

EUROPEAN FOREIGN  
AFFAIRS REVIEW

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Published by:  
Kluwer Law International  
P.O. Box 316  
2400 AH Alphen aan den Rijn  
The Netherlands

Sold and distributed in North, Central and South America by:  
Aspen Publishers, Inc.  
7201 McKinney Circle  
Frederick, MD 21704  
USA

In all other countries sold and distributed by:  
Turpin Distribution Services  
Stratton Business Park  
Pegasus Drive  
Biggleswade  
Bedfordshire SG18 8TQ  
United Kingdom

ISSN 1384-6299

©2014 Kluwer Law International BV

Print subscription prices, including postage (2015): EUR 462/USD 616/GBP 339.  
Online subscription prices (2015): EUR 428/USD 571/GBP 314.

(2014) 19 EFA Rev. should be used to cite this volume.

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# The Implications of the Euro Crisis for European Foreign Policy – Lessons from Crisis Management and International Trade

Björn FÄGERSTEN<sup>\*</sup>

*This article investigates the foreign policy consequences of the euro crisis. Two distinctive foreign policy areas are investigated: crisis management in North Africa and the negotiation of free trade agreements with the US and India. The article employs an analytical framework that focuses on three key aspects shaping EU policy: capabilities, cohesion and context. The results suggest considerable changes in each, but not only in one direction: there are mechanisms driving policy in different directions which suggest a nuanced conclusion is required. The overarching findings of the article, however, are that the foreign policy machinery of the EU has been rather resilient to the financial crisis but that great variation exists both between different foreign policy areas and between the different components that make up the EU as an international actor.*

## 1 INTRODUCTION

The European Union (EU) has long been described as an economic giant but a political dwarf, implying that the size of its internal market and its volume of international trade are not matched by corresponding levels of international political leverage. Hopes were high that this asymmetry might be mitigated by measures to improve the EU's external image: the Common Foreign and Security Policy (CFSP), established by the Maastricht Treaty of 1992, the subsequent Common Security and Defence Policy (CSDP) and the Lisbon Treaty's ambition of streamlining the European Commission's external policies with those of the Council by way of a two-hatted High Representative. However, a different and even more pressing development has recast the relationship between economic performance and international political clout. The crisis in the eurozone has led to concerns that Europe's voice in the world will suffer as a consequence: an economic giant on its knees will have little chance of realizing its foreign policy ambitions.

This article aims to investigate the foreign policy consequences of the euro crisis. While it is still early to offer any authoritative conclusions, possible links

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between the euro crisis and foreign policy influence can be examined and weighed for plausibility. The article relates to both material resources and the softer properties of a foreign policy system: How will the EU foreign policy system function in an age of austerity and – possibly – institutional fragmentation? What national resources will Member States be able to bring to the EU table after national budget cuts have had their effects? Will the crisis – and the way it is managed – affect how the EU is viewed from abroad?

Two distinctive foreign policy areas are investigated: crisis management in North Africa and the negotiation of free trade agreements with the US and India. These two areas, while different in nature, offer concrete areas in which to gauge the effects of the euro crisis on EU foreign policy. I do so using a framework that focuses on three key aspects shaping EU policy: capabilities, cohesion and context. The results suggest considerable changes in each, but not only in one direction: there are mechanisms driving policy in different directions which suggest a nuanced conclusion is required. The overarching findings of the article, however, are that the foreign policy machinery of the EU has been rather resilient to the crisis, but that great variation exists both between different foreign policy areas and between the different components that make up the EU as an international actor.

## 2 THE EURO CRISIS AND ITS MANAGEMENT

Since 2008, the international financial crisis has demanded the time, energy and money of European politicians and the EU Member States. The US subprime loan crash quickly morphed into a European banking crisis. When it became obvious to the financial markets that responsibility for these troubled banks rested on national governments alone, the most exposed governments saw their borrowing costs rise to unsustainable levels. Due to the design of the euro system, cheap money had been flooding the periphery of the eurozone for many years. Many countries had seen a relative rise in labour costs without a corresponding improvement in productivity. Faced with high levels of debt, spiralling costs for servicing this debt and low levels of competitiveness, few good policy options remained – especially for countries locked into a monetary union in which interest rates and exchange rates were beyond their control.

For the past years, twenty-eight EU Member States have tried to conduct coherent crisis management with respect to financial sustainability, their democratic mandates and legitimacy, and just burden-sharing. Policy initiatives have included the 2010 temporary bailout fund, the European Financial Stability Facility (EFSF); the 2011 Euro plus pact; the ‘six-pack’ directives from the same year, which aimed to strengthen budgetary discipline; the permanent bailout fund, the 2012 European Stability Mechanism (ESM); and the 2012 Treaty on Stability,

Coordination and Governance in the Economic and Monetary Union (the fiscal compact). At the time of writing, the design of a future banking union is under negotiation. In parallel with these institutional and political innovations, countries under stress have received more or less direct transfers in order to keep them solvent, and the European Central Bank (ECB) has offered about 1 trillion euros in low-interest loans to European banks.

In addition to the economic and financial hardships that have faced the governments of EU Member States and EU institutions every week since 2008, it is useful to keep in mind the impact of government failure in times of crisis. The Irish Prime Minister, Brian Cowen, resigned in January 2011 followed by the Portuguese government of José Socrates in March 2011. In November, the governments of Giorgios Papandreou and Silvio Berlusconi resigned and were replaced by technocratic coalitions. In France, Nicolas Sarkozy found re-election impossible partly because of his reaction to the state of economic affairs. Finally, the 2014 elections to the European Parliament implied a considerable blow to the mainstream parties that held power during the years of the crisis. This has put strong pressure on all the governments of the EU Member States, as they fight either to retain the support of an already discontented electorate or to maintain support as a newly elect government implementing highly unpopular austerity measures and spending cuts.

These perceived hardships, for both electorates and politicians, have nurtured widespread austerity fatigue, resulting in a new push for growth rather than cuts. Many of the policy options under discussion – related to both austerity and growth – have been floated several times during the lengthy crisis management phase. The type of austerity/growth compromise that Member States eventually opt for and the effect it will have on economic fundamentals remain to be seen. It seems clear, however, that current global, regional and European trends imply that European states will have to do more with fewer resources.

