CENTRE FOR EUROPEAN REFORM
policy brief

The new Commission's economic philosophy

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★ The new team of European commissioners may not be quite as enthusiastic for free markets as the outgoing team, but the broad orientation of the Commission's economic policy is unlikely to change. It will continue to defend the single market, free trade and a tough competition policy.

★ However, the economic policies of the Commission and the EU as a whole will inevitably reflect the economic backdrop of slow growth and high unemployment. National governments – and the European Parliament – may therefore push the Commission to be less liberal and more 'social'.

★ There is a risk that the Commission will bow to pressure to allow state aid for ailing national champions; to restrict trade with third countries that fail to open their markets; or to impose ill-conceived regulations on financial firms.

★ One key challenge for the Commission is to help prevent Greece or another eurozone member defaulting on its debt. Another will be to draw up a convincing 'EU 2020' programme of economic reform, to replace the 'Lisbon agenda'. A third challenge will be to reconcile pressure from member-states for more activist industrial policies with a defence of the single market and adherence to an independent competition policy.

A fresh approach to industrial policy, a determined fight against 'social dumping', narrowing the pay gap between men and women, and social impact assessments for new EU laws – these were some of the things that José Manuel Barroso promised when the European Parliament approved his second term as president of the European Commission in September 2009. Is this the same Barroso who had made the 'Lisbon agenda' of liberal reforms and a stronger single market the priorities of his first term in 2004?

Barroso's altered rhetoric is not the only reason why some observers worry that the new European Commission, which took office on February 9th, will be less economically liberal than its predecessor. In the previous Commission, the key economic jobs were held by North European liberals: Neelie Kroes ran competition policy, Charlie McCreevy defended the single market and Peter Mandelson fought for trade liberalisation. Particularly in its early years, Barroso's first Commission (Barroso 1) pursued a broadly liberal economic agenda. It proved a tough enforcer of competition policy, and tried hard to free up trade and lighten the regulatory burden on business. But what can we expect of the new team now settling into the Commission's Berlaymont headquarters in Brussels?

Fewer of the key jobs in Barroso 2 are held by North European economic liberals. Joaquín Almunia, a Spanish socialist, gets competition policy and Michel Barnier, a French Gaullist, takes the single market – though Karel de Gucht, a Flemish liberal, becomes trade commissioner. The increasingly important energy portfolio, previously held by a liberalising Latvian, Andris Piebalgs, goes to Günther Oettinger from Germany – a country traditionally opposed to energy market liberalisation. Agriculture shifts from a reform-minded Dane, Mariann Fischer Boel, to Dacian Ciolos, a Romanian who has described France as his "adoptive country".

The leanings and leadership qualities of individual commissioners matter. But several other factors will be more important in shaping the economic stance of the new Commission. The first is that EU commissioners act within a well-defined legal and institutional framework. Irrespective of what commissioners may think, treaty obligations require

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the Commission to press for open markets and enforce competition policy. The logic of the EU system of governance spurs the Commission to favour pan-European solutions to particular problems. That often means that it seeks to integrate markets by removing national regulations and setting common standards. If the Commission stopped defending the EU rule-book against national governments, its own power vis-a-vis those governments, and thus its relevance, would diminish. So the Commission usually defends the principles of the single market against EU governments or industry groups that lobby for protection.

However, and this is the second factor, the Commission is not the only actor in EU economic policy-making. The national governments have a big influence over the rules and policies that the EU adopts. In most areas of policy the Commission can only propose, co-ordinate and persuade. It cannot make rules. It does have the job of policing the rules, including in competition policy, which is the only area where the Commission can take significant initiatives without the permission of governments. Commissioners need to take account of the interests and sensitivities of the member-states (particularly the big ones) at every stage in the law-making process. Although centre-right parties are in power in most big member-states, the gloomy economic situation may make EU governments reluctant to support an economic agenda of tearing down the remaining barriers to trade and investment within Europe.

