Europeanization Processes from the Mesoeconomic Perspective: Industries and Policies

edited by
Piotr Stanek
Krzysztof Wach

CRACOW UNIVERSITY OF ECONOMICS

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Introduction

Europeanization has been becoming an attractive and very popular concept at various levels of study in economics, management science and business studies, including the individual firm level (microeconomic Europeanization), mesoeconomic level for industry policies and/or for regions (mesoeconomic Europeanization), and the macroeconomic level determining the positions of national economies (macroeconomic Europeanization).

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The book is divided into eleven chapters dedicated to different aspects of Europeanisation processes from the mesoeconomic perspective.

Chapter 1 written by **Krzysztof Wach** from Cracow University of Economics (Kraków, Poland) discusses the basic issues on Europeanization, its conceptualisation and research approaches.

Chapter 2 prepared by **Rafał Riedel** from the University of Opole (Opole, Poland) introduces Europeanization of public policy from the methodological perspective.

Chapter 3 written by **Aldona Wiktorska-Święcka** from the University of Wrocław (Wrocław, Poland) sets out to define and describe the particular characteristics of Europeanisation with regards to urban governance.

Chapter 4 prepared by **Adam A. Ambroziak** from Warsaw School of Economics (Warszawa, Poland) begins the second part of the book and discusses Europeanization of industrial policy verifies whether reindustrialisation can be an instrument ensuring economic growth and new jobs.

Chapter 5 written by **Maria Urbaniec** from Cracow University of Economics (Kraków, Poland) explores in which ways the EU Policy affects the SMEs entrepreneurship in EU member states.

Chapter 6 prepared again by **Anita Pelle** from the University of Szeged (Szeged, Hungary) analyses the advancements that have taken place in the CEECs in the field of R&D and innovation as a result of Europeanization processes.

Chapter 7 written again by **Maja Bučar** from the University of Ljubjana (Ljubjana, Slovenia) continues the discussion from the previous chapter and explores the changes in R&D and innovation policies in the 13 new member states.

Chapter 8 prepared by **Jakub Janus** and **Piotr Stanek** from the Cracow University of Economics (Kraków, Poland) offers a much wider perspective of

Europeanization of financial regulations during and after the global financial crisis.

Chapter 9 written by **Michał Głuszak** from Cracow University of Economics (Kraków, Poland) discusses the issue of the institutional framework for green innovation diffusion on a property market in Europe as well as the competitive position of major certification systems in Europe.

Chapter 10 written by **Joanna Dyduch** from the University of Wrocław (Wrocław, Poland) discusses different aspect of the process of Europeanization of the EU energy policy such as the scope and the consequences.

Last but not least, chapter 10 prepared by **Małgorzata Michalewska-Pawak** from the University of Wrocław (Wrocław, Poland) investigates the Common Agricultural Policy (CAP) and rural development as one of the most Europeanised policy in the European Union.

Kraków – April 2015

Piotr Stanek
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1

Conceptualizing Europeanization: Theoretical Approaches and Research Designs

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Summary:

This chapter attempts to systematize and delimit the process of Europeanization as the scientific coin. The three main conceptual approaches to research on the process of Europeanization are discussed (namely bottom-up, top-down and circular approach). The various research on the phenomenon of Europeanization were analysed, which resulted in highlighting four main research approaches (polyvalent approach, casual approach, process approach and approach effect). The dimensions in which the Europeanization processes occur, are also indicated by highlighting and analysing the ten main dimensions of both economic and non-economic processes of the Europeanization. This chapter is a kind of the introduction to the theme of Europeanization. In addition to the discourse on the definition of Europeanization, the attempt its attempt to synthesize basic research approaches on this subject was included. The study is based on a typical literature review using the conventional research methods of deduction, reduction, synthesis and theoretical modelling.

Keywords: Europeanization; European Union (EU); European integration; top-down; bottom-up
JEL classification: F02, F15, D02, D79

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1.1. INTRODUCTORY REMARKS

Today Europeanization is a notion that is very frequently used, however, there is a clear shortage of, or even fragmentariness of scientific knowledge, within this scope. The research into the Europeanization processes were initiated by political scientists in the 1970s, although the notion itself gained in popularity only in the 1990s alongside the realization of the uniform Single European Market SEM (Wach, 2010). From that moment, Europeanization is a willingly undertaken research problem that has attracted interest in numerous fields and scientific disciplines. Floyd (2001, p. 109) emphasizes the fact that the majority of market changes which have occurred at the turn of the centuries since the beginning of the twenty-first century took place as a result of the Europeanization processes which are *explicite*, defined as the phenomenon of the regionalization processes. As Fligstein (2009, p. 107) highlights:

> "majority of the research concerning the European integration focuses only on political and legal processes (…) which is the reason for which researchers overlook the fact how deep the European economy has been reorganized".

There are few works of the kind cited above, are sparse, and in addition nor have there been many recent papers postulating seeking to undertake broad and deep research into the Europeanization processes in both economic (including macro-, meso- and microeconomic fields) and noneconomic dimensions.

This chapter is a kind of the introduction to the theme of Europeanization. In addition to the discourse on the definition of Europeanization, its attempt to synthesize basic research approaches on this subject was included. This article attempts to systematize and delimit the process of Europeanization as the a scientific term. The three main conceptual approaches to research on the process of Europeanization are discussed (namely bottom-up, top-down and the circular approach). The various research results on the phenomenon of Europeanization have been analysed, which has resulted in highlighting four main research approaches (the polyvalent approach, casual approach, process approach and approach effect). The dimensions in which the Europeanization processes occur, are also indicated by highlighting and analysing the twelve main dimensions, both economic and non-economic processes, of Europeanization.

1.2. THREE WAVES OF EUROPEANIZATION RESEARCH

Moravcsik (1994), Sandholtz (1996) and Kohler-Koch (1996) are regarded the main precursors of the Europeanization concept. Their concepts were established in the European integration theory and fell to 1990s. The first of them, being a representative of the stream of intergovernmentalism within the regional integration theory, is considered to be the author of the bottom-up or downloading approach explaining an influence of the integration processes on individual countries (Moravcsik, 1994). On the other hand, Sandholtz's views in this respect were even of adversative character in comparison with Moravcsik's views. In his opinion, integration creates new opportunities for domestic entities, resulting in institutional changes and the changes in shaping and conducting individual policies. The solution bases on the multi-level management system and is identical with the top-down approach (Sandholt, 1996, pp. 403–429). The third parallel concept, developed by Kohler-Koch (1996, pp. 359–380), is based on the idea of the transformation of governance.

When ordering the concepts of Europeanization chronologically, we should mention two more figures here. In mid-1990s, Ladrech (1999, pp. 69–88) provided one of the first acknowledged definitions of Europeanization, and Radaelli (1997, pp. 553–575; 2000), is regarded one of the major conceptuologists and propagators of the research into Europeanization, along with figures such as Börzel and Risse (2000). After a few years of his own studies and analyses, Olsen (2002) asked a question what exactly Europeanization is and whether this concept is scientifically useful. After a decade from posing this question for the first time it still remains open, and the forming literature on that is clearly fragmentary. We can assume that creating the scientific bases of Europeanization was an answer to the common use of this term, namely, *de facto* the methodology of empiricism (of empirical school) was adopted here from management studies. Thus, the concept of Europeanization in the literature of the subject is defined as "a phenomenon without origin" (Gellner & Smith, 1996, pp. 357–370).

Nowadays, the term of Europeanization more and more often refers to the European Union itself rather than to Europe, or the European civilisation, which constitutes distortion of the etymology of this term, thus, some authors postulate to separate Europeanization and **EU-ization**, however, the great majority of researchers apply those terms interchangeably or, which happens more commonly, only the first term is used. For example, Ladrech (1999, p. 71) treats Europeanization as "an incremental process reorienting the direction and shape of politics to the degree that EC political and economic dynamics become part of the organisational logic of national politics and policy-making", *nota bene* it is one of the first acknowledged definitions of Europeanization. Similarly, Börzel (1999, p. 574) interprets the phenomenon as "a process by which domestic policy areas become increasingly subject to European policy-making". Bulmer and Burch (2001, p. 73) treat Europeanization very similarly as "a set of processes through which political, social and economic dynamics of the European Union displays interactions with

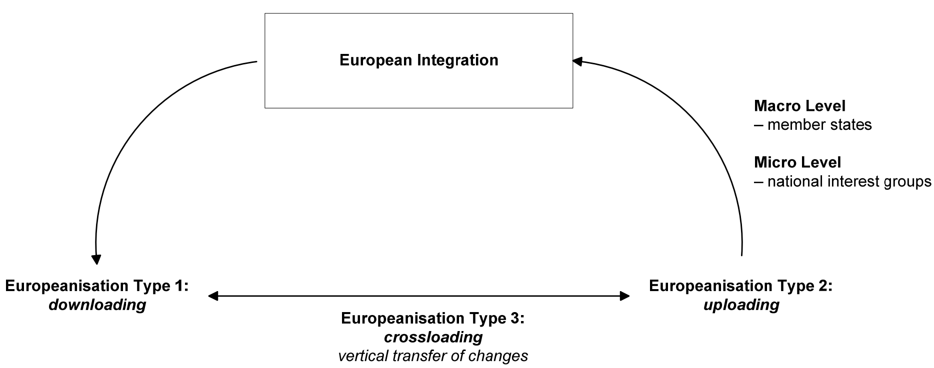

Figure 1.1. Europeanization processes as the mechanisms of European integration
Source: adapted from Howell (2005, p. 382).

the logics of national discourse, national identity, domestic political structures and domestic public politicians”.

In the research into the Europeanization process we can, after Holzhacker and Haverland, (2006, pp. 1–18), distinguish three waves which de facto constitute three generations of European studies (studies into the European integration), the result of which is the formation of separate, structured theoretical and conceptual framework for Europeanization as an arising separate research field. The first of them is the bottom-up approach, the second is top-down approach, whereas the third one is cycle/circular approach (Figure 1.1).

The first wave (**bottom-up approach**) was devoted to the analysis of the European integration process and the institutional development of the European Union, as well as the directions of the evolution of its policy. The research was carried out mainly in accordance with the methodology adequate for international relations, but in that period mainly institutional, legal, economic and politological factors were analysed. The institutional system of the European Union (in fact, of the European Communities) was treated as an exogenous factor in relation to the member states. Treating the European integration as an exemplification of the regionalization process in international relations, as Nowak and Riedel (2010. p. 213) emphasise, was a part of this stream. Europeanization as the bottom-up approach can be explained as follows (Howell, 2004, p. 21):

> “groups of interests and networks of connections which are an instrument by means of which preferences of individual bottom-up groups are considered on the level of the EU, influencing the development of its political structures”.

Sauragger (2007) and McCauley (2011) emphasise that there are three alternative ways of the bottom-up Europeanization processes, namely (i) *proaction* that is the reorientation of national groups to supranational venue, (ii) *rejection* or *promotion* based on anti- or pro-EU movements in national societies, as well as (iii) *usage* that is (rather weak) making use of top-down ‘pressures’.

The second wave (**top-down approach**) of the research treated Europeanization as an explanatory factor for changes undergoing on the level of member states. The comparative perspective was mainly used here, based on the scientific methods of comparatistics. In accordance with the assumptions of this stream, the European Union and its institutional system was treated as a separate political system. “The shift of the national sovereignty was observed, from the decentralised system in which the major role was performed by national executives and ministries influencing the EU within bilateral and multilateral relations”, which was typical for the first stream, towards “supra- and subnational community which achieved some ability of self-regulation, which was related to the growth and institutionalisation od the decision-making system” (Nowak & Riedel, 2010, p. 213). Taking this context into consideration, Europeanization is commonly defined as (Radaelli, 2006, p. 30):

> “Process of a) construction, b) diffusion and c) institutionalization of formal and informal rules, procedures, policy paradigms, styles, ‘ways of doing things’, and

shared beliefs and norms which are first defined and consolidated in the EU policy process and then incorporated in the logic of domestic (national and subnational) discourse, political structures and public choices."

Currently arising third wave (**circular approach**) in the research into European integration and Europeanization is an attempt to create a holistic concept, both description and explication, assuming mutual linking of these processes, and at the same time combining two hitherto prevailing research approaches - bottom-up and top-down (Riedel, 2010, p. 39). The latest literature of the subject, contrary to the two preceding research waves (which are regarded the classical approaches towards the European studies into European integration), separates European integration and Europeanization, however, manifesting far-fetching cause and result dependencies between them. This burgeoning research approach, although interdisciplinary in its assumptions, bases mainly on transformations which have taken place in the economic sphere, perhaps in the regulatory (administrative and legal) sphere which directly or indirectly influences the macroeconomic, microeconomic and managerial processes.

To cut a long story short (Figure 1.2), since 1970s the first generation of research has been using the bottom-up or uploading approach, since 1990s the second generation of research has been using the top-down or downloading approach, while at the turn of 20th and 21st century the circular or crossloading approach has been applying to researching into Europeanization (Wach, 2011, p. 30-32; Wach, 2013, p. 17-18; Dyson & Goetz, 2003, pp. 15-16).

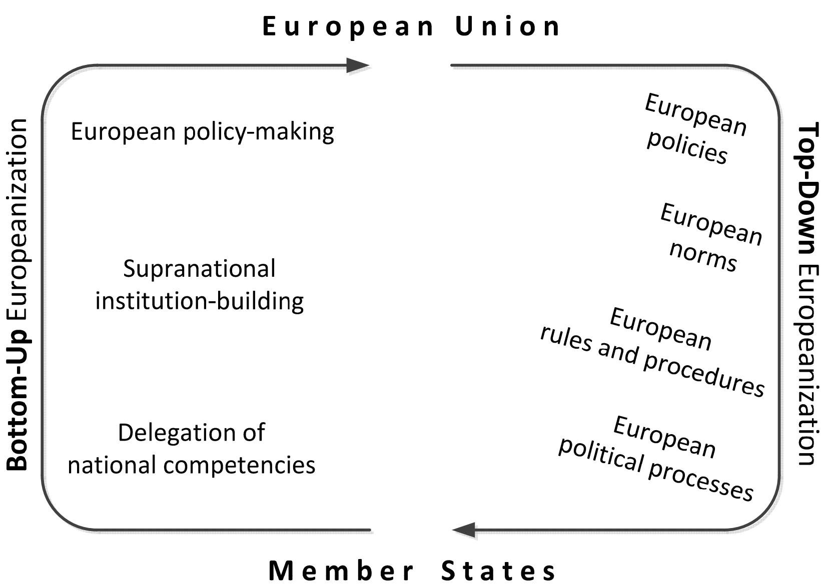

Figure 1.2. Circular Europeanization as the combination of Bottom-Up and Top-Down
Source: adapted from Börzel (2012).

1.3. ANALYTICAL LEVELS IN EUROPEANIZATION RESEARCH

The term 'Europeanization' refers to several phenomena that are currently on the European continent. Although Olsen (2002, p. 922) emphasizes that Europeanization is not *sui generis* a phenomenon, however trying to explain it through the prism of three planes, which he calls phenomena. It is worth to make clean up areas of impact the Europeanization, that is, to attempt the identification and structuring dimensions of the Europeanization. In this context, one may be tempted to distinguish 10 or even 12 basic dimensions of the Europeanization including both non-economic (political issues, e.g. Bučar, 2012; Pelle, 2015; Dyduch, 2014; Riedel, 2008, 2013; Wiktorska-Święcka, 2010; educational issues, e.g. Rybkowski, 2013; Marona & Głuszak, 2014; Udovič & Bučar, 2008; agricultural and environmental issues, e.g. Urbaniec, 2014, 2015; Michalewska-Pawlak, 2015) and economic dimensions (Ambroziak, 2011; Wach, 2014b, 2014c, 2014d; Janus & Stanek, 2015). This concept is in fact used to describe changes in many dimensions of life, including geographical, sociological, political, legal, institutional, or economic ones (Figure 1.2).

Form the methodological point of view, there are five analytical levels, namely (i) mega, (ii) macro, (iii) meso, (iv) micro, and (v) nano. Nevertheless, three of them are the most often used in economics (macro, meso, micro), thus it seems to be adequate to discuss three processes – macroeconomic, mesoeconomic and microeconomic Europeanization.

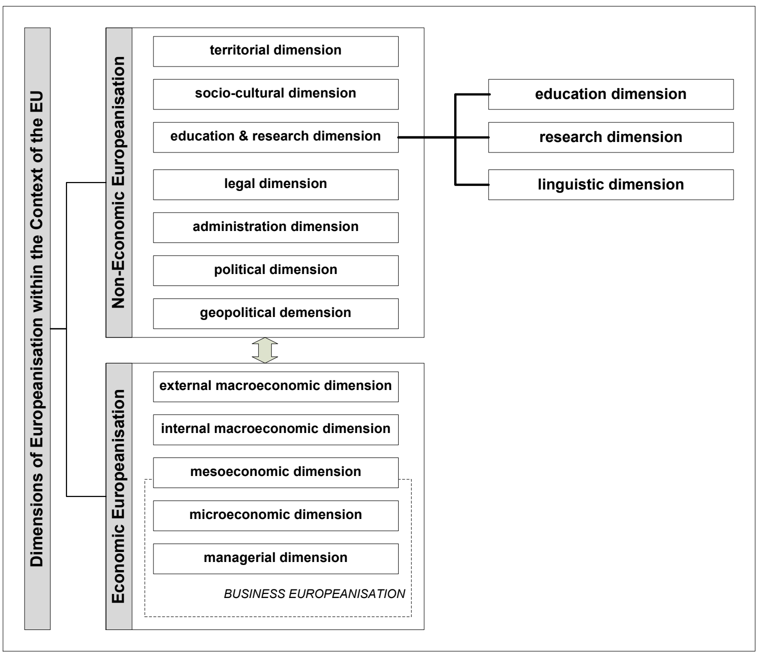

Figure 1.2. Twelve dimensions of Europeanization in the context of the European Union
Source: adapted from Wach (2014a, p. 20, 2014c, p. 16).

Europeanization in the **external macroeconomic** dimension is creating of Europe (and more specifically of the European Union) a significant economic centre in the world, identified with the intensification of its role, at least within the existing Triad (United States - European Union - Japan), although with aspirations to perform the major role in the world economy, particularly as a response to the globalization processes, including the growing significance of China or India in the world economy. At present, the share of the EU in the world economy is bigger than of the US or Japan and constitutes 1/5 of the global trade (and considering the intercommunity turnover among the member states it is as much as 34.2%), whereas the EU foreign direct investment constitutes almost a half of global direct investment. It is worth stressing that as early as in 2010 China became the main exporter of telecommunications equipment (USD 180 billion, with the annual dynamics of growth of over 400%), and thus for the first time it outran the European Union (EU-27), making of it the main re-exporter of such equipment (WTO 2011, p. 55). In spite of the continuing crisis, in 2010 the export of the financial services in the EU-27 increased by 3% and constitutes 49% of the global trade of these services (USD 130 billion) (WTO 2011, p. 139).