### 3 THE EU AS AN INTERNATIONAL ACTOR: CAPABILITIES, COHESION AND CONTEXT

To assess the impact of the euro crisis on the EU's foreign policy, it is necessary to make assumptions about what the EU needs in order to act beyond its borders. EU scholars have suggested a variety of more or less specific attributes that would give the EU the capacity to be a purposeful actor in world affairs.<sup>1</sup> These

<sup>1</sup> For a seminal contribution see G. Sjöstedt, *The External Role of the European Community* (Saxon house 1977). For a current and comprehensive assessment, see J.A. Koops, *The European Union as an Integrative Power: Assessing the EU's 'Effective Multilateralism' with NATO and the United Nations* (VUB U. Press 2011).

attributes range from material resources to institutional solutions, decision-making procedures and common values as well as favourable external conditions. For the purpose of this article, I start from the basic assumption that effective EU action is a function of *cohesion, capabilities and context*. For all these variables, the euro crisis can be assumed to have unleashed push as well as pull factors on EU foreign policy. Of course, these three variables – and hence EU foreign policy – are affected by a multitude of factors, and most of them external to the Union. The ambition of this article is only to isolate the effects of the euro crisis.

Cohesion refers to the ability of relevant EU actors (Member States as well as institutions) to come together to work towards a common goal. Cohesion is dependent on a sufficient level of shared interests, values and threats – or at least the perception thereof.<sup>2</sup> It is facilitated by decision-making procedures that enable cooperative outcomes even in the absence of unanimity. Cohesion can be undermined by conflict at the horizontal (among Member States, institutions and agencies) and vertical (between capitals and ‘Brussels’) levels.

The euro crisis can be said to have produced several ‘pull’ factors on European foreign policy cohesion: the risk that a ‘two-speed Europe’ and/or further core-periphery tensions, aggravated by the financial crisis, will spill over into the foreign policy domain; the risk that different perceived needs in the macro-economic and monetary area will further split EU Member States on global economic governance questions; and the risk that cohesion will suffer because high-ranking politicians have had too little time to invest in foreign policy deliberations during the long period of acute economic crisis management. On the other hand, it is possible to argue that having Member States occupied with economic crisis management could increase the discretion of EU institutions to implement policy and represent the EU at the international level. Another ‘push’ factor would be that the financial crisis – not to mention the humbling experience of asking ‘rising’ powers for help in managing it – has illustrated European states’ weakened position in an emerging multi-polar system. This wake-up call could lay the ground for a more coherent outlook and engagement with this changing external environment.

<sup>2</sup> For a definition see J. Jupille & J.A. Caporaso, *States, Agency, and Rules: the European Union in Global Environmental Politics*, in *The European Union in the World Community* 214 (C. Rhodes ed., Lynne Rienner 1998). See also the discussions by M. Ekengren & K. Engelbrekt, *The Impact of Enlargement on EU Actorness: Enhanced Capacity, Weakened Cohesiveness*, in *Changing Transatlantic Security Relations: Do the US, the EU and Russia Form a New Strategic Triangle?* (J. Hallenberg & H. Karlsson eds., Routledge 2006); L. Groen & A. Niemann, *Challenges in EU External Climate Change Policy-Making in the Early Post-Lisbon Era: The UNFCCC Copenhagen Negotiations*, in *EU External Relations: Law and Policy in the Post-Lisbon Era* (P.J. Cardwell ed., T. M. C. Asser Press 2011); E. Brattberg & M. Rhinard, *The EU as a Global Counter-Terrorism Actor in the Making*, 21 *European Sec.* 4 (2012).

Indications of changes in cohesion brought about by the euro crisis and its management within a specific policy domain would be any, or a combination, of the conditions below:

- Member State and/or institutional preferences have changed and are now more or less similar/compatible;
- the relevant policy domain is more or less accommodating to issue-linkage and package deals;
- decision-making procedures have changed, making it more or less cumbersome to reach majority positions, for example, a move from unanimity to majority voting.

Capabilities refer to the material (economic funds, crisis management equipment, etc.) and institutional (procedures for implementation and enforcement) resources at an actor's disposal.<sup>3</sup> Essentially, this means that actorness depends in part on having access to the right resources and being able to bring these to bear 'on a particular problem in a reasonably direct, adaptive and swift way'.<sup>4</sup> Unsurprisingly, capabilities – in particular material ones – have been said to be the greatest foreign policy victim of the financial crisis and subsequent austerity. One of the most obvious results of the euro crisis is the slump in government revenues and subsequent budget cuts in many European economies. In addition to the direct transfers and their participation in the various rescue operations, Member States have had to accept tough austerity programmes in an attempt to manage unsustainable debt levels. Spending on defence, aid and crisis management has not been excluded. This, according to both politicians and commentators, means fewer capabilities for the Member States and the EU as a whole.<sup>5</sup> However, from a slightly longer term perspective, the euro crisis and its management could just as easily increase the resources available for external EU action. Discussions on the 'pooling and sharing' of resources and the need to seek economies of scale have intensified due to the crisis. EU officials have argued fervently that the current crisis can be turned into a unique opportunity for defence and security cooperation, which, as the outgoing High Representative of the Union for Foreign Affairs and Security Policy, Catherine Ashton, has framed it, 'is the only

<sup>3</sup> Ekengren & Engelbrekt, *supra* n. 2.

<sup>4</sup> M. Rhinard & E. Brattberg, *The EU and US as International Actors in Disaster Relief*, College of Europe Working paper (2010). For a discussion and definitions of the actorness concept, see C. Bretherton & J. Vogler, *The European Union as a Global Actor* (Routledge 2006).