Another important actor in the EU's system of economic policy-making is the European Parliament. Successive EU treaties have given the EP more powers to shape and adopt EU legislation, and the Lisbon treaty is no exception (see the section on trade below, for example). The EU at present does not have a big legislative agenda. Whether in the single market, energy or competition, the EU's rules are largely set, which leaves less for Brussels law-makers to do. But MEPs will want to make their influence felt. The fact that more than half of the 736 MEPs hail from centre-right or liberal parties does not necessarily mean that the Parliament will be pushing for more open markets. Some MEPs may want to prove their relevance to an often disinterested European public by taking up calls for more 'social Europe'. Some may be tempted to use the few important pieces of legislation currently in the pipeline, such as those on regulating financial institutions, to show that they 'get' the lessons of the financial crisis. But supporters of the single market will take heart from the fact that two of the key parliamentary committees – for economic and monetary affairs, and the internal market – are chaired by liberal-minded Britons.

A third factor that will influence the Commission is the prevailing economic philosophy. The diminishing emphasis on liberalisation that some observers predict for Barroso 2 had in fact already taken place under Barroso 1. Over the past 18 months, since the financial crisis struck, free markets and the 'Anglo-Saxon' model of capitalism have been on the defensive. The actions and policies of the Commission have inevitably reflected that shift. Charlie McCreevy, an economic liberal, arrived in Brussels in 2004 promising a 'regulatory pause'. He ended his term with a flurry of regulatory activism affecting financial firms. By the end of 2009, French officials were praising the Barroso Commission for having abandoned what they claim was its 'ideological' opposition to using EU or state money to foster new technologies.

To say that the Commission reflects the broader political climate in Europe is not necessarily a criticism. If it ignored what the member-states care about it would achieve very little. The art of running the Commission – well understood by former President Jacques Delors – is to work with the member-states and be useful to them, while cajoling and nudging them to consider the broader European interest.

The leadership of President Barroso

José Manuel Barroso, a former Portuguese prime minister, dominated the previous Commission. His leadership and economic instincts will probably matter even more in the new one. With the number of commissioners expanding to 25 in 2004 and then 27 in 2007, substantive discussions in the full 'college' of commissioners became rare. Arguably, Barroso had little choice but to centralise decision-making in his own hands, given the number of commissioners and the fact that few of them were heavyweight politicians.

In Barroso 2 the president is likely to be an even stronger figure. This is because he has learned to be a canny operator within the Commission and among the heads of government. Furthermore, the new team of commissioners – like the last team – contains few senior politicians. Within the Commission, he is unlikely to face many challenges to his authority. He is also more experienced than either Herman van Rompuy, the new president of the European Council, who had been prime minister of Belgium for just a year before getting the job, or Catherine Ashton, the new High Representative, whose Brussels experience is limited to just over a year as trade commissioner.

What kind of policies will Barroso promote? Having long ago jettisoned the Maoist views of his youth, Barroso is a right-of-centre free-market liberal. In his first term he championed the Lisbon agenda of economic reform, including themes such as 'flexicurity' for labour markets, and he worked hard to create a single market in energy. But Barroso is a pragmatic politician rather than an ideologue. He knows that he cannot achieve a great deal if he alienates many member-state governments, particularly the big ones.

So he is not immune to the shifting political climate, notably the increasingly prevalent view that the excesses of unrestrained Anglo-Saxon capitalism contributed to the financial crisis. At the start of his first term as president, many observers thought Barroso was particularly close to the British. That is no longer the case.

Barroso now talks more about the need to balance liberalisation with more 'social Europe' (although the EU has very limited powers in the area of social policy). He also advocates a 'new industrial policy'. This does not mean, he stresses, that public funds should support favoured companies. But Barroso supports state aid rules being interpreted with greater flexibility, so that, for example, governments and/or EU institutions can support 'lead markets' in new technologies. So in the new EU 2020 programme – due to replace the Lisbon agenda – there will be a new emphasis on innovation; on directing R&D funds 'downstream', rather than to pure research; and on support for green technologies.

