50 years of peace and growing mutual understanding. The prospect of EU membership was the force for consolidating democracy in Greece, Spain and Portugal. We initially tried to persuade Finland, Austria and Sweden that the European Economic Area offered a viable alternative – but they wanted full membership before it really got off the ground. Most countries of Western Europe are now members.

In economic terms, the single market – now 10 years old - has created some 2.5 million jobs and a huge boost to our collective prosperity. The emergence of the euro as a major international currency has brought exchange rate stability and been a

stimulus to reform and better economic management in participating Member States. Behind these figures lie the massive changes that have occurred in the way we live, travel and work. Since 1992, more than 15 million EU citizens have moved to another Member States to work or enjoy their retirement. They enjoy proper welfare protection and have voting rights where they live.

With the end of the Soviet Empire we faced a new challenge. In a remarkably short period, we have helped to transform the former communist countries to enable them to join our democratic and market-based club. A striking achievement that has helped to prevent the collapse of the former soviet system into political chaos on our doorstep. And we should not lose sight of the moral case for enlargement: for too long the countries of Central and Eastern Europe have been separated by totalitarianism from the benefits of European civilisation. We could not continue to shut the door on them. The signature of the Accession Treaties in Athens yesterday was the culmination of our biggest post-war foreign policy success.

The tool of enlargement is still being used. If they can show that they are ready for accession, Romania and Bulgaria will be able to join in 2007. Next year, we will return to the question of Turkey's membership prospects. And the offer of membership is the centre-piece of our largely successful – if unfinished - efforts bringing peace and stability to the Western Balkans. In the last few days, the Council has asked the Commission for an assessment of Croatia's recent application.

What will it mean? A voyage into the unknown certainly as we only now start to assess the political and institutional challenge of dealing with a Union of 25 member states. But the basic vision will not change – an ever closer union of countries, united by our shared values of democracy and open markets. And we will remain outward-looking with a deep commitment to the multilateral institutions of global governance. Each step forward in European integration – the customs union, single market, the euro, and successive waves of enlargement - has created fears that the EU will turn in on itself. Fears of a fortress Europe. Yet these has never materialised. Nor will they as the result of the present enlargement.

Enlargement will create new land and sea borders for the EU and that brings new neighbours. Countries with 385 million inhabitants: Russia, the Western NIS and

the Southern Mediterranean. The new Member States will strengthen the Union's interest in enhancing relations with these countries. Over the coming decade and beyond, the Union's capacity to provide security, stability and sustainable development to its own citizens will converge with our interest in close cooperation with our neighbours.

Interdependence - political and economic – with the Union's neighbourhood is already a reality. The emergence of the Euro as a significant international currency has created new opportunities for intensified economic relations. Closer geographical proximity means the enlarged EU and the new neighbourhood will have an equal stake in furthering efforts to promote trans-national flows of trade and investment as well as even more important shared interests in working together to tackle trans-boundary threats – from terrorism to airborne pollution.

In return for concrete progress demonstrating shared values and effective implementation of political, economic and institutional reforms, the EU's neighbourhood should benefit from the prospect of closer economic integration with the EU. This is why, the Commission has recently proposed a "wider Europe" policy for our new neighbours. That Russia, the countries of the Western NIS and the Southern Mediterranean should be offered the prospect of a stake in the EU's Internal Market and further integration and liberalisation to promote the free movement of – persons, goods, services and capital (four freedoms).

Enlargement will not just impact on our relations with our neighbours. In today's global village, countries further afield like Australia will also see the benefits. Every previous enlargement has been good for economic growth in the accession countries. Enlargement will add 70 million people, a 20 % increase in the population of the EU. Yet the initial impact on the EU economy will be less than half that because of the much smaller GDP per head in the accession countries. Just as countries like Ireland, Spain and Greece have achieved remarkable progress in convergence of income and standards of living (towards the EU average) following their accession, forecasts for the next ten years point to continued rapid economic growth in the accession countries. Unsurprisingly, European and international business has been betting heavily on enlargement from the very outset. Thus, enlargement will not only give

the EU a huge internal market, it will give it a growth market conducive to interchange and innovation.

This is good news for the future of Australia's economic relations with the EU. For the last 11 years, the EU has been your biggest single economic partner: 16% of trade in goods, 21% of trade in services and the largest source of inward investment in the Australian economy with an accumulated stock of some A\$269bn or 33% of total foreign investment. As we expand to take in new, dynamic and fast growing economies, the importance of these figures will grow and the related business opportunities increase.