<sup>5</sup> See for example C. Mölling, *Europe without Defence*, SWP Comments, 38 (November, 2011); and C. Mölling & SC. Brune, *The Impact of the Financial Crisis on European Defence*, Stiftung Wissenschaft und Politik (SWP), 36 (2011). For the same argument in the aid field, see, *Europe entering age of 'aid austerity'*, EUobserver, 4 Apr. 2012.



pragmatic way forward'.<sup>6</sup> The prospects of evaporating national foreign and security policy resources can thus be argued to have lowered the sovereignty cost of pooling and producing these resources at the EU level.

Indications of changes in capabilities within a specific policy domain would be any, or a combination, of the conditions below:

- Member States and/or institutions have difficulties bearing their own costs associated with collective policies and missions;
- Member States and/or institutions (regardless of policy and preference cohesion) lack the institutional resources to negotiate and enforce agreements.

Context, finally, refers to the surrounding environment which enables or constrains EU action. Variables such as external events and ideas, the goals of other actors, recognition by counterparts and authority to act in the international system have been included in the concept of context. Scholars have disagreed over whether context should be part of the function of 'actorness' or whether it should be separate from it.<sup>7</sup> In the latter case, the external context (or 'opportunity structure') conditions actorness, and together with it makes up *effectiveness*, or goal attainment.<sup>8</sup> Given that this article aims to pinpoint the impact of the euro crisis on EU foreign policy, there is no need to include context-related aspects that are of a more structural nature or in other ways cannot plausibly be linked to the crisis and its management. Hence, two aspects were focused on: policy demand created by the crisis and recognition by external partners. Policy demand simply refers to the external demand for the policy initiatives and solutions pushed by the EU and the way such demand has been affected by the economic crisis and its management. Here the attractiveness of EU policies on international economic governance, and the attraction of EU membership and of the model of regional integration it represents could be said to have declined.<sup>9</sup> Other accounts, however, suggest that there is little competition in the world when it comes to models of cooperation and that the EU – although perhaps not its monetary cooperation – is still valued abroad. Recognition refers to the way in which other actors perceive the EU as a capable actor and partner in specific policy domains. While

<sup>6</sup> Opening address by High Representative Catherine Ashton at the EDA annual conference (2012).

<sup>7</sup> For different perspectives, see for example Brattberg & Rhinard, *supra* n. 2; L. Groen & A. Niemann, *The European Union at the Copenhagen Negotiations: A Case of Contested EU Actorness and Effectiveness*, Mainz Papers on International and European Politics (MPIEP) (2012) (available at <http://www.politik.uni-mainz.de/cms/Dateien/mpiep01.pdf>).

<sup>8</sup> Groen & Niemann, *supra* n. 7.

<sup>9</sup> For example E. Lazarou, *The EU seen from Brazil: Changing Perceptions in a Time of Crisis*, (2011) (available at <http://www.ekem.gr>); C. Fraser, *The European Union as a Model for Regional Integration*, Council For. Rel. (New York, 2011); and S. Said, *Gulf Leaders to Discuss EU-style Union*, CNN.com (13 May 2012).

recognition at times may overlap with policy demand, it is analytically different in the sense that it refers to the actor rather than its preferred policy outcome.

Indications of changes in context brought about by the euro crisis and its management within a specific policy domain would be any, or a combination, of the conditions below:

- there is more or less external demand for the policy options favoured by the EU;
- that alterations in the recognition of the EU as an actor and/or partner in a specific policy domain shape opportunities for further EU action.

I now turn to an assessment of these categories in the two chosen policy fields.

#### 4 CSDP CRISIS MANAGEMENT IN TIMES OF RECESSION

The Lisbon Treaty established the CSDP as the successor to the European Security and Defence Policy. The treaty sets out the option of gradually developing a common European defence and provides Member States with the means to further integrate military and civilian capabilities through permanent structured cooperation and through the European Defence Agency. The primary instrument of the CSDP, however, is the crisis management missions that have been carried out on three continents since 2002. By February 2014, the EU had engaged in twenty-nine crisis management missions, of which ten civilian and five military are currently ongoing.

In times of recession, it might be assumed that the EU's foreign policy ambitions and the CSDP would be among the first areas to be downsized. Some of the results, however, lead to a different conclusion. I examined the most expensive crisis management mission, EUNAVFOR ATALANTA, as well as the most recently established missions, EUTM Mali and EUBAM Libya. The article therefore examines two military missions (ATALANTA and EUTM Mali) and one civilian (EUBAM Libya) as well as the political process leading up to them.

##### 4.1 COHESION AND EU CSDP CRISIS MANAGEMENT

The financial crisis is often said to have caused fragmentation and to have negatively affected the level of mutual trust required between EU Member States.<sup>10</sup> Without doubt, an extensive focus has been required from national leaders as well as from the President of the European Council, Herman van Rompuy, to

<sup>10</sup> D. Möckli, *The Strategic Weakening of Debt-ridden Europe*, in *Strategic Trends 2012 Key Developments in Global Affairs* (D. Möckli ed., Ctr Sec. Stud. 2012).

tackle the economic issues. Although the CSDP is prioritized at the level of the Foreign Affairs Council (FAC), less attention has been paid to CSDP issues at the highest EU-level, which has led scholars to assert that a 're-nationalization' of foreign policy has taken place in recent years.<sup>11</sup> These are examples of how cohesion has declined during the financial crisis, but the picture is quite mixed when it comes to the operations in Somalia, Libya and Mali. The intended military crisis management mission (EUFOR Libya) was never established due to the lack of cohesion between Member States. The civilian border management mission, EUBAM Libya, however, proved less difficult to negotiate, although the planning process was unusually lengthy. According to a PSC representative, 'the process has been tardy due to difficulties in cooperation with the UN and with the local authorities, *not* because Member States have been reluctant to launch the mission'.<sup>12</sup> Indeed, it has been argued that the very fact that this was a border management mission increased Member State support since illegal immigration is seen as particularly troublesome during times of economic recession in Europe.<sup>13</sup> At the political level, Member States seem to think more about their national interests in times of economic stress. Missions are still launched, but they are often motivated by national economic and security factors rather than, for example, humanitarian and normative principles, and Member States focus their contributions on missions that are perceived as nationally important.<sup>14</sup> At the level of preparatory working groups, such as the PMG and the Committee for Civilian Aspects of Crisis Management (CIVCOM), Member States have in recent years often found themselves divided over the regional prioritization of crisis management missions. For example, northern and eastern Member States tend to be more favourable towards missions in the Balkans, while the Member States in southern Europe would like to see missions in Africa prioritized, due to their historical links and geographic position. In the same vein, Koivula has argued that 'intra-coalition' groups are emerging on CSDP-issues. Examples include the agreement between France and the UK on improved bilateral cooperation on defence and security issues; the formation of a new Weimar Combat Group composed of Germany, France and Poland, deployable from 2013; and a new battle group constellation of the Visegrad countries – the Czech Republic, Slovakia and