The importance of the economic backdrop

The greatest threat to Europe's open markets and countries' willingness to reform will not come from the individuals making up the new Commission. It will come from the dire economic backdrop and the political pressures that low growth and rising unemployment will generate. Although Europe emerged in late 2009 from its worst recession since the 1930s, hopes that the recovery will be strong and sustained are likely to be disappointed.

The first reason is that the recession of 2009 was not an ordinary one. It followed a financial crisis of epochal proportions. History suggests that economic recoveries after such crises are slower than those from normal economic downturns. The need to reduce huge levels of debt, both private and public, will constrain the growth of domestic demand, while credit will be less readily available. The countries which provided the greatest impetus to European economic growth in the years leading up to crisis – such as Ireland, Spain and the UK – are financially over-extended and will be spending the next few years 'deleveraging'.

A second reason for expecting the recovery to be sluggish is that none of the major economies with large external trade surpluses is about to replace the US as the world's consumer of last resort. A world economy in which most of the big countries are trying to export their way back to growth cannot easily grow.

The outlook for the EU economy therefore looks grim. Domestic demand throughout much of the region will be exceptionally weak. And exports to places outside the EU will be held back by meagre demand from indebted US households, the strength of the euro's exchange rate, and China's mercantilist policy of keeping the renminbi undervalued. The new Commission's term of office is likely to be marked by feeble economic growth, persistently high unemployment and fragile public finances.

It is possible that this bleak economic context will galvanise some countries into embracing reforms that they have put off for too long. Those countries that have been hit hardest by the crisis, such as Latvia and Ireland, have already adopted wide-ranging austerity programmes. The crisis in Greece could have a salutary impact as other members of the eurozone realise that they, too, must take tough action to put public finances on a sound footing and increase their competitiveness.

It is more likely, however, that Europe's low-growth, high-unemployment environment will foster the emergence of fractious governments that are under pressure from labour unions and other organised interest groups. Preoccupied with managing domestic social conflicts, European politicians may become more open to protectionist pressure. Against this backdrop, the new European Commission will struggle to dismantle the internal market's residual barriers and to promote competition.

Stabilising the eurozone

The most immediate challenge facing the EU is the need to help prevent Greece or another eurozone country defaulting on its debt. Olli Rehn, the new commissioner for economic and monetary affairs, takes on the extremely challenging task of dealing with the growing strains within the eurozone. As enlargement commissioner in Barroso 1, he acquired a reputation for being efficient, consistent and tough. He is a political and economic liberal who once worked as the economic advisor of the Finnish prime minister.

At his confirmation hearing in the European Parliament, Rehn warned that ballooning levels of state debt posed a threat to the stability of the euro. He called for a much stricter application of the stability and growth pact – which requires eurozone members to keep their budget deficits under 3 per of GDP – and left no doubt that he appreciates the gravity of the challenges confronting the eurozone.

The Commission is already doing everything it can to persuade the government in Athens to make cuts deep enough to convince the international bond markets that its public finances are under control. However, this may prove extremely difficult. Given Greece's dire economic situation, the kind of spending cuts that bodies such as the Commission and/or the International Monetary Fund may ultimately seek could lead to an economic slump and deflation. In such circumstances the Greek government could find it almost impossible to strengthen the country's public finances.

The 'no bail-out' clause in the EU treaties means that if Greece, or another eurozone member-state, had to be bailed out, other eurozone governments, rather than the EU itself, would provide the money. However, the Commission is keen to take a lead – together with the euro group (the finance ministers of the eurozone governments) – in setting and enforcing the conditions attached to any bail-out. It thinks that the IMF should not be involved in a rescue package for Greece. Commission officials say that the involvement of the IMF in helping countries such as Hungary, Latvia or Romania – in the EU but outside the euro – is acceptable. But were the IMF involved in the rescue of a euro country, it would give the Americans a say over the future of the eurozone, and that would be unacceptable.