Europeanization in the **internal macroeconomic** dimension is on the one hand creating favourable conditions for the development of firms in the European Union territory (the European business environment, and to be more exact - the Europeanization of the firm environment), and on the other hand - the convergence of the macroeconomic systems of individual EU member states. The regulatory function of the European Union performs a significant role here.

The Europeanization in **mesoeconomic** sense is observed in industries, as most of them becoming Pan-European and not just national as other European competitors are their direct competitors and industries are regulated in general by the same EU law and regulations (e.g. tobacco industry, mobile communication industry, banking industry). This dimension of mesoeconomic Europeanization is getting more and more important.

The Europeanization in terms of **microeconomic** dimension is identified as the Europeanization of businesses. By contrast, in terms of microeconomics, the Europeanization is a process the internationalization of a business in Europe through its expansion into the European Union markets (a business activity in the common market, the so-called Single European Market) (Harris & McDonald, 2004, p. 73).

What is more, there is also a very important **managerial** dimension of Europeanization, which is connected with the specifics and characteristics of European business (European management style), so different from American business or Asian business (Daszkiewicz & Wach, 2013, pp. 145-157; Fligstein 2009, pp. 107-124; Floyd 2001, pp. 109-113).

Taking into account the philosophical systematics, we can distinguish three main areas of the research into Europeanization, namely ontology, epistemology and methodology (Wach, 2013). The **ontology of Europeanization** deals with studying the structure and character of the Europeanization process. It provides an answer to the question what Europeanization is and what its components are. The **epistemology of Europeanization** discusses the method of exploring the Europeanization process, and in this sense it analyses what the object of the Europeanization research is, its relations between the theory and practice, or what its limits are. Unlike the two mentioned areas, the **methodology of Europeanization** is least developed. It works out systematic procedures of exploring the Europeanization process and instruments of improving the research process within that scope). There are also two less exploited areas such as the **axiology of Europeanization** investigating into the role of values as well as the **rhetoric of Europeanization** investigating into the language of the research (Creswell & Plano Clark, 2011, p. 42).

Saurugger (2014) states that "Studies on Europeanization have become increasingly sophisticated and rigorous in order to analyse the conditions under which the EU, its policies, politics and polity influence the member states.". Research methods in Europeanization studies are the same as in social sciences including political science, international relations, law, and administration as well as economics and business studies. Early research articles are based on descriptive methods (Pacześniak, 2010) and in their nature have a kind of the sourcebook or handbook character. However, currently both qualitative and quantitative methods are used in research articles on Europeanization (Exadaktylos & Radaelli, 2009), not to mention the fact that the best solution is the mixed methodologies of both qualitative and quantitative methods (Table 1.1).

Table 1.1. Alternative research designs in EU studies and Europeanization research

Quantitative methods	Qualitative methods	Mixed methods

– Nonexperimental designs
  – Secondary statistics
  – Surveys
– Experimental designs
  – True experiment
  – Quasi-experiment
	– Narrative research
	– Phenomenology
	– Grounded theory
	– Ethnographies
	– Case study
		– Convergent parallel
		– Explanatory sequential
		– Exploratory sequential
		
		– Transformative mixed
		– Embedded mixed
		– Multiphase mixed

Source: modified and adapted from Creswell (2014, p. 12).

An analysis of the literature of the subject concerning Europeanization also enables the systematisation of the existing output from the point of view of the operationalisation of Europeanization in the substantive approach. Analogously, as in the case of conceptualisation and operationalisation of the development category in the economic studies, not only one can but in fact one must adopt the same four designates of the economic Europeanization, both in the macro- and microeconomic perspective. These are:

- areas of Europeanization (what Europeanises?),
- factors of Europeanization (why does it Europeanise?),

– mechanisms of Europeanization (how does it Europeanise?),
– sense of Europeanization (towards what does it Europeanise?).

Therefore, considering the subjective criterion, we can distinguish four basic research approaches (Wach, 2013), namely (i) polyvalent (dimensions of Europeanization), (ii) causative (causes of Europeanization), (iii) process (mechanisms of Europeanization) and (iv) resultant (effects of Europeanization), although the present literature of the subject does not assign the same attention to them, does not undertake them with equal frequency, and if such research is undertaken, it is fragmentary and conducted mainly from the point of view of the political sciences, namely from the perspective of macroenvironment. Thus, as it seems, there is an urgent need to undertake research into the Europeanization process from the perspective of the economic studies, especially on the level of a firm (the microeconomic level).

1.4. CONCLUSIONS

The general causes of Europeanization should be sought mainly in the intensification of the integration processes in the European Union, and particularly in the introduction of the principles of the single market, which have resulted in the possibility to treat the markets of all member states as an internal market in a sense. The European Union is currently facing severe challenges not only for its internal problems, but mainly in relation to its future in the international arena. These concerns are not only expressed by the opponents of the European integration, or sceptics who incidentally always expressed so, but these fears are also shared by its supporters, which definitely is a worrying symptom. The current image of the European Union and the challenges it faces is well-captured by Giddens (2007) in his book *Europe in the Global Age*. Is further and deeper Europeanization thus compromised? Certainly, the European Union, as well as the processes of Europeanisation are now at the crossroads. Not only is fairly close to the forecast for the next less than two decades (with the possible consequences of such a reconfiguration will be felt much earlier), the situation requires redefinition and reconfiguration strategy and to take anticipatory actions to support European businesses and European economies (or even the European economy) .

On the basis of the literature study presented in this chapter, we can draw the following conclusions:

1. Europeanization studies have undergone dynamic growth recently. Literature is broad, however most studies are conducted from the political science perspective, especially public policy, administration, and law; additionally recent studies are rooted in economics and other social sciences.
2. Initially, the Europeanization studies, dating back to the 1970s, applied the top-down perspective by researching into the adaptation of EU legislations and norms by national systems.
3. Currently, Europeanization studies include two-way impacts (top-down and bottom-up) making the investigations more complex and holistic by adopting

the integrated circular approach based on the two-way feedback mechanisms.

4. From the methodological point of view, there are three analytical levels on which Europeanization processes are commonly researched into, they are: macro, meso and micro levels, however, a need to promote meso analysis of the Europeanization processes is very welcome.
5. There is an urgent need to gain methodological awareness among Europeanization scholars and to increase the quality of the applied research methods, as well as to propagate the mix of methodologies as the best research design.
6. As Europeanization is a multi-faced phenomenon, thus there is a need to conduct multi- and interdisciplinary studies linking scholars representing various academic disciplines and making use of different perspectives by the synergy effect.

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2

Europeanization of Public Policies: Myths and Paradoxes

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Summary:

The goal of this chapter is to investigate the state of the art in the research on Europeanization of public policies. It seeks to identify and discuss the main explanatory variables applied to understand to variations of the level and scope of Europeanisation in different sectors and policies. In the first step the author operationalizes the concept of Europeanization for the purpose of analyzing its influence on the public policies. Then, consequently this study overviews the Europeanisation mechanisms through which the transformative impact coming from the supranational level becomes effective. Next, it suggests some methods in which this problem is researched in other EU member states and then consequently it applies this conclusions into the research concept. The text is illustrated with quantitative data on the scope of the European legislation penetration in today's Europe as well as it shows the real 'regulatory intervention' of the European Union in its member states. In the conclusions the author is cautious however, pointing to the fact that very often it is highly difficult to isolate the Europeanisation impulses from other determinants of change (like internationalization and globalization).

Keywords: Europeanization; European Union (EU); public policy
JEL classification: F02, F15, D02, D79

2.1. INTRODUCTORY REMARKS

The European Union (EU) has expanded its functional impact in many spheres since its initiation in 1950s (then as the European Communities). In some cases the competences came to the supranational level through the process of communitarisation. In others the competences were created already on the UE level and consequently, in a top-down process, got implemented in the member states. In both cases the literature conceptualizes these processes as Europeanisation – a term which captures the phenomenon of creating some administrative areas based on EU's own political and economic agenda.

The milestones of European integration are usually the treaties. The moments of their negotiation, ratification and going into force, are usually critical Europeanisation moments. Conventionally, but also in this context, Europeanization is understood as a phenomenon of domestic adaptation to European integration (Börzel & Risse, 2000)[1]. Consequently, the academic attention highlights this phenomenon to describe, explain and interpret this 'regulatory intervention' from the supranational level. Being mainly a regulatory polity, the EU uses regulation as a tool to influence and, in a number of cases, even to authoritatively prescribe the desired behaviour of public and private actors[2]. Not surprisingly, scholarly attention focuses so much on the emergence of supranational institutions (Eder 2004), and accompanying topics, up to the impact of European integration (Exadaktylos & Radelli, 2009).

However, it is vitally important to remember that although the EU has enormous potential influence, caution is needed in assuming the extent to which the EU has shaped governance, polities, policies, and politics overall. One of the most (in)famous mistakes in overestimating the Europeanisation potential was the speech delivered in 1988 (shortly after the Single European Act) by Jacques Delors, the head of the European Commission at that time, addressed to the members of the European Parliament. He argued that in ten years (from that moment) eighty per cent of the economic law, and supposedly also in the field of social policy as a consequence, will have its community source (Bulletin No- 2-367/157, 6 July 1988). His prediction became a myth, repeated many times it got a status of a truth that many believed in. "The "eighty per cent myth" can be found in many text-books and even in scholarly analysis signed by the most recognized names in the European integration studies (see for example: Hix, 1999; Wallace, 2005).

Today we dispose enough empirical knowledge which neglects this "eighty per cent myth". Just on the basis of purely logical deduction, it would be suspicious that a polity which redistributes roughly 1% of its GDP, would define 80% of its laws. Even if you agree that the EU is not a redistributive but a normative superpower, still – it is estimated that the EU legislation impacts only up to 10% of its GDP. The assumed 80% would have to deal with only minor issues and practices. Certainly, the saturation of sectoral law with EU legislation is only one of the (highly imperfect) methods of measuring Europeanization of public policies. Even in spheres that are Europeanised to a considerable degree, there is still enough room for maneuver and consequently the respective member states may differ significantly as regards the same policy. It is important to remember that the EU policies are usually only the common denominator of a wide spectrum of

[1] This functions domestically, in the member states, but also beyond the European Union's territory, sometimes going much further and embracing distant lands where the political and economic gravity of the EU is strong enough.

[2] It is a process that impacts upon members of the European Union and those aspiring to join, and even wider neighbourhood.

policy variations that we can find on the ground. The dependent variables that differentiate the Europeanisation of public policies are: time, member state and the respective policies themselves.

2.2. LITERATURE REVIEW

Europeanisation as analytical category is used (and misused) not only in the European integration studies (Riedel, 2010), but also in many neighbouring disciplines, like: international relations (Knill & Lehmkuhl, 2002), political science (Ladrech, 1994), economics (Wach, 2014) and many other related areas. Undoubtedly, having attained the status of a catchphrase, Europeanization gained a lot of explanatory potential together with the process of dynamic growth of research and investigation devoted to it. However, it is important to remember that Europeanization is not a theory – it is rather a way of organizing the European studies agenda, a phenomenon that needs to be explained and which orchestrates existing concepts rather than 're-inventing the wheel'. One might ask why it is so trendy nowadays, as opposed to in the 1950s. Obviously this explosion of literature must have been associated with the growing importance of the impact of the EU on different dimensions of domestic (member states') politics. Consequently Europeanization is required for a comprehensive understanding of the integration process (Graziano & Vink, 2007, pp. 8-9), including its impact on various sectors and policies.

The classical strand of Europeanization literature focuses on domestic implementation (Featherstone & Radelli, 2009) – in this sense this publication contributes to the classical stream of Europeanisation studies. In addition to this, however, Europeanization research offers a 'European' route to the study of national politics, policies and polities[3]. Originally the research on Europeanization was almost exclusively concerned with domestic change in EU member states. Additionally, if one would like to track the development trajectories of this research agenda, it is apparent that together with the 'big bang' enlargement (2004), also conditionality as a concept became an important part of the scope of Europeanization (Schimmelfennig & Sedelmeier, 2004).

Analysing the Europeanisation of specific sectors and policies, it is important to remember that three different steering mechanisms of Europeanization have been identified by Michael W. Bauer, Christoph Knill and Diana Pitschel in their important contribution to this strand of academic discourse – compliance, competition and communication.

'Governance by compliance presupposes the existence of legally binding and common European rules that have to be implemented at the domestic level, conceding only marginal levels of discretion to national bureaucracies. Compliance-based regulations typically appear in policies of positive integration, i.e. they are aimed at establishing a sound environment for the participants of the European

[3] The EU becomes a natural part of domestic politics.

common market. They impose constraints on national actors in order to safeguard certain standards for the protection of workers, consumers and the environment, as well as cultural assets' (Bauer, Knill & Pitschel, 2007, p. 408).

This perspective assumes a far-reaching impact on the national institutional system, its organization and its working practices. This is why new institutionalism (March & Olsen, 1989) is so crucially important as a theoretical vehicle.

When analyzing the potential impact of compliance-based policies on non-EU states, the obligatory nature of the respective policy is a decisive aspect. In order to ensure that regulatory policies have an effect, it is crucial that the EU has legislative authority in the respective country, for example it must be able to enforce its rules and should have tools at its disposal to sanction eventual non-compliance. With candidate countries this precondition is assured since the EU insists on the implementation of the *acquis communautaire*[4], as a condition for EU membership (Bauer, Knill & Pitschel, 2007, p. 409).

In this context it is important to remember that within the phase of candidacy the responses of states to compliance measures may vary according to the phase of their application. At the very beginning of the application process, applicants normally make great efforts to demonstrate their maturity to become full members and adhere to even very restrictive EU measures. When the accession negotiations proceed and the fear of exclusion diminishes, national bureaucracies or negotiators may exhibit indications of fatigue or even resistance in reference to the implementation of EU-based rules, especially when the adjustment of EU norms is accompanied by high costs. This trend could be observed in Bulgaria and Romania shortly before the EU finally decided on their membership (Schimmelfennig & Sedelmeier, 2005, p. 216) but also in case of many other members states.

The second mechanism applied in EU regulatory policy is competition between market participants but also national administrative systems and many other actors to achieve EU requirements. Competition-based regulations aim at ensuring the functioning of the common market by gradually abolishing distorting factors such as national regulatory barriers[5]. The rationale behind institutional change in the context of competitive measures differs fundamentally from the logic of compliance: not the self-preserving interests of bureaucracies, but rather market competition that constitutes the driving mechanism. Additionally another factor is considered to be of major importance: the interest of the non-member state in participating in the common market and the potential gains they expect from their participation.

'Candidate countries are (at least partly) involved in the common market long before they accede to the EU. On the one hand, they are subject to market-related conditionality. They have to ensure that their institutional structures fit the requirements of the market system of the EU and that they adopt the provisions set up for the Single European Market' (Bauer, Knill & Pitschel, 2007, p. 413).

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[4] The compilation of about 80,000 pages of legislation

[5] 'Negative integration' – amounting to deregulation (in contrast to positive integration, in which the EU performs a redistributive functions or builds its own policies)

The third mechanism – communication – refers to the communication between national regulatory agents grouped together in EU legal or institutional networks[6]. The authors of this classification, Bauer, Knill and Pitschel (2007, p. 414), suggest that '(…) applying the governance approach of communication, the EU stimulates information exchange and mutual learning between national policy makers. Furthermore, it aims to promote the development of innovative forms and models of problem solution that can be integrated in the member states' regulatory systems. Communication-based measures abstain from setting legally binding rules[7]. Instead they are designed to support national policy makers looking for regulatory models and concepts to tackle policy problems.

Other authors (see for example: Knill & Lehmkuhl, 2002) suggest different – however related – set of mechanisms as far as Europeanization is concerned: institutional compliance, changing domestic opportunity structures, and framing domestic beliefs and expectations. The mechanism of Europeanization by institutional compliance is particularly, but not exclusively, pronounced in policies of so-called 'positive integration'. This strongly correlates with the previously mentioned logic, in which it is not market mechanisms but rather political actors that set up decision making structures in the supranational domain and make certain policies 'EU exclusive'. Examples of Europeanization by changing domestic opportunity structures can be found in particular in many market-making policies of the EU (negative integration). These policies basically exclude certain options from the range of national policy choices, rather than positively prescribing distinctive institutional models to be introduced at the national level[8]. Europeanization by framing domestic beliefs and expectations is particularly likely when the EU decision-making context, above all the underlying conflicts of interests between the member states, only allows it to adopt policies which are vague and more or less symbolic (Knill & Lehmkuhl, 2002, pp. 255-259).

It is also clear in the literature that one needs to see Europeanization both (Wach, 2010, 2011) as a downloading (top-down Europeanization) as well as an uploading process (bottom-up Europeanization). Additionally Europeanization involves crossloading or policy transfer through lesson learning from one member state to another (Wach, 2013). Through the European integration process, policy transfer is undertaken from one state to another. The member states, their institu-

[6] Member states communicate with third states within the framework of numerous associations, partnership agreements and other platforms.

[7] Soft modes of governance may act as illustrative examples of governance by communication, for instance the open method of coordination (OMC), where integration pressure does not function through compliance logic and strength, but in accordance with interactions, acts as a community building factor. This mechanism is crucially important in all cases, usually beyond the first pillar, where supranational regulatory intervention cannot be effective due to the lack of binding legislation.

[8] The argument supports Olsen's observation that the EU's effectiveness in institution-building and policy change, even within the Union, has varied across institutional spheres such as competition policy, monetary affairs, external and internal security, culture, etc. (March & Olsen, 1989). Apart from this, clear causal relationships between the EU and domestic levels are difficult to trace since causation operates in both directions. Such processes are best studied as 'an ecology of mutual adaptation' (Hughes, Sasse & Gordon, 2004). Unfortunately, this kind of flexible method of case study (with all its imperfections) is assumed to be the most appropriate method for analysing the application of EU conditionality during enlargement.

tions, politicians and citizens interact and this can occur via the process of socialisation. Policies that are transferred in this fashion may become the norm throughout the EU and could consequently be uploaded (bottom-up Europeanization) into the EU domain (see also: Howell, 2005: 381). However, in this volume, it is the top-down approach that is dominating.

2.3. EUROPEANIZATION OF PUBLIC POLICIES

Many scholars view Europeanization as exclusively bottom-up process in which national states relinquish policy-development power to the EU or where the EU emerges and grows as a distinct administrative structure (Risse, Green Cowles & Caporaso, 2001). The concept is also often used to draw attention to the top-down direction of the EU impact—without ignoring the noted bottom-up orientation – which represents the EU's impact on national systems (Grabbe, 2003; Ladrech, 1994; Schimmelfennig & Sedelmeier, 2005; Samur, 2010). However, summarizing the above mentioned ways of understanding Europeanisation and its mechanisms, the impact of the EU on national systems should not be perceived only in terms of public institutions, public policies, and legal norms but in a much wider sense which includes informal rules, normative values, and mentalities (Radaelli, 2003). Europeanization allows us also to see the changes the go over time in Europe, especially the reach of the EU's functional area of impact.

