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## Central Europe for the new EU agenda

Letter by members of the High Level Reflection Group\*

*Dear President Jean-Claude Juncker,  
Dear President Martin Schulz,  
Dear President Donald Tusk,*

You are assuming the leadership of European institutions at a uniquely stormy time. More than your predecessors, you will be expected to turn the European project around. As you are well aware, a sense of exhaustion is widespread around the continent. The most serious economic crisis in the European Union's history is in a more subdued phase, but remains unresolved in quite a few important Member States. Citizens are demanding more clarity and vision from their political leaders. And in the meantime, geopolitics has returned to haunt Europe with a new conflict between Russia and the West. All this places a heavy burden on your shoulders.

Our part of the continent, Central Europe, is the success story of the last decade. In fact, the distinction between old and new member states has largely been erased. Almost all countries of the region have managed to grow faster than Western Europe, getting closer to the EU median. Some, notably Slovakia and Poland, have witnessed an increase of GDP of nearly 50 per cent since becoming EU members. Politically, the enlargement process has exemplified the way in which EU membership can modernise, reform and transform countries. The region has added dynamic and fast-growing economies to the Union, demonstrating the attractiveness and strategic relevance of the European project and enhancing the EU's ability to absorb external shocks and withstand economic challenges.

However, Central Europe has not been untouched by the eurozone crisis. Our growth rate has come down and almost converged with that of the rest of the EU. This is a major challenge for our region, which is still poorer than its Western European peers. Our main objectives, therefore, are to restore growth, restart the convergence process and boost the EU's competitiveness.

Another priority is the security anchor for the region and the whole of Europe. The shortcomings of the existing framework are well known and result from years of

duplication, inadequate spending and gaps in the set-up of deployable joint defence structures. In recent months, Russia has forced us to revise our assumptions about the stability of the post-Cold War order. The conflict with Russia has also highlighted our vulnerability in the field of energy security.

Having made the most out of its first decade in the EU, Central Europe has a clear set of objectives for the next institutional cycle: **consolidation, reinvention and protection**. **Consolidation** means building an infrastructure for growth by deepening regional integration and connectivity. **Reinvention** will be about revamping the region's economic model and enhancing its innovative potential. **Protection** requires filling the gaps in the region's defences and projecting stability in Eastern and South-Eastern Europe. The EU agenda for the next five years should help us achieve these objectives.

Needless to say, your term in office will be dominated by the on-going reconstruction of the eurozone. As most countries of Central Europe have not yet adopted the single currency, we are profoundly sensitive to future relations between members and non-members of the eurozone. Clearly some governance mechanisms need to be restricted to members of the eurozone. However, your approach to the new measures in the area of fiscal capacity and market integration ought to be inclusive. Given Central Europe's commitment to adopt the single currency, the region's economic regime needs to be closely aligned to that of the eurozone. Therefore, eurozone-only measures should be an exception rather than the rule. Guarding macroeconomic prudence and providing an effective shield against rising risks in financial markets is as important for non-eurozone members as it is for countries using the euro. Closer eurozone cooperation should also in no way lead to the back-door imposition of rules on other EU member states, particularly in the area of tax harmonisation.

Finally, you will need to lead efforts to reconnect the EU with the public. The key issue from Central Europe's perspective is to overcome the perception of European institutions being remote and insensitive. If the EU decision-making system is to be sustainable, it will have to be made more inclusive. You will need to engage with the citizens more actively through multi-stakeholder platforms. Closer involvement of national parliaments will also be necessary.

### **Consolidation – infrastructure for growth**

You are well aware that Europe is a project built on the promise of prosperity. As indicated in the “Strategic Agenda for the Union in Times of Change”, adopted by the June 2014 European Council, growth and jobs will guide the EU's actions in the next institutional period. There are several components to this agenda. One has to do with overcoming the “legacy of the past” and completing the reconstruction of the eurozone. Another is about ensuring competitiveness, for which a modern and capable infrastructure for growth, be it transport links or access to finance, is necessary. Dealing with structural problems and Europe's impending demographic weakness is vital.

However, an effective strategy for growth should also be about scaling up opportunities in key areas, especially when it comes to the digital agenda, and identifying new sources of growth. A renewed culture of enterprise and risk-taking will need to provide the

setting for that. Your role will be especially prominent in ensuring that the single market, by far the EU's most successful and unique economic project, will remain robust and well protected. The European Commission's competences in the field of competition policy need to be used to the fullest extent, also towards companies from third countries. There should also be an additional opening of national and local public procurement to competition from other member states. Finally, you should make it clear that the free movement of labour is a founding principle of the single market, which you will wholeheartedly defend, in line with your treaty obligations. You will need to uphold these principles against member states, which are unwilling to enforce their own laws but shift the blame for any shortcomings onto mobile EU citizens.