The Commission should be ready to work with the IMF rather than exclude it from efforts to help Greece or any other eurozone member in difficulties. The fund is experienced at attaching tough conditionality to loans for struggling governments. It is professional, objective and not subject to political interference. There is a risk that conditionality applied and monitored by the Commission may not be rigorous enough to convince financial markets that an EU-led rescue package will succeed. At the same time, if the Commission is seen as the sole source of painful spending cuts, Greek popular opinion could become very hostile to the EU. It would be better for the EU if the IMF took some of the blame.

Rehn has said that the crisis in the eurozone should be treated as an opportunity to strengthen economic policy co-ordination among the countries in the euro. France and a number of other member-states agree with him, though German wariness of what the French call *gouvernement économique* will limit the Commission's ambitions. While countries that need bail-outs from fellow members of the eurozone will lose some autonomy over their fiscal policy, there is little prospect of the countries in the euro agreeing to much closer policy co-ordination in areas such as labour markets, taxation or wages.

The major long-term challenge confronting the eurozone is the need for its weaker members to embrace structural reform. With investors now looking askance at the creditworthiness of several eurozone economies, the Commission's routine calls for fiscal discipline and reforms that would boost productivity may be heeded. For example, the spectre of following Greece into fiscal crisis could shake the Spanish government out of its complacency.

But Rehn will also have to direct attention to the need to reduce imbalances between the eurozone economies. Private consumption in the eurozone's biggest economy, Germany, remains chronically weak, which makes it much harder for the Southern European countries to export their way back to economic growth. The problem is that while cautious German consumers are unlikely to loosen their purse strings in this uncertain economic climate, the government is also unlikely to boost spending. Although the ruling coalition has promised some tax cuts, a new constitutional clause prohibits it from running deficits bigger than 0.35 per cent of GDP after 2016. So long as Germany remains structurally dependent on exports to drive its economic growth, strains in the eurozone will persist.

Competition policy and state aid

The previous competition commissioner, Neelie Kroes, gave short shrift to EU governments that lobbied on behalf of national champions. Under her watch, state aid fell steadily until the onset of the financial crisis, and governments became less keen on picking fights with the Commission. Although Günter Verheugen, the outgoing commissioner for enterprise, was openly critical of what he saw as the Commission's failure to support industry, it was Kroes' line that tended to prevail.

Joaquín Almunia, the new commissioner for competition policy, will be just as firmly committed to maintaining the EU's state-aid and competition rules as his predecessor. In his previous position, as commissioner for economic and monetary affairs, Almunia showed that he believes Europe's future lies in it becoming more market-orientated, not less. But he will have his hands full. The economic crisis has emboldened those governments that fear the EU's competition rules place European firms at a disadvantage, compared with their competitors in the US and China. These governments want to be free to support firms that they consider to be strategically important.

Given the grim economic outlook, many European firms risk bankruptcy over the next few years. EU governments that are coping with high unemployment and frustrated with 'unfair' competition from emerging economies such as China will be tempted to rescue big firms in trouble. There is a risk that they could succeed in pushing the Commission to interpret state aid rules more flexibly. Although such leniency could make sense for individual EU companies and countries – if only in the short term – it would not benefit the European economy as a whole. Bail-outs of struggling firms would exacerbate the problem of over-capacity, thereby reducing profitability and future investment. Governments that keep struggling companies alive risk retarding the reallocation of resources from underperforming sectors to faster-growing, high-tech ones that is needed to boost productivity.

Even liberal-leaning figures such as President Barroso or Peter Mandelson, now the UK's business secretary, are now calling for a 'new industrial policy'. Such a policy need not pose a threat to the single market. For example, the EU can learn from the US experience of using public procurement schemes to help foster new technologies (see the section on innovation, below). However, the EU should not dilute state aid rules to allow direct subsidies to high-tech firms. These rules are already much more flexible than the Commission's critics acknowledge. Europe's weak performance in high-tech sectors reflects, among other things, underinvestment in higher education, the absence of properly functioning pan-European capital markets and the EU's costly patent regime. If the Commission allowed governments more freedom to support their chosen firms it would do nothing to address these problems, but would introduce distortions into the single market.