Even though there is a great body of literature on the different conceptualisations of Europeanisation, there are still not enough empirical studies on the impact of EU on domestic legislatures. This contribution allows us to have a better understanding of this phenomena in Poland.

One of the methods used is the quantitative accounts of the share of the EU – related laws. Certainly this method does not claim to be a perfect one, but it allows to have some orientation about the proportions of EU-led legislative interventions in various policy arenas. Membership in the EU imposes severe constraints on the policy autonomy of national parliaments and their policy-making capacity. Apart from EU directives that require national transposition, domestic legislation can also be indirectly shaped or influenced by European integration. We also have to be aware of the measurement problems involved in attempting to conduct comparative research on the share of 'EU-related' legislation. The production of laws differs between EU Member States, with some parliaments approving considerably less laws than others. In some EU countries the adoption of legislation may be delegated more extensively to the government, which issues decrees in place of laws processed by parliaments. Second, much of EU legislation consists of regulations that are directly binding and hence do not require parliamentary approval (Raunio & Wiberg, 2010, pp. 77-78). One also needs to keep in mind that some parts of newly legislated acts lack the reference to their UE sources.

As an illustration of this method of measuring the Europeanisation, it is worth pointing to a number of studies that go in this line, among them: Page (1998), Brouard, Costa and Kerrouche (2007), Toeller (2010).

Figure 2.1 shows the saturation level of EU-related legislation in the legislation of selected member states. There are two points which require some comments, connected to the presented above data. First – the numbers 12%-14% are far distant from the "eighty per cent myth" of Jacques Delors. Second, the respective member states differ from one another. How is this possible that being a subject to the same Europeanisation impulses, the specific member states may differ. The answer is quite simple – some member states are more active in legislation generation then others. Consequently, when the same number of EU legislation gets implemented in one country (which is legislatively more passive in a certain domain), the share[9] may be higher than in some other member state that is legislatively more active and generates a number of other law items.

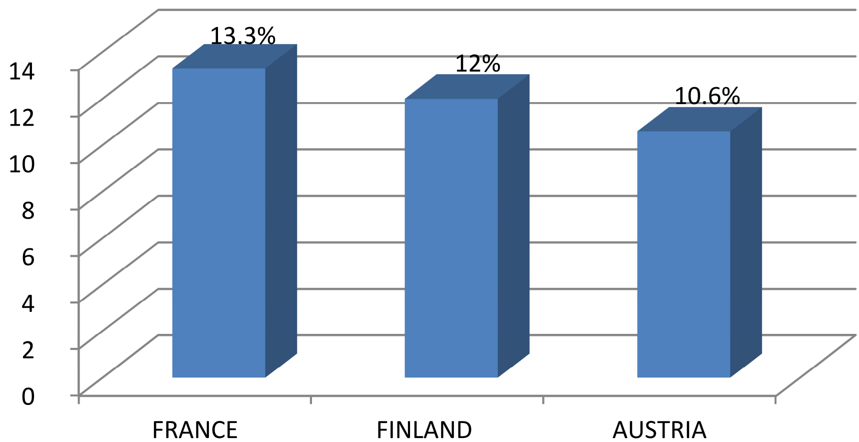

Figure 2.1. Share of EU-related Laws in 2008 – country comparison
Source: Own accounts based on Toeller (2010, pp. 417–444).

Figures 2.2 and 2.3 show some illustration of two member states and how the share of the EU-related legislation changed over time. The two graphs reveal a number of interesting phenomena. It can be observed that the two countries differ (which is already known from the previous graph), but from the two graphs we also learn that they differ in a dynamic way.

The share of EU-related legislation is different in certain periods of time because the number of EU-legislation differs in time. How does it differ in time? Here, we should take into account two levels of analysis. First, on a macro-level – the number of generated EU-related laws changes over time due to the life-cycle

[9] Represented as *per cent*

of the European Parliament. It is recognized that the legislative activity of the European Parliament is lower usually at the very beginning of its cadency (when it is getting organized – the Eurodeputies are selected to different functions, they learn their new role, there are hearings of the new commissioners, and there is a number of other issues which effectively keep them out of the purely legislative activities) and then it is also less intense at the very end of the cadency (when the Eurodeputies are busy with electoral campaigns).

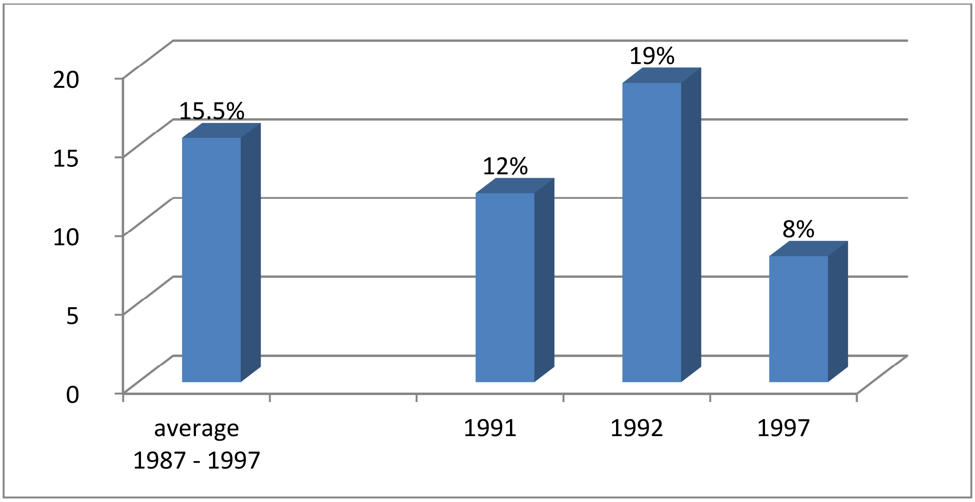

Figure 2.2. The Share of EU-related Laws in the United Kingdom in 1987-1997
Source: Own accounts based on Page (1998, pp. 803–809).

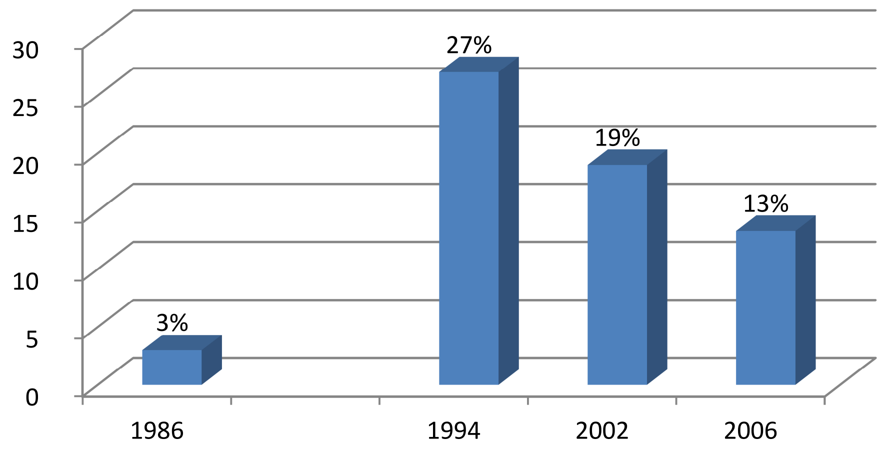

Figure 2.3. The Share of EU-related Laws in France in 1986-2006
Source: Own accounts based on Brouard, Costa & Kerrouche (2007).

Figure 2.4 relates to the third variable that was mentioned before – policy field (apart from time and member state – as the two remaining variables). Here, on the exemplification of Germany we see that from one policy field to another, the level of Europeanisation (measured as the share of the EU-related Laws) may differ significantly. Both of the presented policies (environmental policy and agricultural policy) belong to the highly Europeanised polices so the numbers are pretty high (75% – 81%). THE EU enjoys in both areas strong competences, therefore it is no surprise that these two policy fields are penetrated by the EU legislation to such a degree. However, one also has to remember that it is also a characteristic of Germany that is a very Europeanised country – it means that the German legislator very often makes references to some primary or secondary legal act, very often EU treaties but also soft-law and others. It is a typical characteristic of federations and Germany is a classical federal state. Legislators on the lower levels of the multi-level-governance (MLG) system very often seek legal mandate on the higher levels of the MLG system.

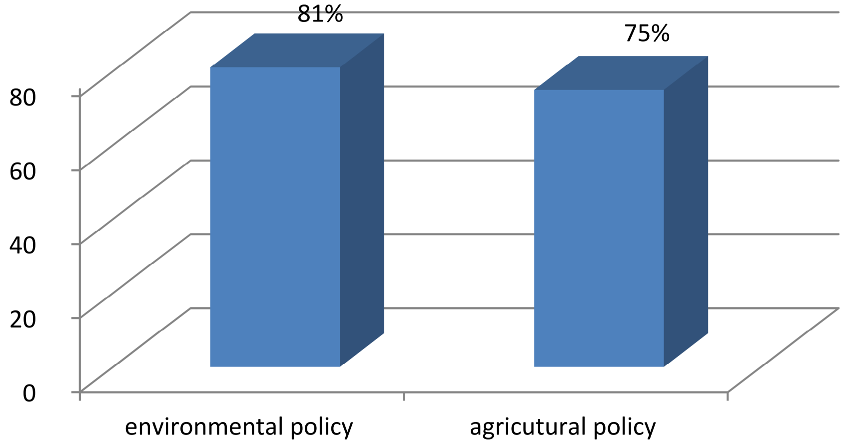

Figure 2.4. The Share of EU-related Laws in Germany (selected policies)
Source: Own accounts based on Toeller (2010, pp. 417–444).

2.4. CONCLUSIONS

As the first summarising conclusion it is necessary to say that it is very difficult to research the Europeanisation of public policies. An interested scholar will meet a lot of methodological traps and nuances, however – needless to say – it is worth and scientifically valuable to research the public policies developments and their Europeanisation. The identified three dominant variables do not exploit the whole range of other explanatory variables possible to apply. This text is just an overview of selected methods which are useful in researching the level and scope of the policy penetration from the supranational level. Sometimes the Europeanisation effects are identified in spheres where the EU has not got a lot of competences (Urbaniec, 2014). And – the other way around – also in areas where the EU enjoys strong competences, still there is a lot of room for manoeuver for the policy creation at the domestic level.

The rich body of literature shows us that both from empirical knowledge and from deliberative speculation, we can identify the differentiated influence of Europeanization on specific sectors and policies. Its major instrument, conditionality, sometimes works more efficiently, sometimes less. It is usually determined by the domestic costs of rule adoption in the aspiring state and its alternatives, but also on the phenomena within the EU. It is highly politicized process on both sides, therefore it is also unpredictable to a large extend. Also *post factum*, difficult to measure as the speculations on the EU impact are difficult to be proved in many cases (especially the political ones). There is always the path-dependency factor in the politics of domestic transitions that need to be calculated, rather than exclusively the conditionality emanating from the EU.

In this point, it is also important to stress that we can observe growing international harmonization as a process related to globalisation[10]. There is an increasing convergence in the policy-making and institutional decision-making structures and procedures of their public administrations worldwide (Massey 2004, p. 19; Hennis, 2001). In this context it is even more difficult to distinguish the Europeanisation mechanisms results from wider trends connected with internationalization and the accompanying convergence in policy making, institutional set up and political process in general. This phenomenon generates an important research challenge – how to operationalize Europeanisation in a way which allows the isolation of "Europeanisation factor" exclusively. The risk to mix and confuse some determinants stemming from other processes – like internationalisation and globalisation – remains strong.

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[10] Interaction between Europeanization and globalization on the underlying economic structure for Europeanization is another interesting field for exploration (Hennis 2001: 829)

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3

Europeanization of Urban Governance: Definitions, Dimensions and Perspectives

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Summary:

The concept of Europeanization occupies an important space in the study of European integration and has served to activate debate about the impact of the EU on modes of governance at different levels. However, the starting point for the considerations contained in the paper is the observation, that while it is commonly accepted that European pressures have created a multi-stage process of domestic change in EU member-states, the research agenda linked to Europeanization has investigated the impact of these pressures within the complexity at the urban level not in an extensive and enough in-depth going way. That’s why the paper sets out to define and describe the particular characteristics of Europeanization with regards to urban governance. Europeanization allows to understand the EU engagement within cities and assumes the impact of EU regulations, policies, programmes and initiatives on the resulting local change. This approach takes also into consideration how far the European cities change the processes and relations on the European level. In this context, Europeanization can be divided into two domains of urban politics. The first is related to the transition of the traditional urban government towards urban governance focusing on horizontal partnerships, networking and community involvement. The second one concerns the reorientation of urban policy away from fragmented actions towards integrated local action plans and initiatives, which contribute to the improvement of life in European cities. The paper covers main conceptual and definitional approaches to Europeanization with regards to urban governance, their dimensions and further perspectives.

Keywords: Europeanization; urban governance; urban policy; smart city; European Union (EU)
JEL classification: F02, F15, D02, D79

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3.1. INTRODUCTORY REMARKS

Since the early 1990s with the completion of the single market, the European integration process has significantly affected local governments across Europe. The European Union and Europeanization has accompanied the cities in a period of time which has been marked by transnational integration, internationalisation, economic interdependence and intensifying locational competition (John, 2001, pp. 61-92). Thus, urban governments have faced an increasing number and complexity of challenges. Economic, social and cultural globalisation has led to more economic competition and pressures on national and local institutional structures to capture international capital flows (Wach, 2014). Increasing environmental problems and climate change have not simplified the setting of policy priorities. Nowadays, cities are the economic, political, and cultural centers of Europe. Today, most Europeans live and work in cities. How they live and work depends on political decisions made at different levels of power distribution. That's why cities have been recognized by the European Union as a new political space, offering new opportunities. The EU has provided them with new access to resources and brought new institutional and political environments for urban institutions, with new policy areas, new political negotiation and co-operation partners and new divisions of power between different levels of public administration. Cities in the European Union gain from various EU programmes, which can be utilised as transmission belts for urban change and local modernisation processes. They implement European regulations which can directly affect important urban policy areas (e.g. procurement of public services, goods and construction work, air and water quality, purification of sewage, environmental impact assessment) and have duties to secure compliance with EU regulations under their jurisdiction. Moreover, the cities are affected by employment and growth strategies devised on the EU level and deal with opportunities and constraints created by key integration projects like monetary union or EU enlargement. Although cities are not directly represented at the European level, they are affected by European integration with regards to the fact, that around two thirds of the legislation implemented by local authorities is EU legislation (Zimmermann, 2006, p. 27). The implementation of EU programs and initiatives at local level can alter the preferences of local entities as well as their practices and policies. But on the other hand, activities of the European cities shape the development of EU programs, policies and initiatives (Marshall, 2005, p. 672). Having this in mind, the paper covers to theoretical debates around Europeanization with particular attention to urban governance. Europeanization in cities occurs as a consequence of intensive political and economic interactions. The range of processes of dissemination and harmonization resulting in development of a common European culture can be summarized under the notion of Europeanization. It appears at both, national and regional level and is determined by different types of adaptation pressures and "mediating" institutions operating within different actors (bodies) of governance (Marshall, 2005,

p. 17). Europeanization emphasizes the involvement of local framework, development of more urban partnerships and encouragement of wider level of actors in multi-level territorial interaction. Apart from the question whether the European integration itself should be regarded as a form of Europeanization, an approach which is rejected by most authors (Quaglia *et al.* 2007, p. 408), the Europeanization approach seems to be the most appropriate one to provide an explanatory framework which allows an assessment of the actual place of cities in the political system that is the EU and their engagement within the European integration with the impact on the European level. On one hand this approach departs from grand theories of European integration which either demand EU institutions (in coalition with local/regional and other actors) to take over executive control from the governments of member states or, as an alternative, expect these governments strictly to control the extent of European integration. On the other, it regards the utility of historical/sociological institutionalist approaches, terms of "top-down" and "bottom-up" Europeanization as well as the conceptualization of the extend, "the horizon" and the scope, the "deepness", of the EU impact (Wach, 2011). In order to evaluate the usefulness of Europeanization as a concept in the research on urban governance, it is first necessary to define its terms and the conclusion of the study by Radaelli (2006, p. 58) that "ultimately Europeanization provides a theoretical lens on the effects of integration [into the European Union] on domestic political structures" appears the most efficient.

The aim of the paper is to reflect current conceptual debate on Europeanisation with particular attention given to the urban governance. It contains key definitions, points out three dimensions of Europeanisation at the urban level and indicates two domains of this process: related to the transition of modes of governance on cities level and integrated, smart urban governance as an increasing trend in cities development within the European Union.

3.2. LITERATURE REVIEW AND THEORY DEVELOPMENT

Definitional and Conceptual Approaches to Europeanisation with Regards to Urban Governance

The resolution of the primacy of the state in the organization of the world market has created a space that is filled largely with urban structures. Thus, in the scientific literature appeared the notion „urban locational policy", that emphasized the uniqueness of urban policy strategy towards globalization (Brenner, 2004, pp. 212-216). In addition, the term "glurbanization" stressed the reactions of cities as urban governance systems to the challenge of international competitiveness (Brenner, 2003, p. 17). N. Brenner considered "urban governance as the main catalyst, medium and arena of state re-scaling processes" (Brenner, 2003, p. 19). He pointed out that as a result of the globalization and re-scaling of the state, it began the creation of a new hierarchy of cities. Thus, territorial context of contemporary public governance reveals a spectrum of problems that territorial organizations should face. One of them are new forms of governing and distribution of power. There are numerous reflections on how the socio-spatial morphology of cities is changing in the context of globalization; on the pressures to which local governments are subject when these processes of structural transformation take place; and on the dynamics of change in public policy agendas and forms of urban governance. The analysis of public policies explain reasons for policy change, policy stability and policy variation (i.e. change in relation to context) (John, 1994). According to Elander (2002, p. 191), the challenge for urban governance is the need to integrate interventions and "(...) innovation in the sense of creating concerted regulation and control systems, co-production, joint management and public-private partnerships at the national, regional and local level". This statement should be complemented by a the European level, since due to the progressive process of the European integration plays an increasingly important role in urban development in Europe, going hand by hand with globalization and rescaling of the state.