Re-launching the convergence project will require bridging the infrastructural gap between the member states, both in terms of transport and energy as well as research and development. To that end, you should further develop the new EU transport infrastructure policy, which aims to close network gaps, remove bottlenecks and ensure compatibility of standards. Investments undertaken from EU funds in the different member states need to be closely coordinated to ensure transnational interconnectedness. You should propose increased funding from the EU budget 2014-2020 (up to 75 per cent of project value) for critical energy infrastructure.

For the EU to continue its role as an enabler of dynamic and sustainable growth, it must provide a workable and flexible financial infrastructure to give both established and newly created firms access to finance and investment. You should promote in particular SMEs' access to finance by strengthening financial markets (including non-banking instruments). This should include a better financial environment for start-ups. Under your leadership, the EU should witness the re-emergence of a single capital market instead of the recent fragmentation that we have witnessed since the crisis of 2009.

Central Europe's financial needs are clear. They not only have to do with bank finance but also with equity funding, venture capital and corporate bond issuance, which are insufficient and hamper the region's growth prospects. The Commission should explore ways of strengthening equity finance in the region, together with the international financial institutions. Capital market integration will also help with the growth and jobs agenda in the region. Central Europe would profit greatly from re-establishing truly European capital markets.

Central Europe, just as the EU at large, is rich in SMEs whose main challenge is to grow in size. Young, innovative SMEs are at the forefront of job creation in Europe. You should put stress on labour activation measures and fiscal incentives meant to improve employment prospects of EU youth. You should promote new growth industries in areas where Europe has the biggest market share and highest growth potential: advanced manufacturing, bio-economy, smart grid or key enabling technologies.

United energy policy is an indispensable backbone of the EU's growth strategy. Many opportunities in this area have not been used and the EU energy market remains fragmented, hurting the consumer but also posing high risks for the Union's energy security. The EU needs to create an energy market stretching from the Baltic Sea to the Adriatic and the Eastern Mediterranean. Investment in infrastructure is an important precondition. Building more North-South gas interconnectors and stronger LNG capacity

will play a particularly important role. All avenues to strengthen the EU's energy independence through increased reliance on indigenous resources, conventional, unconventional and renewable, should be explored. V4 countries have made important steps towards building an integrated energy market, particularly with respect to gas. The European Commission should support these efforts.

### **Reinvention – innovation and the digital agenda at the heart of economic policy**

The single most challenging task in your forthcoming tenure will be to help Europe make a turn towards a model of growth based on innovation. As the global competition intensifies, countries' success will come to depend ever more on their ability to innovate. The EU has created an Innovation Union with powerful instruments such as European Innovation Partnerships as well as Knowledge and Innovation Communities. You will need to attach priority to developing them further and scaling up what they can achieve. Central Europe has contributed enormously to the EU's competitiveness but now needs to make a more thorough transition to an innovation-based growth model. Our countries plan to spend unprecedented resources from EU structural funds on revamping their research and development potential; You should actively assist them in making sure that this spending leads to systemic strengthening of innovative potential, to sustainable research infrastructure and not just a collection of one-off projects.

In the broader EU context, you should launch a work programme on improving the "Ecosystem for Innovation", identifying desirable incentives and existing bottlenecks for the emergence of innovation. You should also launch a cluster facilitation programme, ensuring that business and academia can work together more effectively. Finally, you should devote attention to developing a "Skills for the Future" programme to identify and promote essential curriculum items, focusing on attainment, rather than quantitative achievements in education policy.

In order to realise the EU's ambitions in the digital agenda, further rollout of broadband is needed as well as progress in content and skills. In order to meet the Europe 2020 objectives in the given area, you will need to ensure that the available resources are spent in the most efficient fashion. Digital content needs to be expanded especially in areas where it can help the provision of public services. Finally, you will need to insist on improvement of digital skills, which are essential for taking full advantage of the possibilities that the ICT revolution offers. You should also propose an implementation path for the EU's Cyber Security Strategy to strengthen the EU's systemic readiness to face security challenges in the digital age and provide reassurance to customers. Central Europe itself is exploring ways to lead by example in the area of cross-border e-commerce.

### **Protection – ensuring Europe's security revival**

The EU's promise of enhanced prosperity rests on the assumption that the uniquely favourable external circumstances will be maintained and Europe's security will not be negatively affected by external challenges. The Transatlantic Trade and Investment Partnership (TTIP) links our security and prosperity agendas. It will strengthen the EU's

growth prospects and allow the countries of Central Europe to diversify their export markets. This type of negotiation, which is the most sophisticated ever embarked upon, cannot drag on forever. All three of you will need to be deeply involved in making sure that the talks end in the first half of 2015 and that the agreement reached has a high level of ambition. We need to bear in mind that transatlantic values transcend the day-to-day difficulties and deceptions in our relations with the US.