Prime ministers are prone to pick up the phone to Barroso when a sensitive state-aid case is on the agenda. But when it comes to the policing of mergers and acquisitions, the Commission has an excellent track record of seeing off attempts by governments to exert influence. The EU's rule-book on mergers consists of clear procedures that must be followed, which makes it hard for governments to lobby. Ever since Peter Sutherland was competition commissioner (1985-89), the holders of that job have been tough defenders of EU rules, and Almunia can be expected to maintain that high standard.

Financial services

Of all the appointments to Barroso 2, few have attracted more attention than that of Michel Barnier to the financial services portfolio. President Sarkozy hailed it as a defeat for the City of London and "unregulated" Anglo-Saxon capitalism – and a victory for France's vision of stricter regulation. Many in the UK interpreted the appointment in a similar light – and reacted with dismay.

Barnier is on record as being a strong supporter of the Common Agricultural Policy, but otherwise little is known of his economic philosophy. Among French politicians, he is a passionate pro-European. He served as regional policy commissioner from 1999 to 2004, before leaving to become French foreign minister and, later, agriculture minister. At his confirmation hearings before the European Parliament, he sensibly tried to distance himself from President Sarkozy and to allay British fears. He insisted that he would no more take instructions from Paris than from London; and said that he recognised the importance of the City of London to Britain and the rest of the EU.

Barnier faces two main tasks on financial services. The first is to steer through a number of reforms to make the financial system safer. The second is to restore trust in the single market in banking, which has been badly shaken by Iceland's inability to compensate foreign depositors following the collapse of Icelandic banks.

There is basic agreement across the EU on the broad direction of change: banks will have to hold more (and higher quality) capital than they have done in the recent past; prudential rules will have to be redesigned so that they dampen, rather than amplify, the credit cycle; more attention will need to be paid to the way in which the decisions of individual financial institutions affect the system as a whole ('macro-prudential surveillance'); and tighter co-ordination will be needed between national supervisory authorities – notably at European level.

However, the devil lurks in the detail. And Barnier will find himself exposed to two opposing forces. The first is the perception among many Europeans that the British are reluctant to learn the lessons of the crisis, and that they need to be cajoled into clamping down on the City of London (widespread though it is, this perception is hard to square with Britain's noisy domestic debate on financial regulation, or with measures that the government has already taken, such as the introduction of a windfall tax on bonuses). The second is the probable entry to office of a more eurosceptic Conservative government in mid-2010. The Conservative Party has played its cards close to its chest, but it is likely to be more hostile to elements of the Commission's plans for reforming financial regulation than the current Labour government.

Tensions between the UK and its EU partners could come to a head over a draft directive that would regulate, among other things, hedge funds and private equity firms. How Barnier handles this directive could have an important bearing on his ability to be an effective commissioner. There is strong political pressure, in the European Parliament and in countries such as Germany and France, for hedge funds and private equity firms to be regulated more tightly. But if the UK's concerns are simply brushed aside, many in Britain will see the legislation more as an attempt to cut the City down to size than as an effort to enhance financial stability. That could fuel British euroscepticism and make a Conservative government in the UK less co-operative.

The single market

Barnier is responsible not only for financial services, but also for all other aspects of the EU single market. Well before the financial crisis started, the Commission was already struggling to push for further liberalising measures. In 2004, for example, hefty opposition from some EU member-states and the European Parliament forced the Commission to water down considerably its plan for creating a single market in services. Distortions to competition have continued to afflict sectors that were supposed to have been liberalised, such as energy.

The financial crisis has had three adverse consequences for the single market. First, it exposed the fragility of member-states' support for some of the key principles of the internal market. Second, it sapped public support for competition and open markets. And third, it revealed certain aspects of the single market – particularly the arrangements for cross-border banking – to be unworkable without major reform.