<sup>11</sup> Möckli, *supra* n. 10; T. Koivula, *Time to Rewrite the Grand Narrative? Prospects and Tendencies in European Crisis Management 2014-2020*, in *Thinking beyond Afghanistan – The Future Prospects of Crisis Management*, (R. Lepistö ed., Finnish Def. Forces Intl. Ctr Publ'n. Ser. 2012) (available at [http://www.fincen.fi/attachments/gallery/FINCEN\\_Publication\\_2012.pdf](http://www.fincen.fi/attachments/gallery/FINCEN_Publication_2012.pdf)).

<sup>12</sup> Interview No. 1, Political Security Committee Deputy Representative, 12 Mar. 2013.

<sup>13</sup> *EUBAM Libya: Story of a Long Awaited CSDP Mission*, European Sec. Rev. 66 (2013).

<sup>14</sup> Interview No. 3, Political Security Committee Deputy Representative, 13 Mar. 2013; and Interview No. 5, Capital-based trade negotiator, 21 Mar. 2013.

Hungary.<sup>15</sup> This ‘minilateralization’ of the CFSP is undoubtedly one effect of the fragmentation among the twenty-eight EU Member States, but it is unclear whether this relates to the continent’s economic woes. It is not only common interests and commonly perceived threats that are crucial to EU cohesion on CSDP-related issues, but also leadership and engagement from at least one of the big three – the United Kingdom, France or Germany. Given that these three countries are on more or less a collision course regarding the euro crisis and the way the Eurozone should be governed, it cannot be ruled out that this lack of coherence could also affect the possibility of joint action in the CFSP field.

#### 4.2 CAPABILITIES AND EU CSDP CRISIS MANAGEMENT

It is often argued that material capabilities have taken a severe hit from the financial crisis. Among the EU Member States, defence expenditure fell by 15% between 2008 and 2013.<sup>16</sup> Politically sensitive and expensive military missions are likely to have been most clearly affected by these changes. Civilian crisis management is financed under the common CFSP budget while military missions are financed by the contributing Member States under the guiding principle that the ‘costs lie where they fall’. Common costs, such as transportation, infrastructure and medical services, can be financed by the Athena mechanism, according to which Member States bear costs proportionally based on their Gross National Income. Such joint spending, however, amounts to only about 10% of expenditure, which is why national defence budgets are still key to EU military capabilities.<sup>17</sup> Force generation has sometimes been difficult due to the fact that it is not covered by common costs but nationally borne. It is important to note that France, the UK and Germany together bear about half of all Athena costs.<sup>18</sup> It is arguably more politically sensitive for a big contributor to the EU budget and the Athena mechanism such as Germany (the biggest Athena funder in 2011) to engage in expensive overseas military missions than for a smaller contributor to these budgets. One representative on the EU Military Committee argues that current discussions on how the Athena mechanism should be redesigned should definitely

<sup>15</sup> T. Koivula, *Time to Rewrite the Grand Narrative? Prospects and Tendencies in European Crisis Management 2014-2020*, in *Thinking beyond Afghanistan: the future prospects of crisis management* 1, 40 (R. Lepistö ed., Fincent Publ. Ser. 2012); *A Militarized Visegrad Group* (Stratfor Global Intelligence 2011) (available at <http://www.stratfor.com/analysis/militarized-visegrad-group>).

<sup>16</sup> Data from IISS, presented in the *2014 Yearbook of European Security*, EUISS, Paris (2014) (available at <http://www.iss.europa.eu/uploads/media/YES2014.pdf>).

<sup>17</sup> *Handbook on CSDP – The Common Security and Defence Policy of the European Union* (J. Rehl & H-B. Weissert eds., Directorate Sec. Policy Fed. Ministry Def. & Sports Republic Austria 2012) (available at [http://www.consilium.europa.eu/media/1823176/handbook\\_csdp-2nd-edition\\_web.pdf](http://www.consilium.europa.eu/media/1823176/handbook_csdp-2nd-edition_web.pdf)).

<sup>18</sup> UK Government, *Meeting NATO and EU treaty defence commitments*, (2012).

be seen in the light of the euro crisis.<sup>19</sup> At the same time, and as is argued above, the engagement of the big three is essential to the development of CSDP missions. Only six CSDP missions were launched between 2009 and August 2013, compared to the twenty-two missions launched in the period 2003–2008. Of the six, four were small-scale capacity building civilian missions which together comprised a troop strength of approximately 240.<sup>20</sup> It would seem odd to argue that this is merely coincidental with the worldwide outbreak of the financial crisis. The EU has also had difficulties staffing both civilian and military missions. Researchers have noted difficulties with force generation and called for improved contributions processes leading up to military and civilian missions, such as to the force protection and Medevac functions to EUTM Mali.<sup>21</sup> Personnel reductions have already started in some missions, such as EULEX Kosovo, the most expensive civilian mission, but the real effects may only be felt in the long-term as Member States are under contractual obligations.<sup>22</sup>

On the other hand, Member States' spending on defence investment, such as equipment procurement including R&D/R&T, was 6.2% higher in 2010 compared to 2006.<sup>23</sup> Moreover, the largest defence cuts have taken place in the smaller Member States. Cuts have been limited in the larger states, which would seem to contradict the most alarmist reports on the future of the EU defence capability. France and the UK each reduced their defence budgets by 3.7% in the period 2011–2013,<sup>24</sup> while Latvia and Lithuania made cuts of 21% and 36%, respectively, in 2009–2010.<sup>25</sup> Defence expenditure actually increased in Poland and Sweden in 2010 compared to the previous year.<sup>26</sup> Looking ahead, many EU Member States are planning further cuts in the period 2010–2015. The UK is reducing defence expenditure by about 8% between 2011 and 2015; Germany is reported to be reducing its defence budget by 3%–8%; while the French defence budget is set to freeze in the coming years.<sup>27</sup> Interestingly, those interviewed believed that material capabilities for civilian CSDP missions had been unaffected

<sup>19</sup> Interview No. 5, *supra* n. 14.