The unprecedented scale of the present enlargement is forcing the EU to ask hard questions about the affordability of some of our policies. In particular, there is widespread recognition that there will need to be further changes in the way we support agriculture. We have already made substantial progress in moving away from market-distorting subsidies and export refunds to a system of direct aid for farmers. The Commission has proposed to Member States to we should take advantage of the present World Trade Organisation talks to go much further in this direction. Specifically, we have suggested progressive cuts in trade-distorting farm subsidies by more than half over the coming years (55%) and a similar reduction in expenditure on export refunds (45%). These measures should be combined with further opening of agricultural markets by reducing agricultural tariffs.

There will always be a political need to compensate EU farmers for the structural challenges that they face. But enlargement will create internal pressures that should help us to make a significant offer in the WTO. As well as meeting longstanding concerns of Australia and like-minded partners, these measures should contribute to ensuring a fairer global trading system for the poorest countries.

We also need to make sure, with our institutions and policies, that the EU can function properly on a day-to-day basis without collapsing under its own weight. That is the purpose of the debate in the present Convention devoted to the future of the European project. It would be premature to try to second-guess the outcome of this great reform debate. However, I think there is one truly strategic question at the centre of the Convention's work: is the "Community method", as it is known, a suitable

basis to build the future on or do we need to introduce more inter-governmental cooperation? As far as I can see, there is a large majority, including the representatives of the accession countries, in favour of the essential idea behind the Community method.

Finally, while we have been sharing sovereignty in the trade field for many years, effective European cooperation in foreign and security policy is relatively new. But prompted by the tearing down of the Berlin Wall and with it the collapse of the brutal certainties of the Cold War, by our humiliating failures in the Balkans in the 90s and by a growing recognition of the gap between our political and our economic clout in the world, Europe has been gradually putting together a common foreign and security policy.

We have done better in some senses than we are given credit for – most notably in the Balkans, where our work is admittedly only half-done and more recently in Afghanistan. Ambitions to go further faster are clear. There is much discussion of institutional changes that could help give European foreign policy more coherence and visibility. All very interesting to be sure, but there is in my judgement a considerable element of the cart being asked to precede the horse in all this. Take for example the idea of a specially chosen full-time President of the Council whose task, among other things, would be to represent Europe to the world, providing the telephone number for which Dr. Kissinger has hunted for so long.

Suppose that today we had such a President, another ex-Prime Minister perhaps, raised to the purple by his peers, and let us wave him on his way on his first visit to Washington. How happy would Mr. Blair, Mr. Chirac and Mr. Schroeder be when they saw him on television sitting down in the Oval Office to tell Mr. Bush what Europe's view – and by implication their own – was on Iraq? Institutions can sometimes help to develop or change political will. But no amount of institutional tinkering can be a substitute for political will. Europe will only have a wholly credible foreign policy when the political will exists to create one.

Our aspirations would gain in credibility if we were prepared to invest rather more in our own security. Now I am not talking about seeking to rival the United States, whose defence budget of nearly \$400 billion represents over 40% of the world's total

spending on weapons and warriors. Yet we should not forget that there are times when diplomacy must be backed by a credible threat of force to carry weight. Unless we are prepared in Europe to spend a bit more of defence, our foreign and security policy will simply not have enough effective influence.

Where we are already big hitters, we should seek to hit harder still. At the UN Conference at Monterrey last year, we committed ourselves to benchmarked increases in development assistance. We must hold to those promises, and exceed them if we can. More important, it is imperative that we give a strong lead in the talks launched in Doha to open further international markets and to make global trade rules and the institution that upholds them fairer to the poor. There is no way of avoiding that obligation if we are serious about our commitment to make multilateral approaches and institutions work.

These institutions – such as the UN, the IMF, the World Bank, the WTO – provide a structure for the civilised resolution of global disputes and a civilised approach to the new global agenda. It is in the common interest that they should be strengthened, not least by trying to develop the regional grouping within them so as to expedite decision-making and implementation.

To sum up therefore the work of building a united and prosperous Europe is going ahead steadily. Europe will remain open to the outside world. The transatlantic relationship will continue to loom very large despite the present tensions. And precisely because of these tensions, relations with other partners sharing the same values and policy goals will remain very important. By being in Australia at this troubled time, I want to underline this message and highlight the considerable future potential of our bilateral relations.