The challenge facing Michel Barnier will be to uphold existing rules and advance market integration (in areas such as services and e-commerce) at a time when anxious workers will see increased competition as a threat to their jobs. The Commission will have to explore ways of 'selling' the EU's liberalising agenda to national governments and the wider public. Barroso has tasked Mario Monti, an eminent Italian economist who served as both commissioner for competition and for the internal market, with writing a report on the future of the single market. Although the text will not be submitted before April, Monti has already called for a new 'grand bargain' between countries with 'social market' and 'Anglo-Saxon' outlooks. Barnier hinted at something similar in his confirmation hearings before the European Parliament. Monti believes that this bargain could take the form of countries with an Anglo-Saxon outlook agreeing to curb tax competition (by signing up for the harmonisation of tax bases and minimum rates of corporation tax), to make sure that governments have sufficient revenues to pay for social policies. In return, the social market countries would show greater enthusiasm for market liberalisation in areas such as services.

It is doubtful, however, that the conditions for such a 'grand bargain' exist. Low tax countries such as Ireland and Latvia are likely to oppose it, as are higher-tax countries like the UK (on a matter of principle that the EU should not be involved in tax policy). Nor is it clear that a deal to curb tax competition would convince some countries to become more enthusiastic for competition and market liberalisation. Irrespective of what the EU decides on tax, for example, the French government will continue to oppose any mooted foreign takeover of a leading company in what it considers to be a 'strategic industry', while Germany will remain wary of hostile foreign takeovers.

EU 2020: Replacing the Lisbon agenda

One of the new Commission's first tasks will be to steer through an economic reform plan for the EU, to replace the Lisbon agenda – the programme of supply-side reforms that was launched in 2000 and ends this year. The Lisbon agenda has often been derided as a toothless process to which the member-states have shown little commitment. Its critics argue that there is no point in renewing it, because nothing so damages the EU's credibility as grandiose projects that fail to deliver. Few observers, however, dispute that the original agenda rested on an accurate diagnosis of Europe's economic challenges, and that much of it remains as valid today as it was in 2000.

EU leaders will endorse the Commission's proposal to launch a new agenda for reform, called EU 2020. But they have yet to decide what this new programme should include. The Lisbon agenda was a bit of a Christmas tree, with disparate and sometimes inconsistent objectives being tagged on or removed according to the fashion of the moment. The same could happen to EU 2020. In December, the Commission circulated a discussion paper suggesting that education, research and innovation should feature at the heart of the new agenda, and that EU 2020 should seek to integrate these objectives with the EU's environmental targets so as to promote 'green growth'. The Commission was much vaguer, however, on the question of how the EU would achieve such goals – unsurprisingly, since many of the policy areas likely to be covered by EU 2020 will be primarily matters of national competence.

Like the Lisbon agenda, EU 2020 will be a programme with many objectives but few instruments. The Commission will probably be given a handful of targets that fall within its area of responsibility, such as creating a single market in e-commerce. The Commission is also likely to argue that the next EU budget cycle – which does not start until 2014, though discussions on it will get underway this year – should support EU 2020. The Commission has long argued that less of the budget should be spent on agricultural support, and more on programmes that promote innovation. And there is no reason to believe that Barroso 2 will take a different view. But reform of the budget will ultimately depend on the views of the member-states – and countries like France, Ireland and Spain will resist cuts to farm spending.

The Commission's main role in EU 2020 will probably be to manage what amounts to a peer group review process. It could play a more proactive role if it was prepared to 'name and shame' the governments that fail to fulfil their promises on economic reform. But several national capitals do not want the Commission to do this and Barroso is unlikely to overcome their opposition. The success of EU 2020, therefore, will ultimately depend on the commitment of the member-states, rather than the Commission.