In terms of the discussion of the Europeanization of cities, their position in the European multi-level structure, the governance approach would appear to be crucial. Governance has become an important concept with the decreasing role of the welfare state since the eighties. This particular mode of coordinating action among political subjects marks one important difference between new forms of governing and traditional, hierarchic government based on central authority: the public sector has slowly but surely transferred responsibilities and functions even in the most welfare states, thus opening up space and opportunities for private initiatives. This shift required a multi-actor understanding of public (within urban) management in which diverse actors take responsibilities that used to belong to the public sector. The notion "urban governance" covers a wide variety of practices, many of which have yet to be described, analysed and explained. It includes areas such as social welfare, environmental protection, education and physical planning. Urban governance shows innovations in terms of co-regulation, co-steering, co-production, cooperative management and public–private partnerships on national, regional, and local levels. With urban systems today characterised by complex patterns of interdependencies, controlling, managing or even steering the complex, fragmented and often competing societal interests is beyond the capacity of the state as an agent of authority. City governments are no longer the key locus for integration of urban relationships but merely one of many actors competing for access to resources and control of policy agenda. In this context, urban governance is defined as "the actions and institutions within an urban region that regulate or impose conditions for its political economy" (Sellers, 2002, p. 9). Thus, over the past two decades or so, urban development has become the common activity of a diverse group of "stakeholders": public agencies, semi-independent public organisations, private companies, PPPs, civil society organisations and citizens who have shared the responsibilities and risks of pursuing decentralised goals. Within this framework governance is a process of coordinating political decision-making implicating different actors, social groups and institutions in a particular institutional context to attain appropriate goals that have been discussed and collectively defined in fragmented, uncertain environments. The multi-level governance approach starts from the assumption that the EU has become a system with multiple levels or spheres of governance, including European, national, and sub-national arenas (Hooghe & Marks, 2003). This concept differs from classical approaches which explain the European integration at least in two respects: first, this approach does not consider the levels of governance as parts of a stable hierarchical arrangement. Instead, multi-level governance approaches assume that competencies between local, national and supranational governmental institutions are shifted not only upwards to the European Union but also downwards from the nation-states to regions and cities (Rosenau, 2003). Second, this approach is not limited to state-based forms of regulation, but includes the entire range of governance types, such as public-private partnerships and non-state regulation. As a consequence of these underlying assumptions, authority becomes dispersed both across multiple territorial levels and among a variety of private and public actors. In a multi-level system it becomes difficult to determine the boundaries between different policy arenas because actors pursue multi-level strategies such as venue shopping (Rosamund, 2004, p. 120) and may start parallel initiatives at different levels. Policy arenas are no longer confined to a specific level because local actors may work together with representatives of national bodies and the EU Commission. This creates new opportunities for local authorities, which can pursue their interests at both national and European level. In contemporary literature, the Europeanisation is often considered as a resource-dependent process. From this perspective it is mainly acknowledged via institutionalism prism which assumes that “institutions” (formal or informal organizational structures, procedures, norms, values or conventions) shape and constrain the behaviour of actors. Within this paradigm, inquiry into Europeanisation effects take the form of rationalist, sociological and historical institutionalism (Börzel, 2003; Börzel & Risse, 2000; Marshall, 2003; Marshall, 2004). However, there is an inconsistent and unsystematic theoretical picture in the varying explanations developed to explain the different impact of Europe on domestic structures. There are a number of studies which rely on the institutional compatibility of European and local arrangements, other focusing on the affected opportunity structures and interest constellations and others emphasizing the impact of European Union on the belief systems, ideas and expectations of domestic actors (Pacześniak, 2014). All this approaches support that the European Union can be conceived as a political and economic opportunity structure that changes the distribution of power between domestic actors, favoring one group over the other or increasing the mutual dependency between them. However, focusing on the European integration and convergence, they do not take into account the divergence, persistence, the varying responses and robustness of domestic political institutions and structures against the adaptational pressures of the EU. Having this in mind, proponents of intergovernmentalist approaches suggest that the Europeanisation enhances the autonomy of national governments vis-a vis local actors (Moravcsik, 1995). This argument is challenged by another group of scholars who, following neofunctionalist or supranationalist approaches to European integration, suggest that European policy making provides regions with additional resources, which enable them to bypass their national governments by gaining direct access to the European political scene. However, in a next step, the followers of this approach claim that the European integration does not equally strengthen the role of sub-national authorities in European politics. In contrast, they acknowledge that regions diverge in their capacity to use the resources offered by the European policy making (Jones & Keating, 1995). Finally, this group of scholars does not accept neither the strengthening nor the hollowing out of the state deriving from a zero-game approach but supports the emergence of a European system of multi-level governance where European, national and sub-national actors share the political power. In particular, this approach emphasises the lack of one authority and stresses a variety of combinations of governments on multiple layers of authority, that form policy networks (Hooghe & Marks, 2003).

However, considering today's socio-economic and political changes, linked to globalization, urbanization and demographic waves there is a limitation within discussions on Europeanisation. The current research on this does not enough ask what drives of the EU integration forward and what role the European cities could possibly play in this process. Although local politics is increasingly shaped by EU decisions, the Europeanization of cities has only emerged as a topic for analysis recently (John, 2000; Marshall, 2005; Kassim, 2005, pp. 303-307). Only few works have researched Europeanisation processes within cities (Heinelt & Niederhafner, 2008; Marshall, 2005), the implementation of EU legislation by local authorities, the allocation of Structural Funds and horizontal activities through local governance networks (Bartik *et al.* 2005). Notwithstanding the value of these studies, insights of isolated case studies remain partial and can hardly account for a differentiated picture of integration processes at the local level. That's why there is the need to pose a question, whether the very general concept of Europeanisation can be made more relevant to the urban context. It goes with the transition cities recently make from government to governance. As a normative concept, urban governance calls for inclusion, visionary leadership and enduring partnerships between private, social and public actors. The normative attraction of this shift from top-down government to participative governance is clear: it promises a focus on added value of the municipality, cooperation, increased autonomy and enhanced (financial) capabilities. In contrast to "government", the idea of "governance" involves working across boundaries within the public sector or between the public sector and private or voluntary sectors. EU-financed programmes, largely because of their requirements for long-term partnership working, force the expansion of the number of players at the local decision-making table, bringing non-governmental organisations, representatives from the community and voluntary sectors, business leaders, and other social partners into the increasingly complex world of urban governance (Marshall, 2003; Bache & Marshall, 2004). Other important characteristics of the urban governance approach are: a new political culture that allows a flexible and responsive administration, the structural participation of citizens (clients, users of the city), and decentralised decision-making mechanisms**,** or, as mentioned in the "White Paper on European Governance" (COM 2001, p. 428), openness, participation, accountability, effectiveness and coherence. The answer on questions above will allow to explore the role that member state actors (including cities) take up in the unique political system of the EU, and the drivers of domestic actors to get involved with the European Union, what can impact the European arrangements. Having this perspective, Bache and Jordan define Europeanisation more precisely as follows: "the reorientation or reshaping of aspects of politics in the domestic arena in ways that reflect the policies, practices and preferences of European level actors, as advanced through EU initiatives and decisions" (Bache & Jordan, 2004). This definition allows to specify new modes of governance on city level – urban governance – which entails both a reorganisation of established networks and alliances in the city as well as a reorganisation of the political-administrative system itself.

One of the first researchers who coped with Europeanisation of urban governance, Marshall (2003), derives his understanding of Europeanisation upon a New Institutionalist perspective, which implies that researchers must investigate the impact of "mediating institutions" at multiple territorial levels, as these attenuate processes of Europeanisation and ensure that unique and long-standing patterns of local governance are not subsumed into a single, reductionist paradigm. Building on a model articulated by Green Cowles *et al* (Cowles *et al.* 2001), he argues that Europeanisation at the urban level results in a four-stage pattern of interaction and adjustment (Marshall, 2004):

– EU Initiative (Structural Fund/Community Initiatives/Urban Pilot Projects);
– adaptational pressures ("degree of fit" between EU/domestic norms);
– mediating institutions (local, regional, national institutional context);
– urban structural change (institutional shifts / governance change).

In a more in-depth research Marshall and Bache define Europeanisation as "the redirection or reshaping of politics in the domestic arena in ways that reflect the policies, practices or preferences of EU level actors/institutions" (Bache & Marshall, 2004). Beyond this definition, they distinguish between "direct Europeanisation" – the intended impact of an EU initiative – and "indirect Europeanisation" – the inadvertent impact of an EU initiative. It is based on the assumption linked to the definition of Europeanisation proposed by Marshall, which refers to changes in policies and/or practices and/or preferences "in the domestic arena" rather than changes in "domestic policies and/or practices and/or preferences". Marshall and Bache (2004) make also a further heuristic distinction is drawn between "voluntary Europeanisation" (i.e., embraced by key domestic actors) and "coercive Europeanisation" (i.e., opposed by key domestic actors). According to them, there is a distinction here between direct and indirect impacts. Thus, "voluntary-direct Europeanisation" is the ready adoption of EU decisions in a given area (e.g., compliance with EU regional policy regulations); while "voluntary-indirect Europeanisation" refers to the adoption of EU preferences and/or practices and/or policies in another area (e.g. adopting EU approaches to regional policy in domestic regional policy). Similarly, "coercive-direct Europeanisation" refers to the forced acceptance of European preferences and/or practices and/or policies in a given area, while "coercive-indirect Europeanisation" links to spillover consequences of "coercive-direct Europeanisation" in one area to another (Bache & Marshall, 2004, pp. 5-6). Following this, Marshall proposes his own an understanding of Europeanisation with regards to urban governance and indicates four varieties of this processes in cities (Marshall, 2005):

– Europeanisation of local government ("download", "coercive-indirect" and "voluntary-indirect");
– Europeanisation of non-statutory actors involved in processes of urban renewal and governance ("download"; "voluntary-indirect");
– Europeanisation of local regeneration partnerships and networks ("download"; "voluntary-indirect");
– Europeanisation that engenders dissemination of local practices to the supranational level, and thus to other cities via trans-national networks ("upload" and "crossload"; "voluntary-direct").

Considering the next important aspect of Europeanisation with regards to urban governance, depicting the scope of this processes, that is the "deepness" of the EU impact on domestic policies and political structures, is one of the major issues in the current debate on Europeanisation. Scholars on this have offered a variety of classifications, which try to capture a spectrum ranging from the absence of change to far-reaching transformation. (Börzel, 2003, pp. 15-19; Börzel & Risse, 2007; Radaelli, 2006). One of them is the classification made by Börzel (2005). She proposes to take into account following waves of impact, that the European Union has on cities (Börzel 2005):

– inertia: it refers to the absence of change, however not as a result of a fit between European and urban policies or institutions that may reaffirm existing arrangements. Rather, adaptations necessary to meet European requirements are resisted, even leading to non-compliance with EU legislation;
– absorption: cities incorporate EU requirements into their institutions and policies without substantial modifications of existing structures and the logic of political behavior; the degree of change is low;
– accommodation: cities accommodate European pressure by adapting existing processes, policies and institutions in their periphery without changing core features and the collective understandings attached to them. One way of doing this is by 'patching up' new policies and institutions on existing ones without changing the latter; the degree of urban change is modest;
– transformation: cities replace existing policies, processes and institutions by new, substantially different ones to the extent that their core features and/or the underlying collective understandings are fundamentally changed. The

degree of urban change is high, affecting the core of political, economic and social structures.

Dimensions of Europeanisation in the Context of Urban Governance

There are three dimensions of Europeanization, which appear to be most relevant for the Europeanization of cities with regards to a set of questions which can be posed for the urban governance:

– the top-down perspective: How do EU regulations, particularly EU Structural Funds programmes, impact the local governance? Do they result in new forms of urban governance? Can EU membership significantly influence the way in which cities are governed?
– the bottom-up perspective: Why and how get cities involved with the European Union? What explains the particular profiles of their EU involvement?
– horizontal perspective: What kind of initiatives undertake cities to cooperate without the participation of the European Union? What is a key driver for this cooperation? What are new participatory arrangements?

A definition developed in the context of top-down Europeanisation holds that this is “the redirection or reshaping of politics in the domestic arena in ways that reflect the policies, practices or preferences of EU level actors/institutions” (Bache & Marshall, 2004; Marshall, 2004). This dimension of Europeanization is the dominant approach and concentrates on the implementation of EU decisions in the Member States, in particular on the dimensions and mechanisms of domestic change. As most EU regulations are ultimately implemented at local level, this perspective is of enormous interest in relation to the Europeanization of cities. From this perspective, local authorities are regarded as part of a hierarchically structured nation-state. Although they are in charge of implementing European legislation, they do not have direct access to EU decision-making. Thus, from this point of view, local authorities are considered as affected objects rather than active subjects (Heinelt & Niederhafner, 2008). This approach argues, that different political structures of each member state operate as a filter, which refracts Europeanisation in different directions and styles. The proponents of this approach stress the ways and the degree in which the European policy has had a differential impact, with domestic responses to EU policies varying considerably across policies and countries (Börzel, 2003; Börzel, 2005). Marshall’s notion of this direction of Europeanisation is “Download Europeanisation”. It assumes changes in policies, practices, preferences or participants within local systems of governance, arising from the implementation of EU programmes and initiatives. This – in his opinion – principal form of urban Europeanisation, is explored with regard to local authorities, NGOs and regeneration partnerships. Although catalysed initially by “coercive indirect” pressures for joined-up working, this top-down variant has been largely “voluntary indirect” in nature, with urban actors and institutions adjusting their procedures and operations to take advantage of EU funding (and opportunities to increase their political clout) (Marshall, 2003, 2008).

On the other hand Europeanization is certainly more than a top-down exercise dominated by Brussels. Europeanization does constrain cities, but also provides them with new opportunities. One can ask why and how cities get involved with the European integration, and in particular what explains the specific profiles of their EU engagement. When cities develop their own initiatives and try to influence EU decisions directly, they change from being policy-takers to policy-makers and become actors in the process of European integration. In many areas cities have developed from policy-takers to active players in the EU multi-level system. They have opened offices in Brussels, founded transnational city networks and tried to gain direct access to European institutions. Although local authorities have not been mentioned in the existing treaties, they have become more important at the European level. Institutional changes include the establishment of the Committee of the Regions, the inclusion of provisions referring to local authorities in the draft of the Lisbon Treaty, and the introduction of a systematic dialogue with the European and national associations of regional and local authorities. By directly linking its activities to the local level, which is the level closest to the people, the Commission hopes to improve the legitimacy of EU decisions and counterbalance the widely discussed democratic deficit. Any involvement of urban actors in European initiatives and every extension of EU legislation to subnational territorial units can result in new expectations and interests on behalf of the local actors vis-á-vis the European level. It nevertheless keeps in mind that a purely “Top-Down” perspective is not sufficient to fully capture the dynamics of interaction in the system of European multi-level governance due to the fact, that the emerging engagement of cities at the European level opens up new transnational spaces for local actors. From this point of view the Europeanization of cities is not a problem but provides cities with new opportunities. Marshall calls it “Upload Europeanisation” at the urban level, what assumes the transfer of innovative urban practices to the supra-national arena, resulting in the incorporation of locally inspired initiatives in EU programmes or other urban frameworks. In his opinion this variant, which encompasses horizontal transfer or “cross-loading” between cities as well as “upload” to the European policy stage, addresses the less-ubiquitous literature on Europeanisation as policy transfer (Marshall, 2003, 2008). Thus, from the bottom-up perspective, cities try to participate in European policy-making, e.g. by influencing the positions of their national governments or directly lobbying EU institutions according to their own policy preferences. Participation in trans-national organisations and networks enables cities to make their presence felt at EU level. Even supposedly symbolic arrangements, such as twinning and cultural exchange, foster changes in the behaviour of urban actors in relations with European institutions. In short, instead of remaining at the receiving end of European policies, cities strive to become (pro-)active actors in the political system of the European Union as well. They aim to spread best-practice lessons through trans-national networks or to influence the EU’s emerging urban policy agenda. On the other hand, it seems, the opportunities for cities to gain access to decision-makers in Brussels have improved considerably over time. Today, the European Union provides an opportunity structure which allows cities and their representatives to gain access to different EU institutions. National and European local government associations have, therefore, become more active in Brussels in recent years.

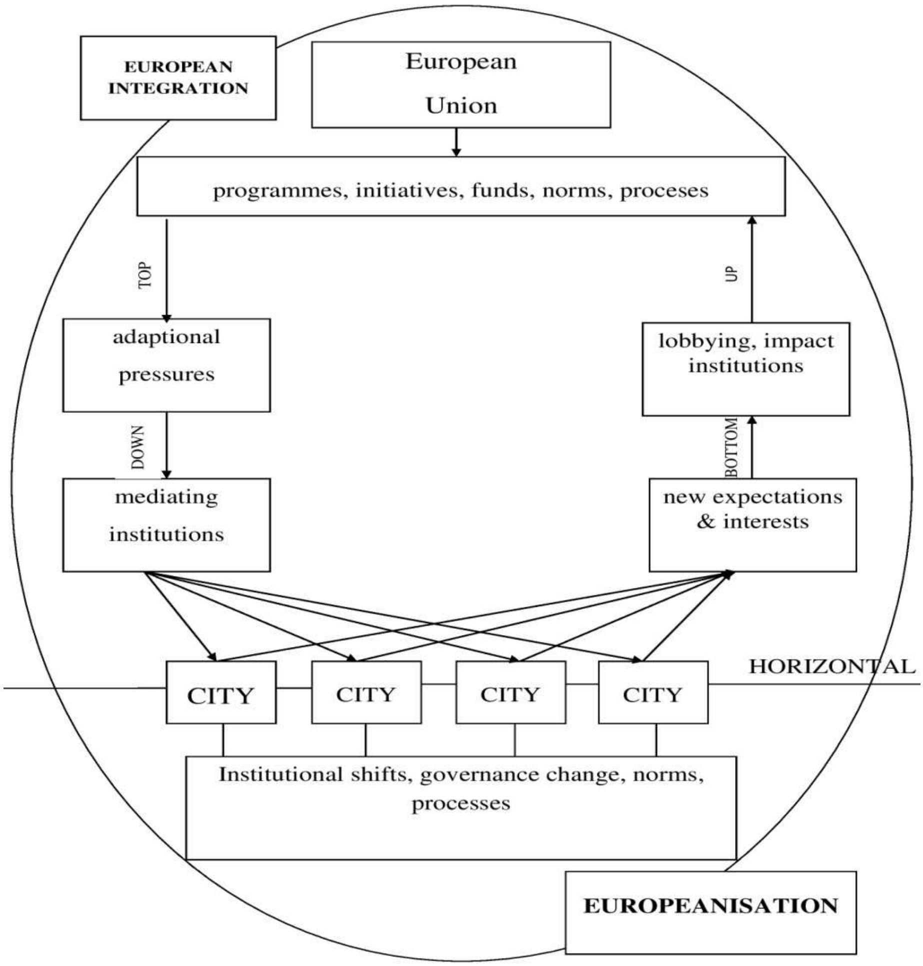

Figure 3.1. Dimensions of Europeanisation at urban level
Source: Own elaboration based on Börzel (2003), Marshall (2004, 2005).