<sup>20</sup> EEAS, *Ongoing Missions and Operations*, (June 2013) (available at <http://www.consilium.europa.eu/eeas/security-defence/eu-operations?lang=en>).

<sup>21</sup> N. Nováky, *Burden-Sharing in CSDP Military Operations: A Theoretical Analysis*, Jean Monnet Centre of Excellence in European Law and Governance Working Paper 1 (2011); Interview No. 1, *supra* n. 12; and Interview No. 4, Politico-Military Group Representative, 13 Mar. 2013.

<sup>22</sup> Mölling & Brune, *supra* n. 5.

<sup>23</sup> European Defence Agency, *supra* n. 16.

<sup>24</sup> House of Lords European Union Committee, *European Defence Capabilities: Lessons From the Past, Signposts for the Future*, HL Paper 292 (2012).

<sup>25</sup> *The Implications of Military Spending Cuts for NATO's Largest Members*, Ctr. U.S. & Europe Brookings (C.M. O'Donnell ed., 2012).

<sup>26</sup> European Defence Agency Defence Data Portal, <http://www.eda.europa.eu/info-hub/defence-data-portal>, (accessed 1 May 2013).

<sup>27</sup> O'Donnell, *supra* n. 25; and French Government, *White Paper on Defense and National Security* (2013).

by the financial crisis. The lengthy and expensive planning process for EUBAM Libya, with its repeated fact finding missions and needs assessments, indicates that there is some truth in this statement. Furthermore, the financial crisis has in general not been raised in discussions in the PSC, or in the preparatory working groups such as CIVCOM and the PMG. As a PSC representative put it: 'In general, CSDP crisis management missions are more about political will than finances.'<sup>28</sup> Although the number of ships has been reduced in Operation ATALANTA, the EU has prolonged the mission mandate several times – and it now runs to 2014. This is an example of the political will to engage in missions that are perceived as *financially efficient* (ATALANTA has a success rate of 100% in protecting World Food Programme shipping) and that 'concern broad EU interests', as argued by Biscop and Coelmont.<sup>29</sup>

In sum, while civilian missions have so far been less influenced by budget constraints, European defence capabilities have experienced large-scale cutbacks in recent years, albeit mostly in the smaller Member States. In the age of austerity, EU leaders have demonstrated a political will to cooperate and to coordinate EU capabilities, most notably by putting defence on the agenda of the European Council in December 2013. Whether initiatives such as 'pooling and sharing' will compensate for reduced capabilities remains to be seen. As for now, the crisis has started to affect EU Member States' ability to bear the necessary costs in relation to crisis management, and the effects will be more apparent in the coming years if cuts continue in an uncoordinated manner. However, the political will to engage is not only influenced by the financial situation but also by political priorities, the perception of the EU's role in the world and the willingness to build strategic relations with other contributing Member States and partners.

#### 4.3 CONTEXT AND EU CSDP CRISIS MANAGEMENT

In the wake of the US pivot towards Asia, external demands on EU foreign action are increasing. As competition for the role of security provider in the neighbourhood is weak, this external demand can in part be explained by the fact that there is no good alternative to EU crisis management. Compared to the US, the EU is often perceived as a more legitimate actor with a broader set of instruments in its crisis management toolbox. While this toolbox is inadequate in

<sup>28</sup> Interview No. 3, *supra* n. 14.

<sup>29</sup> S. Biscop & J. Coelmont, *A Strategy for CSDP Europe's Ambitions as a Global Security Provider* 37 (Egmont Paper 2010) (available at <http://www.egmontinstitute.be/paperegm/ep37.pdf>); Interview No. 1, *supra* n. 12; Interview No. 2, Committee for Civilian Aspects of Crisis Management Representative, (13 Mar. 2013); Interview No. 3, *supra* n. 14; and Interview No. 4, *supra* n. 21.

some cases, the Ukraine crisis or Syria perhaps being good examples, it has proven useful in many instances.

In the coming years the EU will be expected to do more with fewer resources, and the question then becomes whether the EU can step up to the plate. This trend is further accentuated by NATO's renewed focus on collective security measures in Europe, which will likely dampen the organization's appetite for crisis management in Europe's southern neighbourhood. The image and attraction of the EU have quite rightly been damaged by the financial crisis. In addition, as many EU Member States have been engaged worldwide in the past decade, most notably in Afghanistan, researchers have warned that the EU is approaching 'international crisis management fatigue' or 'military overstretch'.<sup>30</sup> However, the recently established missions in Libya, Mali and the Central African Republic, the prolonged Atalanta mandate and the establishment of civilian missions in recent years show that recognition of the EU as a foreign policy actor still pushes it to fulfil its role as a crisis manager. In addition, recognition of an actor's competence is usually relative to other actors in the field. In the CFSP field, the competition is relatively modest and other actors, such as NATO, have also been hit by the economic crisis. In fact, when it comes to the sort of comprehensive approach that is the trademark of EU missions, the EU is more or less the only game in town. Hence, the context can be said to be negative at the overarching political level but not to have affected the day-to-day work of the EU in this policy area.

## 5 FREE TRADE NEGOTIATIONS IN THE SHADOW OF THE CRISIS

The incremental abolition of trade barriers lies at the heart of the EU's foreign policy agenda. A reduction in barriers between countries and the increasing interdependencies that result have been the main logic of internal EU integration since 1948. Externalising this logic towards international partners in order to build peace and economic growth has thus held appeal for EU Member States. At the same time, this ambition has been difficult to live up to when it has conflicted with internal interests and the protection of perceived national economic interests.