Regrettably, geopolitics have returned to the EU's Eastern neighbourhood. The conflict between Russia and Ukraine has challenged some fundamental assumptions about the post-Cold War order. They have also proved to be a source of contention among many European countries, including those of Central Europe. Your Russia policy will need to focus on responding appropriately to Moscow's continued challenge by going further down the avenue of visa sanctions and asset freezes affecting companies with a clear link to the Kremlin. You will also need to be forceful in defending the EU's ability to set the rules, which is challenged directly by Russia in the field of energy (notably with the South Stream pipeline). You should vigorously use anti-money-laundering procedures and endorse recommendations in this area of the OECD's Financial Action Task Force, and work with IOSCO (**International Organization of Securities Commissions**) in its attempts to fight price-fixing, insider trading and other abuses in international energy markets. You should also design ways to react to Russia's growing attempts to influence European public opinion through disinformation and propaganda.

The conflict between Russia and Ukraine forces a reflection on the longer-term implications for the EU's security and defence. The EU's outreach policy towards Eastern neighbours, especially Ukraine, Georgia and Moldova, and Russia, needs to be rethought. You have a vital role in organising and feeding into that reflection. A good starting point would be an audit of the gaps in the EU's security and defence systems, including the ability to withstand a limited military and/or cyber challenge. You should also launch a Security Revival programme and equip the High Representative to issue country recommendations aimed at filling the most obvious defence gaps. Since no progress can be achieved without strengthened capabilities, you should propose to Member States that they respect the commitment to a substantial increase of defence spending over the next five years, while attaching greater value to the quality of that spending. This would be very much in the spirit of the December 2013 Conclusions of the European Council on the matter. Forthcoming European Council meetings should review progress. They should also reinstate our commitment to the vital transatlantic link and dispel doubts about the EU's strategic orientation in that area. V4 cooperation in the field of defence, as reiterated in the declaration of the Heads of Government on 24 June 2014, is an example of tangible steps towards strengthening defence ties, which can be taken on a regional basis.

Helping Ukraine succeed in its transformation will be one of the defining issues of the next five years. All three of you should make working with the new Ukrainian authorities an issue of personal political ambition and institution building. Appropriate structures should be put in place to assist that process to coordinate assistance for the neighbouring countries in Eastern Europe. Ukraine should be encouraged to step up its anti-corruption and rule of law efforts as well as the decentralisation drive. You should also work towards combatting the feeling of disillusion towards Europe, which can easily resurface in Ukraine, if we do not demonstrate our openness to closer ties.

The enlargement agenda will require your continued support. Even though no new countries will enter the EU during your mandate, the process of advancing accession countries' modernisation and maintaining the EU's transformative impact in the Western Balkans, in particular (but also in Turkey) remains relevant and strategically important. You should not neglect the one region on the European soil in which the EU has assumed full leadership as a foreign and security actor. As geopolitical tensions with Russia increase, the European Commission and the EEAS should jointly reshape the EU enlargement strategy to retain our impact, credibility and capacity to support individual progress, economic reform and regional cooperation. There should also be an improved and simplified annual progress report for accession countries, easy to compare and cross-check individual results and concrete achievements.

You should also make it clear to EU leaders and the public alike that the Union's strength lies in the stringency with which it defends its own principles and rules. The EU stands out in the world because of the quality of its governance. This is to be cherished and protected. The EU's strength is also a matter of the trust member states put in each other. You will need to draw on it heavily in your efforts to ensure that the United Kingdom remains an active and committed part of the European family.

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The next five years will be a testing time for Europe. Enormous expectations are placed in your leadership. Your success will depend on how effectively you will work with the member states and EU citizens and how actively you manage to engage them in the project of European renewal. In Central Europe, you will find allies for the building of a competitive and open-minded European Union. Countries of the region will watch attentively how you address their particular concerns and help them make their transition into a model of growth based on innovation, so that they can contribute to the success of the whole European Union

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\* The letter has been endorsed by:

**Danuta Hübner**, Chair of the Constitutional Affairs Committee in the European Parliament (and former EU Commissioner for Regional Policy), Brussels;  
**Milan Ježovica**, Consultant, M.E.S.A. 10; former State Secretary at the MFEA, Bratislava;  
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*The High Level Reflection Group was created by two think tanks, the Warsaw-based demosEUROPA – Centre for European Strategy and the Bratislava-based Central*

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*European Policy Institute, in 2013. Its 15 members include high-level government officials, advisors, foreign policy thinkers and economists from four Visegrád Group countries) plus Austria. Their full list could be find here:*

<http://www.cepolicy.org/projects/central-europe-european-union-ceedu>

*In January 2014, the Reflection Group released joint report "Central Europe fit for the future", addressing main political and economic challenges for the region and elements of a common EU agenda for the next decade. The co-signatories would like to acknowledge kind support and contribution of Dániel Bartha, CEPI's project coordinator, to the on-going work of the Reflection Group.*