P. John states, that Europeanisation at the local level has both "Top-Down" and "Bottom-Up" components. In his opinion, it is s "a process whereby European ideas and practices transfer to the core of local decision-making as well as from local policy-making arenas to the supranational level. The European function is a means whereby public authorities can innovate and initiate policies and programmes in the context of trans-national co-operation and European policy-making" (John, 2001, p. 73). This theory explains Europeanization as the result of a bidirectional process where member states shape EU policies and institutions by 'uploading' their own policies and institutions to the European level and then adapt to outcomes made at the EU level by 'downloading' EU policies and institutions into the domestic arena (Quaglia *et al.* 2007, p. 406). Following this, within the research on Europeanisation on urban governance many scholars found more variable dimensions on this aspect while observing that effects of top-down Europeanization have been altered because cities have started to bypass nation-states (Bartik, Dangschat, Hamedinger *et al.* 2005) (Figure 3.1).

The Europeanisation "Top-Down" or "Bottom-Up" or "Top-Down and Bottom-Up" assumptions leading to the study of the vertical relations between regions, nation states and the European Union as well as to their transformation, are recently enriched by studies focusing more systematically on the horizontal changes of domestic urban policy process due to the impact of EU policy. Europeanization on urban governance can take place even if the EU institutions are not directly involved in the process. The multi-level institutional ties between diverse organisational bodies (EU, nation states, regions and local governments) contain no clear hierarchy: they also involve private sector actors and parts of civil society in themselves managing what used to be provided by the national or local government. Compared to hierarchy-based arrangements in which top-down relations set rules in a relatively bureaucratic manner, this type of governance arrangements (governance-beyond-the-state) rules with more participatory, inclusive networked relations between socio-cultural, political and business elites where trust among the stakeholders is high, despite conflicts and oppositional agendas. In Europe, there are various forms of best practice transfer between Member States, between regions in different Member States, and between cities in different countries. EU programmes initiate or accelerate new horizontal forms of urban governance. This entails a shift from traditional top-down decision-making centred on public administration and municipal government towards governing through broad, complex and informal coalitions of public and non-public actors. As decision-powers of the local authority are increasingly shared with nongovernmental interests, the municipality adapts to a new role of steering, mediating or facilitating policy processes. Furthermore, horizontal governance encompasses the creation of new networks including actors from the political-administrative system, from (neo-)corporatist organisations, the business sector and civil society. Horizontal governance structures can also emerge within the domain of public administration, as new forms of cross-departmental cooperation are instigated by the EU programmes. They induce new ways for incorporating actors from civil society in political decision-making at the local level. New participatory arrangements and participation processes increase the access to local political-administrative systems for citizens possessing different economic, social and cultural capital. Networks among public authorities, social partners, non-governmental and community organisations as well as private business further reinforce citizen involvement. From the perspective of Europeanisation on urban level one can state, it today's reality cities governments maintain a myriad of relationships with their citizens, some direct and vertical, other straightforwardly horizontal in terms of "negotiative administration". Although EU institutions play either no role here or merely a facilitative one (e.g., through project funding), this is an important, still increasing, aspect of Europeanization at urban level. In recent years the European Union has developed an approach which systematically supports the exchange of experience, learning from peers, and best practice transfer. As European towns and cities face similar challenges, they have developed strategies to facilitate best practice transfer. They cooperate transnationally, exchange experiences and jointly develop innovative solutions. Urban policies are evolving towards the creation of more integrated strategies for regeneration that involve not only multiple public stakeholders, but also private actors including social and community organizations. Although this dimension of Europeanization can also be found at Member State level, at which various transnational and transgovernmental networks have thrived in recent years, horizontal Europeanization appears to be even more important at local level. Strategies ranging from city twinning to the establishment of transnational city networks constitute another dimension of the emerging foreign policy and para-diplomacy of European cities. Looking ahead, this is one important trend which is going to develop within Europeanisation on urban governance.

Perspectives of Urban Governance in Europe: towards Integrated Smart Urban Governance

However, the is an another parallel developing trend which can be observed at cities level in Europe. Various local actors have undertaken considerable efforts to incorporate the tenets of multi-level European governance in realizing integrated policies in cities to meet the challenges of globalizations and Europeanisation. Today's urban development refers to the demographic, social and economic development of cities, which leads to spatial expansion and change. Thus, cities need to break away from compartmentalised approaches and to integrate formerly fragmented policy actions by taking the spatial, economic and social dimensions of urban development into account; an approach that will help them to integrate all these dynamics, activities and services. Key principles of integrated urban policy are (Parkinson, 2005, p. 18):

- policy should focus upon economic competitiveness, social cohesion and environmental sustainability to achieve balanced development; policy needs to focus upon opportunity and need at the same time in order to promote successful cities;
- policies should recognise that liveability as well as economic success is crucial to peoples' choice of places in which they want to live – this leads to a concern with the public as well as the private realm and the quality of services offered as opposed to simply the economic opportunities that are offered;

- cities and neighbourhoods must become places of choice and connection rather than compulsion and exclusion; successful cities remain or become attractive to a richer economic and social mix of people and communities;
- cities are important as sources of identity and connection between communities and cultures they can encourage social integration, community engagement and cultural recognition.

There are further basic principles of integrated urban governance (*Integrated Urban Governance* 2011, p. 11):

- decisions made close to the citizens and subsidiarity as a principle within the city: decisions should be made as closely as possible to the place in question (e.g. in the neighborhood), because this is where the greatest likelihood exists of responding as appropriately as possible to local conditions;
- systematic approach: what is required is not action based on an individual instance, but on the contrary to take stock of what already exists and determine priorities in tackling issues;
- integrated action: problems are approached in a holistic way and through cooperation between the separate specialist departments, because this creates synergetic effects and reduces negative side-effects on individual sector or department based administrative measures;
- client orientation: members of the general public are not objects to be dealt with by administrative action, but are perceived as the government's customers or clients with their own particular interests and requirements, to which government will respond fairly;
- public participation: decision making does not take place in the isolation of the drawing board, but on the contrary everyone, local residents and members of the general public are included – men and women, older and younger people;
- enabling and empowerment: those interest groups which are not able to articulate their needs sufficiently in the public domain will be supported and strengthened. All residents, male or female, migrants and non-migrants, will assume responsibility for their actions and for responding to needs;
- management approach: all government bodies will adopt management qualities.

An integrated urban development approach is based on social policy innovations. It emerged as an alternative urban policy approach due to its participatory dimension. It develops social policy innovations through grassroots-based, bottom-up actions of governance institutions and spaces. An integrated approach aims at horizontal and vertical cooperation. This not only means the incorporation of diverse sectoral policies (such as employment, education, environment, culture, spatial policy, social policy) at different organisational levels (local, regional, national and intergovernmental) to achieve a holistic territorial policy approach. Coordination between sectoral (economic, social and spatial) policies, strong horizontal partnerships, increased local responsibilities and the concentration of funding on selected target areas is needed to achieve smart and sustainable communities. A well as the effectiveness of top-down designed instruments has been recognized as a doubtful in a multicultural and multinational setting such as European Union, coordination, cooperation, participation and integration are acknowledged to be key principles of the multi-level urban governance approach (Tasan-Kok & Vranken, 2011).

According to many theoretical approaches, key mechanisms for effective urban development upon Europeanisation from current perspective are (Parkinson, 2005, pp. 19-20):

– urban policy must support both places and people: it is possible and desirable to have strategies that focus upon individual needs but also upon the social and physical infrastructure which make cities attractive in the long term;
– urban policy should adopt an integrated approach and recognise the linkages between housing, education, transportation, security, health and welfare policies, rather than treating them separately;
– mainstream government departments' programmes and resources are as crucial to cities as special urban initiatives – governments have to developed special urban programmes for particular areas or particular policy sectors;
– cities and urban policy must have long-term support rather than short-term interventions;
– policy should balance leadership from the top by national government with leadership and engagement from below by community and local partners – government must give strategic leadership, vision and long-term commitment to sustainable development; but the full engagement of citizens and communities is crucial to the successful ownership and implementation of sustainable urban development;
– government should build long-term contracts between different partners and levels of government, focusing upon the outcomes of policies rather than upon short-term policy inputs – governments increasingly recognise that they have to work in long-term collaboration with partners.

Within the European Union as well there have been many political pronouncements, documents, research projects and so on, which see in integrated urban governance a key approach for more smart urban development and for "good governance". Since late nineties a number of EU programmes were created which promote integrated urban governance. While knowing this, by adopting a series of formal documents on urban development policies, the EU has emphasised the complex nature of urban issues and recognised the need for a integrated and holistic approach. The regulations, undertaken within informal ministerial meetings, include:

– *Lille Action Programme,* a multi-annual programme of cooperation in urban affairs in the European Union coping with co-operation on urban and spatial Development (LAP 2000);

- *The Urban Acquis* from Rotterdam, recognizing "the importance of the contribution that cities can and do make to the economic, environmental and social success of Europe" (UA 2004);
- *The Bristol Accord* (BA 2005) highlighting the importance of sustainable communities for Europe´s further development and setting out the characteristics of a sustainable community;
- *The Leipzig Charter on Sustainable European Cities* (Leipzig Charter 2007), pointing out the importance of "making greater use of integrated urban development policy approaches" and the need "to pay special attention to deprived neighbourhoods within the city as a whole";
- *The Territorial Agenda* (TA 2007), placing the issues faced by cities, towns and urban areas into the context of territorial cohesion;
- *The Marseilles Statement* (MS 2008) asking for the implementation of the Leipzig Charter principles by developing a common European Reference Framework for Sustainable Cities;
- *The Toledo Declaration* (TD 2010) acknowledging the role that European urban areas, cities and towns can play in achieving the aim of smart, sustainable and inclusive growth as pursued in the Europe 2020 Strategy; emphasizing the significance of integrated urban development as a tool for achieving the Europe 2020 Strategy objectives; and calling for a real partnership with European urban areas, cities and towns in its implementation, with the aim of empowering them to tackle future challenges and to unlock their potential, continuing to strengthen public support for sustainable urban policies across the EU.

A set of interconnected common, urban and thematic objectives are defined by those and also by other documents at the macro level:

- to create integrated and sustainable urban development with a set of economic, environmental and social principles;
- to increase participation and cooperation at multiple levels of governance;
- to pay special attention to disadvantaged neighbourhoods.

The *Europe 2020* Strategy emphasises three mutually reinforcing priorities of the EU to become a smart, sustainable and inclusive economy. Seen from this perspective, urban development in the member states can be (COM 2010):

- smarter: if a multi-dimensional policy approach (taking into account policy context, administrative capacity and integration) for multilevel governance is followed, and if this approach is less bureaucratic, locally defined, easy to understand, easy to process and focused on direct results;
- more sustainable: if policies are designed to create resilience and increase preparedness for coping with social, economic or ecologic threats;
- more socially inclusive: if cities are better prepared to highlight the positive aspects of a multicultural European society that supports strategic participatory approaches.

Integrated urban governance implies going beyond mere coordination between policies, and thus encompasses joint work among sectors and disciplines. It refers to both horizontal integration between policy sectors (different departments) and vertical intergovernmental integration (between different tiers of government), as well as beyond administrative boundaries (in the double sense: city administration – regional / national administration and administration – civil society). Integrated urban governance is an essential pre-requisite in order to face the many challenges with which today cities all over the world are confronted. Integration is, however, a challenging task to put into practice. This praxis shows that integrated policy making has four core elements or fields of action: public participation, political and organisational arrangements beyond city boundaries, political and organisational arrangements within city boundaries, capacity building. For this approach are crucial (*Integrated Urban Governance* 2011, p. 15):

– coordination between the separate specialised departments of municipal authorities;
– coordination between various levels of government and authorities (e.g. district or borough – municipality – region – country);
– political control in order to achieve (overarching) policy objectives;
– new decision making structures and/or institutional changes in municipal authority bodies, including or incorporating civil society and/or business in making and/or implementing decisions;
– holistic political strategies oriented more closely towards the complex sources of problems and towards inhabitants' conditions of life.

Thus integrated urban governance is a management approach in its core. It concerns management of cross-cutting issues in policy making that transcend the boundaries of established policy fields. It also includes management of policy responsibility within a single organisation or sector. Integrated governance refers to both horizontal integration between policy sectors (different departments) and vertical inter-governmental integration (between different tiers of government), as well as beyond administrative boundaries (in the double sense: city authorities – regional / national level administration and administration – civil society). In spite of this ambitious definition, in real world processes, a hierarchy of cooperative approaches may be observed (Stead & Geerlins, 2005, pp. 446-449):

– cooperation: at the lowest level simply implies dialogue and information;
– coordination: policy coherence and consistency imply cooperation and transparency, and an attempt to avoid policy conflicts;
– policy integration: joined-up policy and decision making; includes dialogue, information, transparency, and avoidance of policy conflicts (as in coordination) but also embraces joint working, creating synergies and using common policy goals.

In current perspective 2014-2020, cities are key partners in delivering the "Europe 2020" strategy goals for smart, sustainable and inclusive growth. That's why there is a need to keep and enhance the attractiveness of European cities as places where people like to live, work and invest. Thus, the EU empowers and supports cities in their efforts for supportive and complementary urban policies and programmes which allow for innovative approaches, which are integrated, smart and local tailor-made.

During the perspective 2014-2020, the integrated urban policies should be implemented under the motto of "smartness", as it has been programme within the "Europe 2020". In the scientific literature, there is no one definition of the notion "smart city": one can find mixing different concepts (e.g. investments in social capital, sustainability, quality of life, modern ICT infrastructure, "green city"). It is problematic to create an unambiguous definition of what elements make up "smart cities". The ambiguity of understanding of the notion is related to its specialization: while "knowledge-based cities" focus mainly on education, intellectual capital development, continuous learning, creativity and maintaining a high level of innovation, a factor in the development of "digital cities" are, in turn, information and communication technologies. However, „ecocities" concentrate on the use of renewable energy sources and focus their efforts on protecting the environment and its resources. Basically a "smart city" must combine all the elements mentioned above. Upon Europeanisation it should meet certain economic requirements and have the ability to compete with other cities in the global knowledge economy. The fulfillment of these criteria and maintain a high level of performance requires above all continuous learning, appropriate innovation culture, cooperation and partnership between local authorities and the various groups of users of the city (Murray, Minevivh & Abdoullaev, 2011, p. 20). Giffinger *et al*'s (2007, p. 11) definition considers smart as performing in a forward-looking way. The forward-looking development approach to a smart city considers issues, such as, awareness, flexibility, transformability, synergy, individuality, self-decisiveness and strategic behavior. The specify six dimensions of a „smart city" (Giffinger *et al.* 2007):

- „smart economy": the city should have a high productivity, climate for innovation and labor market flexibility;
- „smart mobility": ITC sector through the city is a giant network of high-speed links connecting all the resources of the city;
- „smart environment": a smart city optimizes energy consumption, including through the use of renewable energy sources, it has taken action to reduce the emission of pollutants into the environment and resource management is based on the principle of sustainable development;
- „smart people": initiators of change in cities should be their inhabitants, who, with appropriate technical support, are able to prevent excessive energy consumption, pollution and strive to improve the quality of life;
- „smart living": a smart city provides its residents with a friendly environment, in particular by providing broad access to public services, technical and social infrastructure, a high level of security and with an appropriate

range of culture, entertainment, as well as care for the environment and green areas;

– „smart governance”: development in this aspect requires an appropriate system of city management, developing procedures requiring cooperation of local authorities and other users of the city and the use of modern technology in the functioning of the city.

A new approach to urban governance, which has to be integrated and smart, assumes a new type of system performance of the cities in which the local government, while specifying public tasks, sets quality standards and the expected results of the services provided.

3.3. CONCLUSIONS

Cities are not only defined territories, but also centres and nodes in the system of global, European, regional and/or local networks, which are driving forces of growth, a place of creativity and innovation. They are key centres of management and leadership in the public and private spheres, and the concentration of capital. With regards to cities, Europeanisation results from intensified political and economic interaction between actors at every conceivable territorial level. Analyzing this process is challenging because it requires releasing the complex and dynamic relationship between three actor groups: i.e. the EU institutions, its 28 EU Member states, and about 100,000 local authorities in the Member States. Despite the formal hierarchical structure of the state-local relations which means that cities are part of the Member States in formal terms, they have developed effective strategies to bypass them. The European integration has led to a manifold and far-reaching involvement of cities in policies devised at the European level. In many respects cities have become the concrete, practical testing grounds for EU rules, strategies and programmes. Being affected by the European integration in such a pervasive way, cities have long been trying to define their interests vis-á-vis the European level, to develop and promote their own European agendas and to elevate their role in EU decision-making. However, in spite of the growing visibility of cities as actors on the European stage and of urban issues in EU policies and the pervasiveness of the European Union in local affairs the effects, processes and democratic quality of these interactions are not yet well understood. Therefore, the analysis of the Europeanization of cities requires a better understanding of the dynamic development of EU-local relations and their echo for both the relations between the EU and its Member States and local government - state relations within Member States. This paper argues that, thanks to the unique role played by cities in both territorial and political hierarchies, it is critical to investigate Europeanisation at urban level in order to develop a more complete understanding of the EU impact on local politics and policy-making. The above discussion has demonstrated that it is possible to identify three dimensions of urban Europeanization: top-down Europeanization, which limits cities to implementing EU legislation; bottom-up Europeanization, which states that cities have started to bypass the nation-states and influence EU decision-making directly; networking between cities fosters horizontal Europeanization, which does not require a direct involvement of the European Union. These diverse points of contact between the European and urban territorial systems show that Europeanisation at cities level is not an easily definable or reducible phenomenon, nor can it merely be subsumed into broader discussion on regional Europeanisation. In short, Europeanisation requires an analytical paradigm that enables researchers to test the performance of EU influences on local institutions and actors. While it remains an open question as to how the long-term development will look, recent developments show that horizontal Europeanization, which does not necessarily require direct EU intervention, has crucial impacts on subnational governance and subnational mobilization. In this context, the trend towards integrated smart urban governance is surely increasing and developing.

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4

Europeanization of Industrial Policy: Towards Re-Industrialisation?

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Summary:

Following the period of fascination with services, European politicians started seeking ways to induce economic growth through backing the industry. The trend was launched in the times of economic crisis in the first decade of the 21st century; however, attempts to give it flesh were made in Europe 2020 Strategy. As a result of economic crisis, instead of introducing modern solutions that would facilitate the functioning of the EU internal market we witnessed reinforced protectionist and interventionist tendencies. Vague activities of the European Commission over the period 2010-2014 were framed in an idea of reindustrialisation as an active interference with the development of industry. Nevertheless, the proposal of setting a political objective of 20% share of industry in the GDP raises methodological and economic doubts. The new Economic Commission seems to be doing away with this approach by stressing the need to take a comprehensive approach to the internal market of goods and services and to link them into an integrated product market with business-friendly rights and obligations.

Keywords: Europeanization; European Union (EU); industrial policy; re-industrialization
JEL classification: F02, F15, D02, D79

4.1. INTRODUCTORY REMARKS

There are various definitions of industrial policy in the literature. According to McKenzie national industrial policy is a rubric for a broad range of proposed economic reforms that emerged as a unified political programme in the early eighties. Thus industrial policy proponents generally believe that government should be directly involved in establishing national industrial goals and in assuring that the goals are achieved (McKenzie, 1993). In so doing, policy-makers usually draw on extant ideas from economic theory, political economy, international experience and even conventional wisdom and common sense (Glykou & Pitelis, 2011, p.