The trade agenda of the EU has undergone some major shifts since its inception. At the start, its main focus was on facilitating trade and development support with the larger countries' former colonies, as codified in the programme for African, Caribbean and Pacific States (APC). This focus has since been diversified, both in reaction to the development of some of these countries and as an effect of the more ambitious multilateral agenda that shaped trade policy in the

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<sup>30</sup> Nováky, *supra* n. 21.



1990s and early 2000s. As this multilateral agenda stalled in the past decade – illustrated in particular by the Doha-round which has not moved for a long time – the EU increasingly pursued its free trade agenda by way of bilateral free trade agreements (BFTA) with key partners.

The *modus operandi* of these BFTA negotiations follows a well-established process. The Council of Ministers and the European Parliament open international trade talks, while the Commission operates and manages the process of negotiations. Before a mandate can be granted, the Commission is required to present a draft of the negotiating directives, intended to serve as a guidance document for the forthcoming negotiations.<sup>31</sup> The Council of Ministers and Parliament then must ratify any eventual deal.

Two BFTA negotiations have been marked by the euro crisis and its management. Given the size of their populations and the current levels of trade, the negotiations with India and the US have been at the top of the agenda in recent years. By focusing on these two negotiations, the analysis below investigates the extent to which the euro crisis and its management have affected the EU's cohesion, capabilities and context in the international trade domain.

## 5.1 COHESION AND EU TRADE NEGOTIATIONS

Trade agreements have considerable distributional effects among and within Member States. This, in combination with the severe financial stress that many EU Member States are enduring because of the crisis, could be assumed to affect the overall cohesion of a trade policy field. Since austerity policies make a fiscal stimulus hard to sustain, and a monetary stimulus is out of the question for countries that lack their own central bank, a more protectionist trade policy is one of the few available policy options for governments wanting to show support for ailing national business interests.<sup>32</sup> On the other hand, the growth potential of increased international trade would be a welcome boost to faltering national budgets. While the position of any specific EU Member State government will depend on the structure of its economy and how import- or export-dependent interests are mobilized, it could be argued that these differences will be accentuated during times of economic stress.<sup>33</sup> The discussions on an EU tariff on

<sup>31</sup> European Commission, *European Union and United States to launch negotiations for a Transatlantic Trade and Investment Partnership*, Memorandum 13/94, (13 Feb. 2013) (available at <http://trade.ec.europa.eu/doclib/press/index.cfm?id=869>).

<sup>32</sup> F. De Ville & J. Orbie, *The European Union's Trade Policy Response to the Crisis: Paradigm Lost or Reinforced?* 15 *European Integration Online Papers* 2 (2011).

<sup>33</sup> For an analysis of how EU trade positions are formulated, see A. Young & J. Peterson, *'We Care about You, but ...': The Politics of EU Trade Policy and Development*, 26 *Cambridge Rev. Intl. Affairs* 3, 497–518 (2013).



Chinese solar panels illustrates this logic, where Member States as well as institutions disagreed on whether this was a fair and effective measure to protect perceived EU or German interests.<sup>34</sup>

In general, however, the European Commission seems to have maintained its free trade policy throughout the crisis. As codified in its 2006 'Global Europe' strategy, the Commission has advocated openness and free trade as measures to provide growth and jobs across the EU. The economic crisis seems only to have strengthened this agenda. There have been frequent warnings about how protectionism might worsen or prolong the crisis, and the Commission has prescribed further liberalization and free trade agreements as measures to resolve the crisis and mitigate its effects.<sup>35</sup> As Catherine Ashton put it early on in the crisis: '... it is not enough to simply resist protectionism: we must also continue to open up markets to trade and investment'.<sup>36</sup> This logic is not confined to the direct benefits to economic growth that FTAs are supposed to bring. EU Member States have been suffering from severe market pressures due to uncertainty over the monetary union's cohesion. Signing large scale FTAs would be an effective way to signal cohesion to an external audience and thereby relieve market pressure.<sup>37</sup>

In the case of the US FTA, prognoses for the mutual benefits that a new trade deal would produce are a common theme in Commission outreach.<sup>38</sup> Portrayed as a straightforward measure to create jobs and growth, the Transatlantic Trade and Investment Partnership (TTIP) has been one of the few positive news items in the economic field for some time, making it hard for an individual Member State to put a spanner in the works. One Member State negotiator suggests that the pro-growth rhetoric surrounding the TTIP talks has made even the countries that do not usually drive these discussions enthusiastic.<sup>39</sup> This does not mean that all the Member States share the Commission's enthusiasm: France and a few southern Europe countries have been reluctant to lift current restrictions on issues such as food security and gene technology in the Commission mandate in order to protect national interests.<sup>40</sup> Debate has also revolved around the audio-visual

<sup>34</sup> R. Emmot & E. Bilby, *EU Duties on Chinese Solar Panels Losing Member State Support*, Reuters (27 May 2013) (available at <http://www.reuters.com/article/2013/05/27/us-eu-solar-china-idUSBRE94Q07T20130527>).

<sup>35</sup> De Ville & Orbie, *supra* n. 32.

<sup>36</sup> Statement by the Trade Commissioner on 10 Jun. 2009, cited in De ville & Orbie, *supra* n. 32.

<sup>37</sup> G. Khandekar & J. Sengupta, *EU-India Free Trade: Make or Break*, FRIDE Agora Asia-Europe Policy Brief 10 (2012) (available at [http://www.fride.org/download/PB\\_10\\_EU\\_India\\_free\\_trade.pdf](http://www.fride.org/download/PB_10_EU_India_free_trade.pdf)).

<sup>38</sup> C. Penty, *EU, U.S. Must Discuss 'Everything' in FTA Talks, de Gucht Says*, Bloomberg (1 Jun. 2013) (available at <http://www.bloomberg.com/news/2013-06-01/eu-u-s-must-discuss-everything-in-fta-talks-de-gucht-says.html>).

<sup>39</sup> Interview No. 6, Brussels based trade negotiator (12 Jun. 2013).