Innovation

The need to raise the innovative capacity of EU economies is more pressing than ever. The previous commissioner for innovation, Janusz Potocnik, presided over much excellent work in this area. For example, the EU set up the European Research Council in 2007, to allocate funds to universities and research institutes on the basis of peer review. The ERC has been a great success and now distributes 15 per cent of the EU's R&D budget (which totals around €7.5 billion a year). The Commission also realised that the EU cannot rely on increased spending alone to boost innovation; it must also adopt measures that ensure demand for innovative goods and services. Governments can stimulate so-called lead markets by using regulation and public procurement to create demand for innovative new technologies. Such intelligent use of public procurement has made a considerable contribution to the growth of R&D-intensive high-tech firms in the US.

Potocnik's successor, Maire Geoghegan Quinn, has already indicated that she will build on her predecessor's work. Quinn, known for her competence and pragmatism, is a former Irish justice minister and member of the EU Court of Auditors. She should be able to count on Barroso's support in her inevitable battles with EU governments over some contentious issues. One of these is whether the Commission should publish comparisons between countries that do well in innovation and those that do not, a prospect which worries some poor performers. Another is whether more of the EU's R&D funds should be allocated through the ERC. Many governments fear that their countries will lose out since Britain, Germany and the Netherlands have won a disproportionate share of the funds so far (reflecting their superior research universities and institutes). A third issue is whether the Commission should continue to place such an emphasis on lead markets. Some governments fear that this will benefit the Union's more technologically advanced member-states to an unfair degree. They would prefer the EU to provide direct financial support for R&D in laggard countries.

Although such battles will need to be fought, Quinn would be well advised to develop a broader and more holistic measure of innovation: most of the spending that promotes innovation – such as organisational change and skills training – does not take place in R&D departments. Indeed, the correlation between spending on R&D and productivity growth is a weak one. However, her ability to develop a more comprehensive definition of innovation will depend, in part, on Barroso's success in promoting better policy co-ordination among some of the Commission's key directorates-general.

Energy policy

The new energy commissioner, Günther Oettinger, did not come across as a passionate liberaliser of energy markets during his hearing in the European Parliament. Rather than talking about the 'unbundling' of Europe's vertically integrated power and gas companies, he called for more transparency and market-based pricing. He may well – as some MEPs claim – be chummy with the bosses of big German energy companies. But for the future of EU energy policy, Oettinger's views on market liberalisation are of secondary importance. The big battle on unbundling was decided in 2009, when the EU's 'third package' of energy laws allowed gas and power companies to keep their sales networks, provided they run them as separate entities.

Further progress will now depend on how the new rules are implemented by EU governments; whether companies finally build the interconnectors needed for a pan-European power and gas market; and whether the new competition commissioner will continue Neelie Kroes' campaign against companies that restrict competition (the threat of multi-billion euro fines persuaded the likes of E.On and RWE to start selling networks). Oettinger may focus more on implementing existing EU targets in areas such as renewables and energy efficiency – for example by launching another attempt to harmonise the rules governing state support for renewable energy, or by promoting binding laws on efficiency.

Oettinger may not have been Angela Merkel's first choice as the German commissioner. But the fact that he hails, like her, from the Christian Democrats may be a good thing: overcoming German opposition to a more coherent EU energy policy will be one of the biggest challenges for the new commissioner. Oettinger delighted observers from the new member-states when he said that bilateral deals between EU countries and Russia (on both gas contracts and pipelines such as Nord Stream) should be replaced by a 'Europeanised' energy policy over the medium term. That is very different to the line the German government has taken in recent years.

In his previous job as minister-president of the state of Baden-Württemberg, Oettinger did not come across as the most decisive of leaders, but he acquired the reputation of a shrewd coalition builder. He will need such skills in the new Commission where his portfolio will overlap with that of the new climate change commissioner, Connie Hedegaard, in areas such as renewables and energy savings. He will also need to work closely with High Representative Catherine Ashton in forging links with energy suppliers in the Caspian and the Middle East.