461). One can observe that industrial policy seems to be a reflection of economic nationalism, with nationalism understood to mean giving priority to the interests of one's own nation but not necessarily involving protectionism, trade controls, or economic warfare (Johnson, 1982, p. 26). Another approach to industrial policy refers to it as a policy for economic restructuring in favour of generally more dynamic activities. The nature of industrial policy is that it complements market forces through reinforcing or counteracting the allocation effects that the existing markets would otherwise produce. The conventional approach to industrial policy consists in enumerating technological and other externalities and then targeting policy interventions on these market failures (Rodric, 2007, p. 100). The ubiquity of increasing returns and external effects in industrial production is usually cited in favour of government intervention, whilst the absence of entrepreneurship or a desire to prevent the concentration of economic power in a few private hands is taken to require the more direct involvement of governments to establish state-owned industrial enterprises. Moreover, the traditional task of the government in promoting industrialization is establishing and maintaining the country's infrastructure (Lal, 1997, p. 127). It is worth noting that the simplest form of industrial policy, that of subsidizing industrial activities directly (through tariffs and trade policy (protection), tax reliefs, subsidies of various forms, export processing zones) would follow from welfare economics if industry generated positive externalities (Robinson, 2009, pp. 3, 10-11). On the other hand, opponents would say that industrial policy consists of unneeded and very costly governmental interventions which disturb competition. Thus governmental failures are bigger than market failures. Economic neoliberalism refers to a variant of neoclassical economics based on the faith in a natural, spontaneous, self-organizing order in market economies. The corollary is faith in government incompetence to improve market outcome through 'interventions' (Wade, 2012, p. 224).

Seeking a theoretical base for a new industrial policy it should be noted that in recent years we can observe a servitization process, which is understood as adding value to the core corporate offerings through services. Modern corporations are increasingly offering fuller market package of customer-focused combination of goods, services, support, self-service, and knowledge. Thus the dividing line between traditional manufactures and service providers is much less clear (Vandermerwe & Rada, 1988, pp. 314-315). Moreover, servitization values asset performance or utilization rather than ownership and achieves differentiation through the integration of product and services that provide value in use to the customer (Baines et. al. 2007, p. 1547). It seems that servitization extends the reach of the manufacturer ever closer to the customers and the customer's underlying needs (Schmenner, 2008, p. 431).

Therefore the new concept of a new industrial policy in the European Union is worth analysing, taking into account liberal approach of the treaties, post-crisis interventionism in the EU Member States and servitization process in globalized world. The objective of our paper is to verify the thesis about the sense of reindustrialisation (i.e. adopting a new industrial policy in the EU) as an instrument ensuring economic growth and new jobs. The idea of a new EU industrial policy emerged only recently (Aghion et al., 2011; Dhéret et al., 2014). Its foundations trace back, on the one hand, to the Treaty provisions (Art. 173 of the Treaty on the Functioning of the European Union), clearly strengthened after the adoption of the Lisbon Treaty, which also specified much more precisely the role of the European Commission. Simultaneously, the economic crisis of 2008-2010 intensified interventions undertaken by the EU Member States into their respective national economies, both through protectionist measures and by subsidising domestic entrepreneurs. On top of that, the new rules of the state aid policy for the period 2014-2020 launched a political debate on the role of governments in supporting the economy. Political attitude of the European Commission headed by J.M. Barosso with some commissioners openly favouring interventions into free market competition (Ambroziak, 2012a, 2014a, 2014b) did not go unnoticed. Although such postulates have been moderated by the new Commission of J.C. Junker (Junker, 2014a), Member States expectations vis-a-vis the EU industrial policy have remained unchanged and will be voiced both in the Council and in the European Parliament or in a parallel debate going on in other public fora.

In order to achieve the proposed objective we examined the evolution of the legal basis and the remit of EU institutions with respect to the industrial policy. Moreover, we analysed changes in political concepts over the years 2010-2014 as regards the new EU industrial policy highlighting the positions of the European Commission and interested Member States. Further on, we examined the goals and targets, as well as, proposed instruments of the industrial policy from the point of view of their economic rationale and potential effect on the EU growth. The paper seeks to test the validity of the following research hypotheses formulated in the course of political debate on the idea of the new industrial policy:

- **H1**: Manufacturing sector contribution to the GDP has been diminishing considerably in recent years posing a threat to growth and economic development.
- **H2**: By increasing the share of manufacturing in the GDP to 20% until 2020 we will ensure economic growth.
- **H3**: Economic crisis was less severe in countries with higher manufacturing sector contribution to the GDP.
- **H4**: There is a need for a sectoral approach (instead of a horizontal one) to industrial policy of the EU.

To test the above presented hypotheses we analysed changes in the GDP structure (share of the service sector in GDP) in the European Union (broken down into groups of Member States) against the background of other global economies (United States, Japan, China, Brazil, India, Russia, and South Korea) in the years 2000-2013. As a result, we were able to position the EU amongst leading global economies and to assess potential directions of proposed interventions within the framework of the new concept of the industrial policy. We also managed to grasp correlation between the change in the share of manufacturing and industry-related services in Gross Value Added within the period covered by the study. Additionally, we identified changes in directions and trends, which emerged during and after the economic downturn of 2008-2010. An attempt was also made to answer the question whether, in the face of significant differences in economic development and GDP structure in individual EU Member States, adopting a new, common (unified) sectoral industrial policy that would replace national interventions makes sense at all. With a view to take account of the consequences of both the accession of new Member States after 2004 and the economic crisis of 2008-2010 the period covered by the study has been decided to include the years 2000-2013. Data originate from the World Bank and from Eurostat databases.

4.2. THEORETICAL BACKGROUND

Legal Framework for a New Industrial Policy

The first political documents concerning European integration did not provide detailed and advanced concepts of an industrial policy. The Schuman Declaration of May 9, 1950 stated that peace in the world would be achieved by placing Franco-German production of coal and steel as a whole under a common High Authority what should allow setting up of common foundations for economic development as a first step in the federation of Europe. Moreover, it was underlined that the Ruhr, the Saar and French industrial basins would work together for common goals. These statements are of an extreme importance to the EU today. They demonstrate that the coal and steel industry was treated as the basis for early European economic integration at the beginning of the 1950s. The above-mentioned Declaration also characterized the future organization as a powerful productive unit, open to all countries and established the condition that members of it should desire to take part and be bound ultimately to provide all the Member States with basic elements of industrial production on the same terms, which would lay a true foundation for their economic unification. The Schuman Declaration, although very political and general, nevertheless provided some detailed objectives, including:

– the modernization of production and the improvement of its quality;
– the supply of coal and steel on identical terms to the markets of all Member States;
– the development in common of exports to other countries;
– the equalization and improvement of the living conditions of workers in these industries.

These objectives were implemented into the Treaty establishing the European Coal and Steel Community (TECSC). It is worth noting that the TECSC identified some specific competences of the Community institutions, i.e. (a) to verify that there were conditions which would encourage enterprises to expand and improve their ability to produce and to promote a policy of rational development of natural resources, avoiding inconsiderate exhaustion of such resources and (b) to promote the regular expansion and the modernization of production as well as the improvement of its quality, under conditions which preclude any protection against competing industries except where justified by illegitimate action on the part of such industries or in their favour. Moreover the Treaty allowed the High Authority (predecessor of the European Commission) to facilitate the carrying out of investment programs by granting loans to enterprises or by giving its guarantee to loans which they might obtain elsewhere. It is also interesting that the High Authority could assist by the same means in financing works and installations which contributed directly and principally to increase production, lower its costs or facilitate the marketing of products. However, if the introduction of technical progress or new equipment within the framework of the general programs of the High Authority should lead to an exceptional reduction in labour requirements in the coal or steel industry, special actions were allowed, including non-reimbursement assistance. It should also be mentioned that provisions concerning special arrangements for the coal and steel industry were justified by economic and social downturn during the Second World War. Moreover, they can be treated as a preliminary exercise and capability test of close cooperation in a given sector before widening the European integration in other economic and social sectors.

It is worth noting that the next Treaty establishing the European Economic Community (EEC) was based on a horizontal approach to economy, with the exemption of common agricultural policy, and thus comprised no provision on industrial policy. In the EEC Treaty of 1957 there were some references concerning the development of competitive conditions within the Community to the extent to which such development would result in the increase of the competitive capacity of the enterprises. However, they were mentioned in relation to the establishing of a common customs tariff and common commercial policy (some others were linked to the antimonopoly law).

Only at the beginning of 1990s, based on the Treaty on the European Union of 1992, some new paragraphs on industrial policy were introduced. One of them was a new article 130 of the TEC (Treaty establishing the European Community) which stipulated that the Community and the Member States shall ensure that the conditions necessary for the competitiveness of the Community's industry exist and all activities should be taken in accordance with the system of open and competitive markets, thus any measures should not lead to the distortion of competition and shall be aimed at, i.a.:

– speeding up the adjustment of industry to structural changes, which should direct all relevant actions to follow new trends (e.g. globalization, outsourcing, offshoring and servitization);
– encouraging an environment favourable to initiative and to the development of undertakings and cooperation between companies;
– fostering better exploitation of the industrial potential of policies of innovation research and technological development.

The Treaty provided that Member States should coordinate their actions and the Commission might take any useful initiative to promote such coordination. The aforementioned provisions were strengthened by the Treaty of Lisbon, which extended the EU competences to carry out actions to support, coordinate or supplement the actions of the Member States in the field of industry by giving more power to the European Commission. On the basis of art. 173 of the Treaty on the Functioning of the European Union (TFEU) it can establish guidelines or indicators, organize the exchange of best practices, and prepare the necessary elements for periodic monitoring and evaluation.

Apart from paragraphs of the TFEU directly referring to industrial policy there are some other provisions which can have an impact on the EU entrepreneurs. On the basis of art. 26 of the TFEU the Union shall adopt measures with the aim of establishing or ensuring the functioning of the internal market. Art. 114 of the TFEU provides that in order to achieve these objectives the European Parliament and the Council shall, acting in accordance with the ordinary legislative procedure adopt legislative acts for the approximation of the law, regulations or administrative actions in Member States. Although harmonised EU legal framework and liberalisation within the internal market can positively affect entrepreneurs' competitiveness, art. 114(3) of the TFEU reads that the Commission, in its proposal on aforementioned harmonisation concerning health, safety, environmental and consumer will take as a base a high level of protection.

This provision is in line with one of the main goals of the EU (art. 3(3) of the Treaty on the European Union): establishing an internal market which "shall work for the sustainable development of Europe based on a high competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It is worth noting that there are many detailed explanations and justifications for such a broad concept of public interest protection, while the concept of "competitive social market economy" is not described in details in the Treaty. This phrase is more than important as we understand competitiveness as an ability of entrepreneurs (from industry or service sector) to compete in the internal market of the EU and in global market, as well. There are two examples of using "competitiveness" as a mean of reaching other, sectoral goals, within:

– the customs union: the Commission should develop conditions of competition in so far as they lead to an improvement in the competitive capacity of undertakings (art. 32 of the TFEU);
– the social policy: Member States should implement appropriate measures which take account of the diverse forms of national practices and the need to maintain the competitiveness of the Union's economy (art. 151 of the TFEU).

It is worth mentioning, that there are only two areas of economic policy, where within shared competences, actions taken by the Union and/or Member States should be aimed at promoting competitiveness of Union undertakings:

- research and technological development: the Union should have the objective of encouraging it to become more competitive, including in its industry (art. 179 of the TFEU) and should draw up a European space policy to promote i.a. industrial competitiveness (Pelle, 2015; Bučar, 2015; Urbaniec, 2014);
- tourism: the EU should complement the actions of the Member States in particular by promoting the aforementioned competitiveness of Union undertakings in that sector.

Summing up, it can be said that the most advanced and most unified actions concerning industrial policy were included in the TECSC. This was justified by the specificity of the main goals of the ECSC and the political, economic and social problems prevailing just after the Second World War. However, the next Treaty establishing the EEC provided, on the one hand, for some very restrictive rules concerning state aid and the exclusive competence of the European Commission in the field of competition policy, while, on the other hand, it contained no provisions for mere coordination among the Member States in the policy addressing specific industrial issues. Only the Maastricht Treaty introduced some additional provisions concerning industry (strengthened by the Lisbon Treaty), which put industry among the spheres of Member States' actions supported by the European Union. While it did not give the EU sole competence to conduct industrial policy, it did empower the European Commission to support and coordinate governmental activities in this field. Moreover there are many provisions used as a basis for new regulations concerning health, social, consumer and environment protection, which effect entrepreneurs and can hardly decrease their competitiveness, while there are no any direct and strong legal bases to target Union's measures and Member States actions at improving EU industrial competitiveness.

Political Framework for a New Industrial Policy

All actions taken in the European Union ought to have a political acceptance of all Member States, especially, when there is no strong legal base or requirements in the Treaties. But even when there are precise provisions, there is a need for a compromise and a common political agreement on future actions. During the crisis period Member States faced many economic problems, which should be addressed not only at national, but also at the EU level. Meanwhile, some of them decided to hardly subsidise their national companies, which maybe was not illegal in terms of competition rules, but could distort competition in the internal market and pushed unsubsidised firms into difficulties. Moreover, the previous Lisbon Strategy, whose outcomes were disappointing or even unnoticed to the EU economy, expired. Thus the European Commission suggested a new program for growth and job creation: the Europe 2020 strategy (European Commission, 2010a; European Council, 2010). In that program, the European Council established a new strategic goal for the next decade: to boost Europe's competitiveness, productivity, growth potential and economic convergence. Moreover, five objectives guiding the actions of Member States and of the Union were agreed upon: (1) increasing the employment rate; (2) improving the conditions for research and development; (3) reducing greenhouse gas emissions and increasing energy efficiency and the share of renewables in final energy consumption; (4) improving education levels; and (5) promoting social inclusion (European Council 2010) (however someone can have some doubts how, for example, higher employment (in the era of robotics and automatics), new more restrictive environmental requirements, a higher share of the EU population completing tertiary education, which increases job and salary expectations of new employees, or reduction of poverty can improve competitiveness of EU entrepreneurs). Moreover the conclusions of the European Council provided that all common policies, including common agricultural policy and cohesion policy, would need to support the strategy, which made it more difficult to establish effective and permissible instruments dedicated to improving the position of European industry in the world.

The first document dedicated solely to a new industrial policy was a special communication on "An Integrated Industrial Policy for the Globalisation Era. Putting Competitiveness and Sustainability at Centre Stage" (European Commission, 2010b). The Commission defined two areas of actions related to industrial policy: policies that have a direct and indirect impact on the cost, price and competitiveness of industry and individual sectors. As regards the first group, it consists of standardisation, innovation policy, while the second group refers to all other policies such as transport, energy, environmental or social consumer-protection. That approach should ensure a merge of a horizontal basis and sectoral application.

After two years the Commission proposed a partnership between the EU, its Member States and industry to "give Europe a competitive lead in the new industrial revolution" (European Commission, 2012a). The main aim of all actions was to reach 20% share of industry in the GDP by 2020. There were also four practical elements of a proactive approach to industrial policy, which suggested: (a) stimulating new investments in new technologies, (b) improvement of the functioning of the Internal Market; (c) making more available access to finance; (d) improvement of human capital and skills.

The third milestone on the road to a new industrial policy was a communication of 2014, where the Commission set out key priorities: an integrated, single European market, industrial modernisation, small and medium sized enterprises and entrepreneurship, and internationalisation of EU firms (Wach, 2011). Therefore it extended its actions to i.a. (a) mainstream of industrial competitiveness in other policy areas to sustain the competitiveness of the EU economy, (b) maximise the potential of the Internal Market by developing the necessary infrastructure, offering a stable, simplified and predictable regulatory framework for entrepreneurship and innovation, integrating capital markets, improving quality of human capital, (c) encourage investment, business require access to critical inputs, and in particular, energy and raw materials, (d) facilitate the integration of EU firms in global value chain. Moreover, what is of the most importance, it repeated a need for integration of industrial policy and other EU policies (European Commission, 2014).

All these initiatives, proposals and recommendations elaborated in consecutive communications of the European Commission got political answers from the Council. However, Member States in the Council represented sometimes extreme positions on the role of industry in the economy, admissibility of governmental interventions in the market, expectations of entrepreneurs, priorities of economic and industrial policy, and future directions of European Union development. Thus conclusions of the Council are predominantly "well-balanced" compromised texts which could be accepted by all Member States, thus often diluted, unambitious and without a clear message to stakeholders: politicians in governments, Members of the European Parliament, the Commission and entrepreneurs.

Political support for reindustrialisation of the European Union came from some Member States joined within the "Group of Friends of Industry". There were three special conferences organised by France, Italy and Spain, which provided a forum for discussion on the renaissance of industrial policy (Ambroziak, 2014). During the first of them, held in October 2013, only nine ministers of economy from France, Italy, Spain, Greece, Bulgaria, Luxembourg, Belgium, the Czech Republic, and the United Kingdom decided to sign the letter calling for the introduction of "measures commensurate with the situation, and preparing itself for new challenges". They suggested an approach contrary to the one represented by the Commission: all initiatives should take into consideration "the specific challenges faced by various industrial sectors" and "to this end, the European Commission should carry forward its sector-specific initiatives on important traditional sectors such as steel and shipbuilding". (Finances.gouv.fr., 2013). In the second conference of the "Group of Friends of Industry" eighteen Member States (Italy, France, Spain, Greece, Croatia, Romania, Bulgaria, the Czech Republic, Latvia, Luxembourg, Belgium, Slovenia, Portugal, Slovakia, Lithuania, Cyprus, Malta) agreed on signing a Joint Communication. Apart from issues raised in the previous document, they added a new element concerning the strengthening of industrial value chains. On the one hand, they recognised the important contribution of the manufacturing sector, including the energy-intensive sector, to the creation of added value and reindustrialisation, while, on the other hand, they declared that a new industrial policy should rely on the 2030 European energy and climate policy framework, which can be extremely costly for EU companies. Also the political objective for industry share in the European GDP to reach 20% by 2020 was recalled (Esteri.it, 2014). Only eleven ministers of economy (Spain, Germany, Italy, Portugal, Belgium, Poland, the Netherlands, Luxembourg, Latvia, Bulgaria and France) attended at the Third Conference of the Group of Friends of Industry in February 2015. The aim of that meeting was to identify factors that would mark the future of competitiveness for European industry. According to press release (the Joint Declaration was agreed only by seven ministers), Member States representatives, apart from previous requests, expressed their interest in J.C. Junker Plan of Investments for Growth and Job Creation and underlined that

ICT sector investments (the digitalisation of industry) can help achieve the highest level of competitiveness (Lamoncloa.gob.es, 2015; Andaluz.tv, 2015). It seems that the outcome of those meetings was exceptionally small due to some changes in the European Commission’s approach to industrial policy and new initiatives concerning Junker Plan which should overshadow the previous conservative narrative on a new industrial policy of the EU, although constantly it referred to 20% target and relaxing of state aid policy of the EU.