<sup>40</sup> G.P. Schmitz, *EU-US Trade Talks: Southern European States Put on the Brakes*, Der Spiegel (18 Feb. 2013) (available at <http://www.spiegel.de/international/world/southern-eu-states-want-exemptions-from-us-eu-free-trade-talks-a-884022.html>).

industries, where France threatened to veto the suggested Commission mandate if this area did not receive special protection.<sup>41</sup> This, however, seems to have more to do with traditional French cultural ambivalence vis-à-vis the forces of globalization than any direct effect produced by the euro crisis. Likewise, German resistance towards an arbitration mechanism between investors and states seems to be based on European anxiety regarding the power of American corporations, with the general support for the trade deal still strong.

The Indian trade talks – which began back in 2007 – received new momentum when EU Member States were hit by the financial crisis in 2009. Access to the large and growing Indian market was seen as a rescue for contracting European economies.<sup>42</sup> However, the crisis seems not to have had any major effect on the cohesion of EU Member States. Indeed, the deadlocked negotiations are largely due to Indian reluctance over aspects of the negotiations (see context below) as well as uncertainty caused by the Indian elections.

## 5.2 CAPABILITIES AND EU TRADE NEGOTIATIONS

Capabilities are perhaps not the most obvious category by which to analyse trade policy. Negotiations are time-consuming and resource-consuming but compared to other policy domains, such as crisis management, there are no major material capabilities that need to be mobilised in order to plan and execute trade policy. The most crucial resource would be access to well-trained trade experts in all the areas covered by the trade agreement. It could be argued that the EU has been hampered in its ambition to carry out the extremely complex and technical negotiations with India and the US within the planned time frame because many of its experts were engaged in euro crisis management tasks. The evidence suggests, however, that this is not the case. The FTAs with the US and India are managed by the same chief negotiator. That EU external trade capabilities were at times overstretched can be explained by the surge in FTAs on the table, not by what other Directorates of the European Commission do to manage the EU's economy.<sup>43</sup> In an indirect way, it could be argued that the wage freeze resulting from the new budget, which was motivated by the state of the economy, might

<sup>41</sup> H. Carnegie, G. Parker & P. Spiegel, *Paris Threatens to Block EU-US Talks as China Trade War Looms*, Fin. Times (5 Jun. 2013) (available at <http://www.ft.com/intl/cms/s/0/747fe80e-cdcc-11e2-8313-00144feab7de.html#axzz2VooUc711>).

<sup>42</sup> See Traidcraft, *The Wrong Direction: Why the EU-India Free Trade Agreement Will Not Help India Through the Economic Crisis* (2009) (available at [http://www.traidcraft.co.uk/Resources/Traidcraft/Documents/PDF/tx/policy\\_India\\_FTA\\_report.pdf](http://www.traidcraft.co.uk/Resources/Traidcraft/Documents/PDF/tx/policy_India_FTA_report.pdf)); P. Mandelson, *UK Secretary of State for Business, Enterprise & Regulatory Reform*, Speech to CII Partnership Summit (Delhi, 19 Jan. 2009).

<sup>43</sup> Interview No. 6, *supra* n. 39.

have demoralized and affected the trade negotiating capacity of the European Commission, but such effects remain to be seen.

### 5.3 THE CONTEXT OF EU TRADE NEGOTIATIONS

To what extent has the context of EU trade negotiations been affected by the euro crisis? In the trade domain, context would include factors such as the perception of the EU as a credible actor and changes in the demand for specific trade policies championed by the EU. On both these indicators, the euro crisis seems to have produced negative effects on the context of EU trade negotiations. In the EU-India negotiations, perceptions of both the EU and the policies it represents have been weakened by the financial crisis. In response to the financial crisis and the low expectations for growth in Europe and the US, India has chosen to rebalance its international trade and focus more on areas such as Africa and South America.<sup>44</sup> The relative success of this ambition has made India less dependent on European markets at the same time as long-term growth is forecast to take place in India rather than the West.<sup>45</sup> These changing fundamentals have not been lost on the Indians who, according to one of the negotiators, have toughened their game in recent years as they see India-EU relations becoming less asymmetrical because of the crisis.<sup>46</sup> Fears over what the EU can really offer, for example when it comes to access for skilled Indian labour to provide services to the European market, when the EU itself is battling its crisis economy and climbing unemployment, have further dampened enthusiasm in India.<sup>47</sup> Finally, the substantive trade policies advocated by the EU have been criticized on the ground for reducing India's room for manoeuvre in times of crisis, with explicit links being made to the management of the euro crisis. It has been argued, for example, that the liberalization of India's financial services, prohibition of capital controls and other limitations which an EU-India FTA would bring about would prevent India from responding to a crisis with the same measures that EU Member States have themselves utilized.<sup>48</sup>

<sup>44</sup> India's exports to the EU fell by about 13% between 2011 and 2012 while its exports to Africa, East Asia and Latin America – under the purview of India's Focus Market Scheme – have increased substantially. See Khandekar & Sengupta, *supra* n. 37; G. Khandekar, *European Union-Asia Trade: In Need of a Strategy*, FRIDE Agora Asia-Europe Policy Brief 13 (2013) (available at [http://www.fride.org/download/PB\\_13\\_EU\\_Asia\\_trade.pdf](http://www.fride.org/download/PB_13_EU_Asia_trade.pdf)).

<sup>45</sup> See for example National Intelligence Council, *Global Trends 2030: Alternative Worlds* (2012) (available at [http://www.dni.gov/files/documents/GlobalTrends\\_2030.pdf](http://www.dni.gov/files/documents/GlobalTrends_2030.pdf)).

<sup>46</sup> Interview No. 5, *supra* n. 14.

<sup>47</sup> Traidcraft, *supra* n. 42.

<sup>48</sup> *Ibid.*; EU negotiators claim that this would not necessarily be the case but even the perception thereof would produce the same result and is thus an effect of the financial situation in Europe. Interview No. 6, *supra* n. 39.