External trade

Karel de Gucht, the new trade commissioner, delivered one of the best performances during the European Parliament hearings. De Gucht is a former Belgian foreign minister who is known for speaking his mind. In front of the MEPs he was polite, well-informed, fluent in three languages and – in contrast to many other candidates who had been briefed hastily – he appeared to have long-standing convictions on his subject.

These convictions are broadly pro-market, yet pragmatic. De Gucht spoke out in favour of an open, multilateral, rules-based trading system. His explicit rejection of carbon tariffs (border taxes on goods from countries that fail to do enough to curb their emissions) showed courage, given that France and some other member-states are in favour. But despite de Gucht's free-trading convictions, the overall thrust of Barroso 2's trade policy is likely to be similar to that of Barroso 1: to press for further trade liberalisation while succumbing to occasional bouts of protectionism. But the Commission's hands will be tied by the member-states. On trade, as in almost every other area of EU economic policy, the member-states ultimately call the shots.

The WTO's Doha development round has been dragging on since 2001 and is unlikely to be concluded by the 2010 deadline set by the G20. Just like the US, the EU will continue to rely more on bilateral free trade agreements (FTAs): the one with South Korea is ready for ratification in the European Parliament but opposed by European car-makers, electronics producers and other industrial lobbies fearful of growing low-cost competition. Other planned FTAs, with Canada, India, Singapore, Colombia, Peru and Ukraine, are unlikely to proceed fast in the current economic climate.

The Commission could come under pressure from EU capitals to clamp down on 'unfair' competition from less developed countries that do not allow EU companies to sell to or invest in their fast-growing markets. De Gucht told MEPs that the Chinese policy of keeping its currency down was "a major problem" and he promised to use all bilateral and multilateral means available to show Beijing that this had to stop. The EU is unlikely to raise tariffs, which would provoke retaliation or, at the very least, lead to disciplinary proceedings in the WTO. The EU is more likely to go down the path of non-tariff measures (such as using anti-dumping duties more often) and regulatory barriers (such as stricter product standards).

The Lisbon treaty gives the European Parliament a bigger say in the making of EU trade policy. When they interviewed de Gucht, some MEPs asked whether the EU should pursue trade liberalisation with countries that do not live up to European standards on human rights or the environment. But the risk that EU trade policy will be hijacked by political debates within the EP looks manageable.

It is true that the EP now has the formal right to ratify all EU trade agreements. Even before the Lisbon treaty came into force, the Commission and the Council usually submitted trade agreements to the EP for approval, although they were not in all cases obliged to do so under EU law. But once an agreement has been laboriously negotiated and signed, there is little MEPs can do to change its terms. The Lisbon treaty does not give the EP the right to define the mandate for future trade negotiations (the member-states retain that right). De Gucht has promised to keep MEPs better informed of trade talks as they proceed, but for now the EP lacks the technical expertise to influence such highly complex negotiations. The fact that de Gucht was an MEP for 15 years should help him to maintain an amicable relationship with the Parliament.

Conclusion

Ever since the financial and economic crisis began, the EU has just about managed to avoid a drift towards protectionism. We expect the new team of commissioners, like that which preceded it, to do its best to maintain the integrity of the single market, a strong competition policy and a focus on promoting innovation. However, the new Commission takes office at a time when unemployment is rising and Europe's economy is likely to grow slowly for several years. That may push governments to try and skirt around EU rules, especially since many voters think that Anglo-Saxon forms of capitalism have been discredited.

Economic liberals will therefore need to watch the new Commission closely in a number of key areas. Will the Commission be over-indulgent in allowing governments to support and bail out companies? Will it succumb to lobbying from industry and governments to impose trade restrictions on goods from countries such as China, which are seen to be competing 'unfairly'? And will it seek to deflect political pressures from the member-states and the European Parliament by drafting laws that impose unnecessarily burdensome regulations (for example, in financial markets)? To avert such potential threats, President Barroso will need to provide strong leadership and to remind the other 26 commissioners that the rationale of the Commission is to consider the wider European interest, rather than that of any individual member-state.

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February 2010