The importance of the concept of a new industrial policy was proved by the European Council. The Heads of Government and State agreed that Europe needs a strong and competitive industrial base, in terms of both production and investment and this approach should be systematically mainstreamed across all EU policy areas. It underlined that a European industry base should be seen in relation to a coherent European climate and energy policy, including through addressing the issue of high energy costs, in particular for energy-intensive industries. It is worth noting that the European Council invited the Commission to present a roadmap for taking work forward in the field of a new industrial policy (European Council, 2014a).

A new president of the European Commission pointed out “A Deeper and Fairer Internal Market with a Strengthened Industrial Base” (Junker, 2014a) as one among 10 new strategic goals. He underlined that the EU “needs to maintain and reinforce a strong high-performing industrial base for the internal market, as it would be naïve to believe that growth in Europe can be built on the basis of service alone”. In his Mission Letter to the Commissioner responsible for Industry, the President of the European Commission expressed his wish to develop ways of stimulating investment in new technologies, improving the business environment, easing access to markets and to finance, particularly for SMEs (Junker, 2014b). Although so many political statements, and desires, including the request made by the European Council in 2014 on a need for an industrial policy, were expressed by the new European Commission, it did not take into account a development of that concept in its working programme for 2015 (European Commission, 2014b). Only in some unofficial statements representatives of the Commission mentioned that industrial initiatives will be accommodated into Internal Market Strategy for goods and services provided in the aforementioned programme.

Goals and Targets of a New Industrial Policy

Every policy, including that conducted at the EU level or by the EU institutions within the exclusive competences of the European Union, should be identified by its main goals, instruments and receivers/stakeholders. Moreover, the EU should take all necessary steps to verify if it has enough competences provided by the Treaty, and whether there is a real need for common action in the interest of all Member States.

The main and broad goal of a new industrial policy was presented in the flagship initiative, where the Commission stated that "it is essential to increase productivity in manufacturing industry and associated services to underpin the recovery of growth and jobs, restore health and sustainability to the EU economy" (European Commission, 2010). So the main idea behind that goal was to accommodate industry in the EU 2020 strategy. But it is also interesting to observe two issues: (a) the proposed approach comply both sectors industry and services not making any distinction between them and (b) there were no artificial and economically unjustified targets at the early stage of discussion on a new industrial policy. It is also worth noting, in the context of the next discussion, that in the communication of 2010, the Commission underlined that "up to the onset of the financial and economic crisis, European industry had fared rather well in this rapid changing environment. It has successfully maintained its share of world trade (…) in the face of stiff pressure from new competitors" (European Commission, 2010). However, already two years later the Commission discovered that "Europe needs to reverse the declining role of industry in Europe for the 21st century" (European Commission, 2012a). The Commission defined the aforementioned role as a share of industry[1] in GDP and started seeking how to increase it from the level of around 16% to as much as 20% by 2020. It was also repeated in the communication of 2014, as the objective of revitalization of the EU economy and the Commission's aspiration (European Commission, 2014).

That concept was strongly supported by the aforementioned informal "Group of Friends of Industry". In the Joint Communication after the first conference in 2013 it expressed its desire to "boost industry's share in EU GDP", while after the second meeting in 2014 they reached an agreement to keep this target as "the political objective for industry". It was also repeated during the third conference of this group (although with reduced number of supporters). It should be underlined that the group does not comprise all Member States and its composition changes. Due to the fact that generally almost all other countries represented a completely opposite opinion on setting up such a target, the Competitiveness Council agreed in its conclusions that it only "takes note of the Commission's intention to see the share of industry at the level of as much as 20% of GDP by 2020" (Council, 2013). A year later, the Council was not able to move ahead with this target saying that it notes with interest this intention "as s political will to restore the proper place of industrial policy among other EU policies" (Council, 2014a).

The candidate for the position of the President of the European Commission became an unexpected ally and supporter of the 20% target. He identified one of his 10 priorities on strengthened industrial base as a "need to bring industry's weight in the EU's GDP back to 20% by 2020, from less than 16%" (Junker, 2014a). It was repeated in his Mission Letter to the Commissioner for Industry, saying that she should focus on "raising the profile and importance of industry in

[1] On the basis of the footnote note we can assume that the Commission instead of *industry* meant *manufacturing*.

economy (…) towards an aspirational 20% of EU GDP by 2020 (Junker, 2014b). For obvious reasons Bieńkowska, as a candidate for the Commissioner responsible for the Internal Market, Industry, Entrepreneurship and SMEs, repeated this statement during the hearing in the European Parliament in October 2014 (Bieńkowska, 2014), however, already during the 3rd meeting of "Friends of Industry" in February 2015 that issue was not raised by the Commissioner (Bieńkowska, 2015). Thus it seems that as regards mentioning the 20% target by the candidates for Commissioners, pre-election reasons predominated economic arguments.

Heaving in mind so many discussions on various fora on "the 20% target" it is crucial to analyse economic reasons behind it and its mechanism, as well as the possibility of its accomplishment within specified time. At the very beginning it should be underlined that there are two elements in the phrase "20% share of industry of EU GDP" which lead to some confusion. Firstly, the definition of industry is very broad. According to the common statistical classification of economic activities in the European Union industry covers three sections: (a) manufacturing, (b) electricity, gas steam and (c) air conditioning supply, and water supply, sewerage, waste management and remediation activities. Two latter sections are linked to energy and environment policy, respectively, (Regulation No 1893/2006) while all actions proposed by the Commission were developed to address some problems and difficulties of entrepreneurs from the manufacturing sector (not from the whole industry sector). Thus, calculating the relationship between industry and GDP, where the numerator (value added of industry) is wrongly overestimated, we get incorrect results. Secondly, there is an issue concerning gross domestic product. According to Eurostat definition, Gross Domestic Product is the final result of the production activity of resident product units and can be defined in three ways: output, expenditure and income approaches (Eurostat GDP). Due to the fact that we are talking about the output of manufacturing the output approach seems the most proper. It states that GDP is the sum of Gross Value Added of the various institutional sectors or the various industries plus taxes and less subsidies on products (which are not allocated to sectors and industries). Policies concerning taxes and subsidies, which effect GDP, are different in all Member States and there is no common EU solution for using them at national level. Thus calculating the relationship between manufacturing/industry and GDP with wrongly overestimated denominator (Gross Domestic Product) we also get incorrect results. However, it is worth observing that the aforementioned Gross Value Added is defined as the output value at basic prices less intermediate consumption valued at purchasers' prices and is calculated before consumption of fixed capital (Eurostat GVA). Therefore it seems that the most proper and correct reference of manufacturing added value should be Gross Value Added (used as a denominator).

Finally, there is a misunderstanding as regards the weight of manufacturing in GVA. GVA includes added value by agricultural, industry (including manufacturing) and service sectors. There is no suggestion in the debates or in the Commission's communications as to which component's share of GDP (alternatively GVA) will be reduced to offset the increase in the share of industry within the sum total of 100%. Bearing in mind that agricultural sector has relatively the smallest share (according to Eurostat it reached 1.5% of GDP in 2013) only the service sector could substantially reduce its share in GDP/GVA in favour of industry/manufacturing. However, it is in contradiction to many analysis and declarations of political will, which stress the highest importance of the service market for growth and job creation in the EU (European Commission 2002, Monteagudo et al., 2012; EPRS 2014) and a need to complete the internal market in products and services (Junker, 2014a and 2014b). Moreover, the Council recognised the increasing importance of services to economic output and growth, including the 'servitization' of manufacturing industries and interconnection between goods and services (Council, 2015).

It should also be noted that central planning and fixing common indicators for all EU Member States' economies is not a good idea, because it does not take into consideration the specificity and structure of their economies, the quality of the available workforce, their accessibility to raw materials, and the presence of new technologies and science centres with the innovative solutions needed in manufacturing. The concept of central planning fell by the wayside along with the economic and political transformation of the communist bloc countries in the early 1990s. Summing up, different Member States of the European Union have their own different priorities for the development of their economy, and pushing them into industry would be a mistake.

4.3. RESULTS AND DISCUSSION

Position of EU Manufacturing in the World

With a view to test the hypotheses on the drop in the share of manufacturing in GDP and the accomplishment of its 20% target share in GVA, we took account of the EU performance, and that of its Member States, over the analysed period. Over the years 2000-2012[2] the share of manufacturing in EU GDP diminished from 18.6% to 14.6%. The direction of the change reflected trends observed in other high income countries, albeit in their respective cases the scale of reduction was significantly smaller (drop in high income countries from 17.9% to 15.0% in 2012, in the U.S. from 15.9% to 12.9% in 2011, and in Japan from 21.1% to 18.2%). The same could be concluded about rapidly developing countries like Brazil (drop from 17.2% to 12.9%) and, to a lesser extent, about less developed India (from 15.3% to 14.1%). It is worth noting that in the period covered by the analysis China managed to maintain high proportion of 31 – 34% of manufacturing contribution to GDP while for Korea the share grew from 25.2% in 1991 to

[2] Due to the missing data for some countries across the world, the EU global position was examined over a research period restricted to 2011 or 2012.

32.1% in 2013. The above confirms the increasingly prominent position of services in the economies of more developed countries, which, as a result of strong internal integration (USA) and within the framework of an international organisation (the EU internal market), enable the producers achieving higher business benefits from offering goods in connection with services. Due to the limited scope of liberalisation in international trade in services, countries such as China or South Korea are not capable of creating conditions for product servitization to their manufacturers (Figure 4.1.).

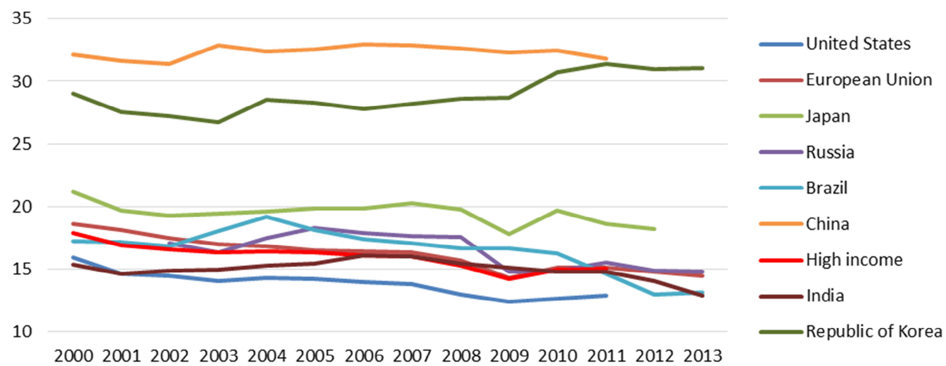

Figure 4.1. Share of manufacturing in GDP in the European Union and selected countries in the period of 2000-2013
Source: Own studies, WTO database.

Position of Industry and Manufacturing in the EU Economy

At the beginning of the period covered by the study, i.e., in 2000, the value of manufacturing output in EU-28 exceeded EUR 1.6 trillion, which at that time accounted for 18.8% of Gross Value Added (GVA). In subsequent years, the value of manufacturing had been increasing on average between 2% and 6% annually until the first years of economic crisis, i.e. 2008 and 2009, respectively, when the reported drop was 2% and 13% compared to the preceding year (Figure 4.2). However, already in 2010 a 8% increase was reported, followed by 5% increase in 2011, and in the period 2012-2013 the value added in manufacturing just managed to remain at the level of EUR ca. 1.85 trillion, which meant it stabilised at the level reported in 2006 before the economic downturn and accounted for 15.1% of GVA. The share of manufacturing in total employment also diminished by more than 3 percentage points from 17.8% in 2000 to 14.3% in 2013. Interestingly enough, the trend was not reinforced in the times of the crisis, which would suggest systematic shift of jobs to other sectors irrespective of the social and economic situation.

When analysing the concept of a new industrial policy we should consider its potential impact and importance for the economies of the EU and its individual Member States. For many years Germany (30.3%) has been a clear leader with the highest share in total manufacturing (Figure 4.3). Significantly smaller shares are reported for France and Italy (11.6% each) and the United Kingdom (9.4%). Manufacturing in the five aforementioned countries together with Spain (5.0%) represents two thirds of the value of the sector in the EU. Countries such as: the Netherlands (3.8% share), Poland (3.6%), Sweden (3.4%), Austria (2.9%), and Belgium (2.7%) were also important industrial players but their effect on the EU economy was much more limited.

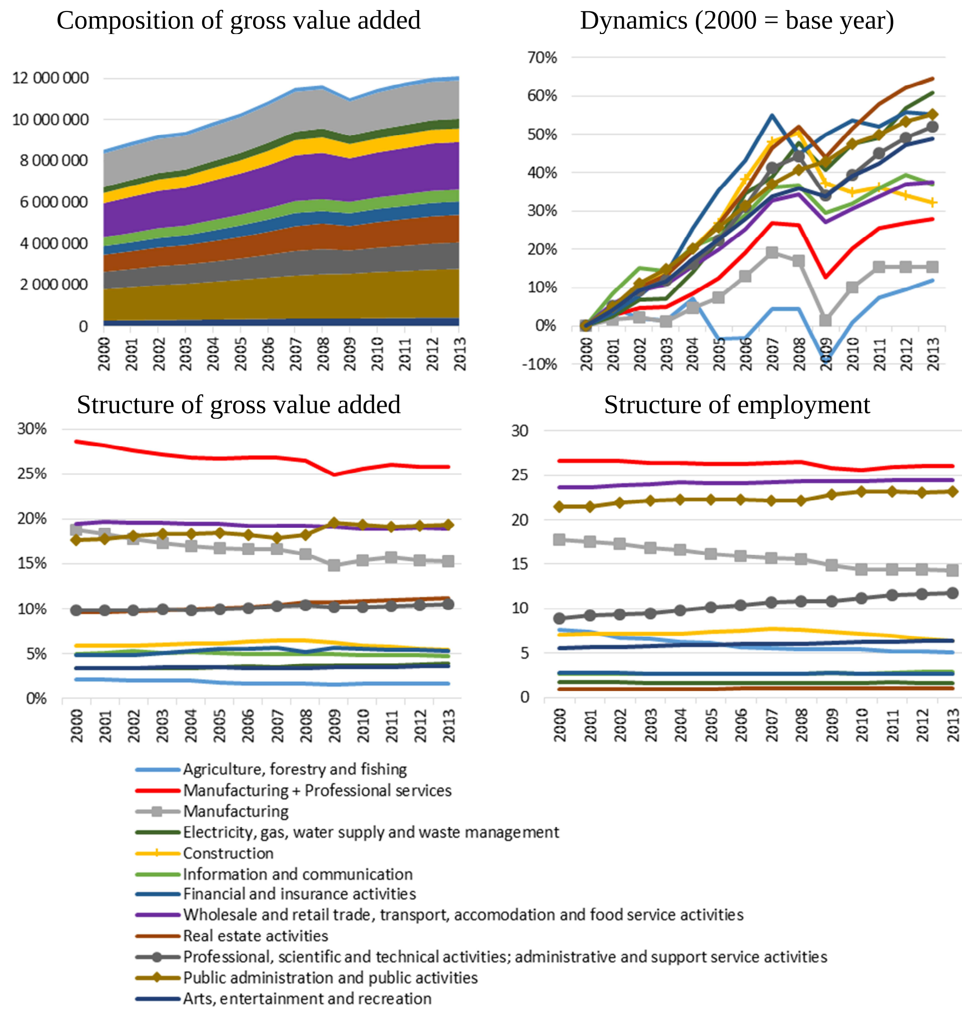

Figure 4.2. Composition and changes in Gross Value Added and employment in the EU-28 in the period of 2000-2013
Source: Own studies, Eurostat.

In the examined period, the share of manufacturing in GVA (in current prices) exhibited a clearly decreasing tendency in favour of services and dropped from 18.8% in 2000 to its lowest level of 14.8% in 2009 to slightly increase to 15.3% in 2013. Besides servitization, outsourcing and relocation of manufacturing plants outside of the EU, the phenomenon could be attributed to a combination of factors: on the one hand, substitution effect resulting from higher real income and, on the other hand, lower prices of products of the manufacturing sector caused by its higher productivity compared to the economy as a whole. It means bigger drop in manufactured goods (in relation to services) as a consequence of productivity growing more in manufacturing than in services (European Commission, 2014c).

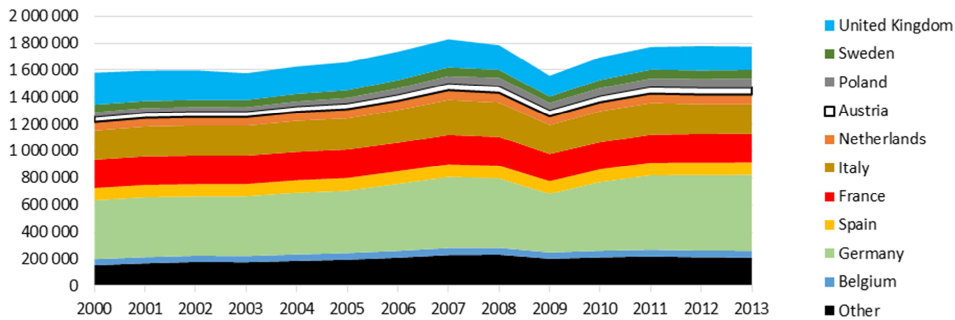

Figure 4.3. Changes in geographical structure of manufacturing production in the leading Member States of the EU in the period of 2000-2013)
Source: Own studies, Eurostat.

We should also bear in mind that the EU's enormously restrictive regulations concerning the environment, climate, energy and the social sphere had a substantial influence on the position of manufacturing in the EU economy. Requirements harmful to economic activities were imposed on European entrepreneurs and resulted in offshoring, outsourcing and the relocation of industry to other parts of the world. These are structural changes which are captured by the relative price effect. The European Commission noticed that the decline trend in current prices is not irreversible.

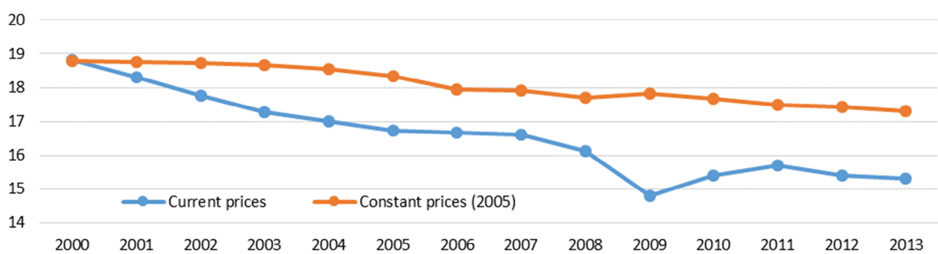

Figure 4.4. Changes in manufacturing share in GVA in the EU (in current and constant prices for 2005 – base year)
Source: Own studies, Eurostat.