In the EU-US negotiations, the effect of the euro crisis on the context of negotiations has been more mixed. US President Barack Obama was sceptical about linking the US market to the sluggish European market during his first term as President. With more leeway in his second term, and with signs of stabilization in the euro zone, the president chose to push for a TTIP in his 2013 State of the Union Address. In the negotiations, however, the argument that ‘Europe needs this deal more than the US’ is sometimes made in the constant wrangling for concessions of international trade deals.<sup>49</sup> The most dramatic hurdle to the negotiations has been the Snowden affair, caused by the revelations by the former US intelligence contractor. However, unlike the European Parliament, the EU Member States chose not to use this opportunity to pressure the US in negotiations, which speaks to the cohesion caused by the perceived benefits of the deal.

## 6 CONCLUSIONS

This article has analysed the extent to which the euro crisis and its management has affected the EU as an international actor. By examining two very different external policy fields – the EU’s civil and military crisis management efforts and its free trade negotiations – conclusions can be drawn with regard to the EU’s coherence, its capabilities and the context in which it operates. Taken together, the effects of the euro crisis on EU foreign policy seem to differ substantially not only between policy fields but also between different aspects that together define the EU as a foreign policy actor.

### *Summary of findings:*

	<i>Crisis Management</i>	<i>Trade Negotiations</i>
<b>Cohesion</b>	Some evidence on a more nationally centred outlook. Long term risk of more fragmentation.	Positive effect on cohesion due to perceived economic gains.
<b>Capabilities</b>	Negative impact concerning sort of missions, how they are staffed, etc. Possibility of long term positive effects due to intensified cooperation.	No visible effects

<sup>49</sup> Interview No. 6, *supra* n. 39.

	<i>Crisis Management</i>	<i>Trade Negotiations</i>
<b>Context</b>	Negative on an overarching political level but not concerning missions and not in relation to other actors.	Context bad at first (at the height of the European economic crisis) but then improving.

In the case of crisis management, the euro crisis has had a clear but so far modest negative impact. Member States and institutions have had difficulties cohering in this field, which is most clearly illustrated by the recurring differences over the use of military force. This, however, was a problem that existed long before the euro crisis. The current crisis has made Member States keener to look at foreign interventions from a slightly more nationally oriented perspective, rather than as 'true Europeans'. Thus far, this lack of coherence on when and where to act has not left crisis management at a stalemate, largely thanks to the compartmentalised nature of the CSDP and the fact that not all Member States have to actively participate in missions for them to be deployed. In the long term, however, a lack of coherence – particularly among Germany, France and the UK – might effectively halt development in this area.

In addition, when it comes to capabilities – access to the various material resources needed to launch crisis management operations – the effect of the euro crisis has been negative. In the long term, however, this trend could be reversed, as the economic crisis puts a spotlight on the declining and increasingly fragmented nature of European military spending. The way in which the EU is perceived from abroad as a crisis management actor – the context parameter – has been less affected by the crisis, due as much to the fact that other actors are seen as less legitimate, less interested in the region or equally hit by the economic crisis. In sum, the EU as a crisis manager abroad has been negatively affected by the economic crisis, but the long-term effects point in different directions. Coherence would suffer from an increasingly fragmented European Union while capabilities could profit from boosted ambitions regarding the joint development and procurement of resources as well as new ways to fund crisis management operations.

In the case of free trade negotiations, the effects of the euro crisis were rather different. Cohesion seems to have been strengthened by the dire economic situation, which made it easier to rally around a pro-growth initiative like free trade. Capabilities had little relevance since the EU's free trade agenda is not only relatively cost-free once negotiated and implemented, but also because any costs were unaffected by the euro crisis. The context of negotiations was affected by the crisis but not unequivocally negatively. In negotiations with India, the perception of the EU as a trading power has taken a hit, but this seems to have affected the

style of negotiations more than the substance. In negotiations with the US, perceptions of the EU as a weak actor and a problem for the world economy affected US willingness to engage in free trade negotiations during Obama's first term. However, the parallel effects of Europe's slow recovery and Obama winning his second term paved the way for an ambitious joint push in negotiations. In sum, free trade negotiations have only been marginally affected by the euro crisis, and these effects have been both positive and negative.

Three findings stand out from this comparative analysis of EU foreign policy in a time of crisis. First, the assumption that the EU would be paralysed in its external relations because of its pressing internal needs is wrong. The real day-to-day foreign policy of the EU has been rather resilient. A lack of top-down engagement and financial cutbacks in the Member States have affected the EU's external engagement but not halted it. In many respects, responses to the crisis such as increased levels of pooling and sharing, and tighter cooperation on economic governance could in time strengthen both the coherence and the capabilities of EU external action.

Second, the effects of the crisis are unevenly felt in different foreign policy areas, which defy attempts to analyse the EU's external relations as a homogenous policy domain. The policy areas often captured under the theme of 'external relations' function under different incentives and structural factors. This needs to be captured in research on EU foreign policy.

Third, the euro crisis also had uneven effects on the different components that make up the EU as an international actor. For example, some effects spurred the development of capabilities while others hampered coherence. This implies changes to the EU as a foreign policy actor and not only to the policy itself. Increased resources but less agreement on how to use them, for example, would aggravate the existing gap between what is expected of the EU as a security actor and what it can actually achieve. This means that a politically fragmented EU after the economic crisis would be in even more need of an overarching strategy for or a common idea of its foreign policy role. If EU leaders could agree on an overarching vision for the EU's global role, some of the imbalances between capabilities and coherence that seem to have resulted from the euro crisis could be addressed.

In the future, when some of the dust of the euro crisis has settled, it would be welcome with additional research on how the material and ideational effects of the euro crisis has impacted on foreign policy. As discussed in this article, some of the long term effects are contrarious – such as budget cuts versus increased specialization – while others are still to be grasped – such as the ideational shifts provoked by asking former colonies for financial aid. Considering the suggestion that the EU is suffering from 'crisis upon decline' – the double shock of a largely

self-made economic crisis and a simultaneous transfer of power away from the nation states of the western hemisphere – such findings would be much useful. Knowledge of how foreign policy was effected by the temporarily rather concise shock could help the Union make its foreign policy more resilient in the face of a more extracted period of relative decline.

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