It means that reindustrialization would lead to an increasing value-added share of manufacturing in constant prices but may not be strong enough to outweigh the effect of falling relative prices when measuring the value-added share in current prices (European Commission, 2014c). As a result, although the share of manufacturing in GVA fell down from 18.8% in 2000 to 15.3% in 2013 in current prices, the share of manufacturing in GVA decreased slightly to 17.3% of GVA in constant prices (Figure 4.4). The aforementioned analysis negatively verifies the first hypothesis that a share of manufacturing in GDP dramatically dropped in recent years.

When it comes to directions of changes in individual Member States it is worth noting that over the period 2000-2013 slight increase in the share of manufacturing in national GVA (in current prices) was recorded only in three Member States: Poland (by 0.7 p.p. to 18.8% in 2013), Hungary (by 0.4 p.p. to 22.8%), and in Latvia (by 0.1 p.p. to 20.2%) (Figures 4.5 and 4.6). That resulted in a slight increase of their share in the total EU-28 manufacturing. For the rest of the Member States we observed a significantly diminished importance of manufacturing in national economies; the highest in Finland (where the ratio dropped by as much as 11.1 p.p.) and in Bulgaria (by 10.5 p.p.). Relatively big drop in the share of manufacturing in national GVA (between 4-7 p.p.) was reported for some Member States with the highest share in EU-28 manufacturing: Spain, France, the United Kingdom, Sweden, Belgium but also Ireland, Luxembourg, and Portugal. Attention should be drawn, however, to Germany which, despite a minor reduction of the importance of manufacturing for its economy (by 0.6 p.p. to 22.2%), increased the share in the total value of the sector in the EU (by 3.2 p.p. to 30.3%).

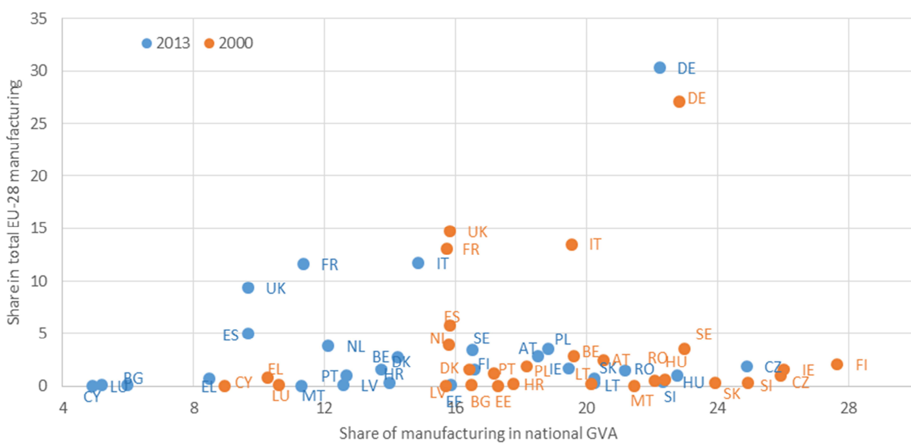

Figure 4.5. Share of manufacturing in national GVA
and in total value of the EU28 in 2000 and 2013
Source: Own studies, Eurostat.

Summing up, in the case of some industrialised countries the share of manufacturing/industry in GVA/GDP is much higher than in other countries, which are not equipped with production factors needed for industry. Thus, some countries are more prepared to increase the share of specific services, which are not and will not be developed in countries without an appropriate infrastructure. These findings negatively verify the second hypothesis that a 20% share of manufacturing/industry in GVA/GDP is a target for all Member States to increase their growth.

Industrial Base and Crisis

One of arguments put forward in favour of the adoption of a new industrial policy in the European Union invokes positive effect a substantial industrial base may have on alleviating negative outcomes of the economic crisis of 2008-2010 (third hypothesis). To verify the hypothesis we examined the relationships between the size of the industrial base (calculated as a share of manufacturing in GVA) and its change (calculated as a difference between the share of manufacturing in GVA in 2013 compared to 2009), and consequences of the crisis (calculated as a change in GDP in 2009 compared to 2008) and the dynamics of economic recovery (calculated as GDP change in 2013 compared to data for 2009).

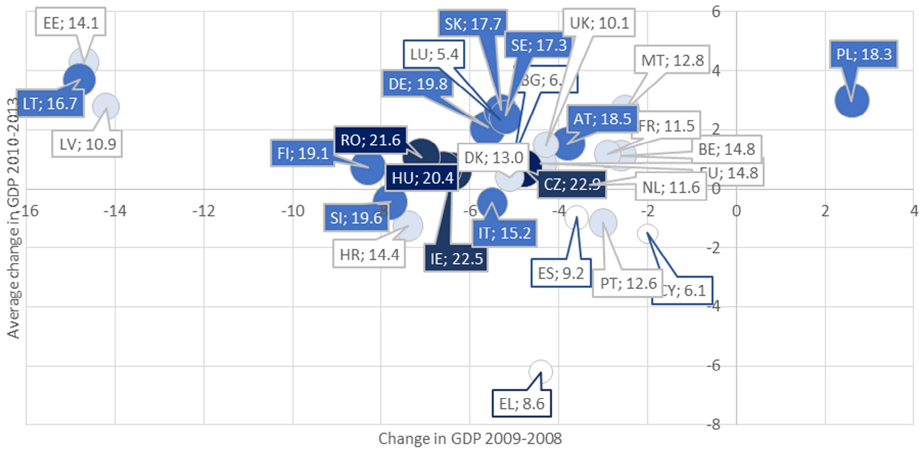

Figure 4.6. Changes in GDP and ratio of Manufacturing to GVA in the period 2008-2013

Source: Own studies, Eurostat. Man.

Financial crisis started in the autumn of 2008 and its economic consequences were felt mostly in 2009 when real GDP reductions were recorded. In 2009 the highest share of manufacturing in GVA was reported for the Czech Republic (22.9%), Ireland (22.5%), Romania (21.9%), Hungary (20.4%), and Germany (19.8%) with simultaneously the same Member States recording drops in GDP in 2009 compared to the previous year by, respectively, -4.8% and (bigger than the median for all Member States) -6.4%, -7.1%, -6.6%, and -5.6% (Figure 4.5). Estonia, Lithuania, and Latvia demonstrated clearly the biggest drop in GDP in 2009 compared to 2008 (by ca. 14-15%) with the respective share of manufacturing in GVA of 14.1%, 16.7%, and 10.9% (the median for all the Member States was 14.7%). In other Member States with a similar proportion of manufacturing in GDP, the latter dropped within a rather broad range between -2.6 and -8.3%. Similar range of GDP drops was also identified in Member States where manufacturing is a much less important sector of the economy (below 10% GVA). At the same time, the highest growth, both in the times of economic crisis and in the years following it, was recorded in Poland with its 18.3% ratio of manufacturing to GVA in 2009. Hence no unambiguous link was detected between the share of manufacturing in GVA and economic growth or quicker economic recovery (GDP increases in years following the crisis). It means, the third hypothesis on positive impact of industrial base upon economic growth during and after the crisis of 2008-2010 was verified negatively.

Internal Market as an Attractive Place for EU Industry

It is interesting to study how the Commission wants to reach the aforementioned unreachable goal. It seems that the EU internal market became one of the crucial mechanisms to exit the crisis and an engine of reindustrialization (Ambroziak, 2011 and 2012b). The Europe 2020 strategy reminded that the internal market, besides financial levers and external policy tools, would be fully mobilised to tackle bottlenecks and deliver the Europe 2020 goals (European Commission, 2010a). The Commission suggested that there is a need for a substantial recovery in investment level and an expansion of the trade in goods in the Internal Market (European Commission, 2010b). But in 2010, the Commission did not have any new idea how to strengthen the single market and link it up with a new industrial policy. It seems that this issue has been addressed by one of the most important tools increasing the visibility and understanding of the importance of the internal market: the Single Market Act I and II (European Commission 2011, 2012b; Ambroziak 2011; 2013b). Both documents consisted of crucial initiatives to foster growth of Europe's economy, however, some of them have not been introduced or implemented up till now.

Taking the above into consideration, there are not doubts that the deepening of the EU Internal Market should be the most important instrument of a new industrial policy. According to recent research studies, the EU internal market is still one of the main destinations for EU exporters of both goods and services. However, it should be noted that the dynamics of extra EU-trade is increasing much faster in comparison to intra EU-trade. Also trade in services improves its position in relation to trade in goods. It demonstrates that: (a) the internal market is still a powerful tool with a huge unexploited investment and trade potential and (b) an increase in the trade in services, in particular within the EU internal market, is the evidence of servitization of EU manufacturing (Ambroziak, 2015). Also the Commission observed that there is a clear imbalance between the level of integration in goods and services market, and for industry to be able to modernize effectively the functioning on the internal market for services must be further improved (European Commission, 2014a).

Existing Barriers

The Commission found that the internal market had provided EU industry with considerable reductions in cross-border trading costs, increased competition, and produced considerable economies of scale and scope as a result of the availability of a Europe-wide market. However, many barriers still remained: divergent national rules, duplication of procedures and difficulties with accessing some market sectors (European Commission, 2010b). Therefore one of the most important problems of the internal market is its fragmentation due to lacking, incomplete and inadequate transposition and implementation of the EU directives, as well as, wrong interpretation of EU rules. All these actions pose difficulties to economic operators and consumers, increase transaction costs, do not allow to enjoy benefits from the four freedoms and, in consequence, due to nonoptimal allocation of production factors, decrease the competitiveness of EU entrepreneurs in the internal market and globally.

As the Commission noticed, prior to the establishment of the single market, each EU Member State imposed obligations on business in the interests of safety, health and consumer protection. This meant that there were considerable regulatory barriers to trade in products because of the different rules and requirements, meaning that business had to treat each Member State as a separate market and offer different products (European Commission, 2014d). Although this problem was identified and investigated by the Commission, Member States were not interested in the elimination of all existing barriers. Although in its conclusions the Council recognised that deepening the Single Market would be a key factor to boost growth, at the same time it mentioned removing only “unjustified or disproportionate barriers” (Council, 2014a). The Council also asked the EU institutions to ensure the consistency and quality of the EU legal framework without “unnecessary regulatory burdens” in order to enable business to sell goods and provide services without “unjustified or disproportionate barriers” (Council, 2013b). The problem is a lack of precise and unambiguous definition of “unjustified or disproportionate barriers”. It is not clear who and on what basis can decide which barriers in the internal market are justified and proportionate. The Treaty on the Functioning of the European Union does not answer this question. As regards the internal market, it uses only the term restrictions, while speaking about (a) elimination of quantitative restrictions on import and export between Member States, (b) abolition of restrictions imposed on employees within the free movement of workers, (c) prohibition of restrictions on the freedom of establishment, (d) prohibition of restrictions on freedom to provide services (e) prohibition of restrictions on freedom to the movement of capital. The Treaty uses also the word obstacle, while speaking about (a) an obstacle to liberalisation of the movement of workers or (b) an obstacle to the functioning of the internal market. Therefore the word “barriers” mentioned in the aforementioned Council conclusions did not fit the wording of the Treaty and left a room for Member States to introduce barriers justified and recognised as proportionate by their governments.

There is also no clear evidence of political support from the European Council to eliminate all obstacles existing in the internal market. On the one hand, the Heads of Governments or States agreed (not adding any misleading adjectives) that there was a need to deepen the Single Market, by removing remaining barriers. But, on the other hand, as regards services, the European Council agreed to remove barriers which are unjustified (European Council, 2012 and 2013a) or unjustified or disproportionate in order to ensure a level playing-field on the service market (European Council, 2013b). However, analysing the latest political documents one can state that a liberal approach to the internal market is slowly coming back. In December 2014 the European Council called for enhancing efforts to remove barriers and complete the internal market in products and services, and the Council in March 2015 changed its narration towards the elimination of unjustified or disproportionate restrictions, what has a link to the Treaty provisions and should limit Member States discretion in justification of introducing any barriers in the internal market (Council, 2015).

Quality of Legal Environment

One of the instruments eliminating the above mentioned barriers is the approximation of laws. However, we should bear in mind some consequences of that process. On the hand, as the European Commission noticed, the differences in legal environments at national level hamper efficient allocation of resources in Europe and the competitiveness of European industry. Thus new acts should be adopted and properly implemented to ensure a common legal framework in the EU. On the other hand, as it was already mentioned above, article 114 of the TFEU often serves a basis for new laws concerning health, social, consumer or environment protection, without considering their real impact on competitiveness of EU industry.

Within the discussion on the improvement of the quality of EU legislation, the Commission postulated to choose regulations instead of directives in order to eliminate differences in the timing of national legislation entering into force and reduce the risk of divergent transposition, interpretation and application (European Commission, 2014d). Moreover the Commission underlined its role in improving the quality of legislation and the regulatory framework by implementation of the Regulatory Fitness and Performance Programme (REFIT), which became a part of the concept of a new industrial policy of the EU in 2014 (Council, 2014a). This Programme is aimed at eliminating red tape, regulatory burdens, simplifying and improving the design and quality of legislation to reduce unnecessary regulatory costs and ensuring that the body of EU legislation remains fit for the purpose. Under REFIT, the Commission is screening the entire stock of EU legislation on an ongoing basis to identify burdens, inconsistencies and ineffective measures and identified corrective actions (European Commission, 2012c and 2014e).

At the earlier stage of preparing a legislative act the Commission conducts an impact assessment, as a set of steps identifying the advantages and disadvantages of possible policy options. It also addresses all significant economic, social and environmental impacts of possible new initiatives. It is worth noting, that from the industry point of view, the guidelines provided that a new legislation should achieve its objectives while avoiding or minimising potential negative impacts on European competitiveness, for example analysing similar regulations which already exist in the EU's main trading partners (European Commission, 2009). It seems that the suggestion was not strong enough because the impact assessment process was extended by adding a special Competitive Proofing Toolkit in 2012. Its main aim was to deepen the analysis to allow policy makers to see better the impact of the proposal on business competitiveness (European Commission, 2012d).

Also the Council noticed a need for a strengthened focus on political priorities for comprehensive impact assessments, with the aim of ensuring that legislative proposals respect the principle of subsidiarity and proportionality, as well as comply with competitiveness proofing criteria and innovation and better regulation standards (Council, 2014a). However, this message becomes a bit unclear when read together with other Council requests to ensure that any new legislative proposal or revision reflects smart regulation principles and should always take into account proper protection of consumers, health, the environment and employees (Council, 2015). Thus often the outcome of the legislative work depends on lobbing and a political power of individual actors (EU institutions, Member States and stakeholders) in the EU decision-making process. It is also worth noting that the Commission, while preparing a draft, should consult it with stakeholders at every stage of a decision-making process in the EU.

Technical Harmonisation vs. Mutual Recognition

As regards legislation directly linked to manufacturing goods, it is worth mentioning an issue concerning placing goods in the market. One of the crucial documents which elaborated that issue was a special Commission communication on internal market for industrial products of 2014. The main component of it consisted of a revision of EU legislation on industrial products, especially in the field of technical harmonisation. The Commission found that in a number of areas within professional products, national legislation applicable at the use phase imposed additional barriers on EU industry and service providers. Therefore strengthening the implementation regime for technical harmonisation legislation, including the mechanism of cooperation and the exchange of information was proposed to reduce i.a. administrative burdens (European Commission, 2014d).

On the other hand, the Commission found that twenty years after the 1992 strategy and the establishing of the internal market, a wide range of products where still unharmonised and mutual recognition clauses in Member States legislation were not always correctly applied (European Commission, 2012a). In 2013

Council underlined the importance of the principle of mutual recognition and its evident benefits already brought to several important areas such as the free movement of goods and professional qualifications (Council, 2013b; Council, 2014a). Afterwards the Commission was invited to prepare a report on the application of that rule and to issue relevant proposals where shortcomings were identified (Council, 2015).

Summing up, eliminating all barriers in the internal market, as a continuation of the Programme 1992 on the introduction of the single market, should improve the quality of legal and administrative environment for economic operators and consumers in the internal market. Thus, it should strengthen the position of manufacturing sector based in the EU, who, following servitization process should be able to expand their production by combining goods with services. That shows a need for a horizontal approach, although it does not exclude the sectoral one, of a new industrial policy of the EU, which partly negatively verifies the fourth hypothesis.

Combined Approach to Goods and Services (Servitization)

Improvement of Industry-Related Services Environment

The Service Directive of 2006 removed many administrative barriers to cross-border service provisions; however there were still other areas where they remained. Thus industrial users of external services are confronted with a market which is heavily fragmented, non-transparent, and often lacking well-defined quality standards (European Commission, 2010b). Therefore in 2012 the Commission announced that the immediate priority was the full and complete implementation of the Service Directive in all Member States (European Commission 2012a), while in 2014 it requested zero-tolerance campaign actions addressed to Member States acting against the Directive (Bieńkowska, 2014). The Commission underlined that full implementation of the Service Directive would significantly improve the smooth functioning of the internal market (European Commission, 2014a). Although a fully free movement of services could improve competitiveness of the EU industry (manufactures and service providers), it is worth noting that, the Council was only able to call upon the Member States to set up efforts to remove remaining unjustified or disproportionate requirements on service providers (Council, 2014b), leaving the explanation of their introduction to governments.

Other important initiatives concerning the service sector were the revision of the legislation on European standardization system to extend it to services and make standardisation procedures more effective, efficient and inclusive. Thus the Commission suggested that in order to avoid the emergence of new barriers and to facilitate the cross-border provision on services, particularly business-to-business services, standardization should be developed at European level. Moreover the Commission proposed an initiative to combat unfair business-to-business commercial practices because they jeopardise the viability of business and limit competitiveness of the various operators in the supply chain (European Commission 2011).

Full implementation of the freedom to provide services on the basis of, at least, the Service Directive, should bring more benefits to both manufacturers and service providers. Due to servitization process, more frequently both functions are in the hands of one economic operator. This concept has been implemented also in a new Junker’s Commission merging two directorate-general (“Enterprise and Industry” and “Internal Market”) into one Internal Market, Industry, Entrepreneurship and SMEs (GROW). As a result, there is only one proposal (among 23 new initiatives) in the working program of the European Commission for 2015 concerning Internal Market Strategy for goods and services, which is relatively loosely connected with a new industrial policy concept. Thus the Commission did not fulfil the recommendation of the European Council to present an industrial roadmap (European Council, 2014a), however the Luxembourg Presidency of the Council of the European Union declared special focus on the implementation of the Commission's plan for industrial competitiveness in the second half of 2015 (Luxembourg, 2015). Moreover, the Commission decided to name some sectors of economy of the biggest interest: business services, construction, retail, regulated professions and advanced manufacturing. It means a green light for servitization – the process which has been observed in the internal market since the 1990s. – as the Commission proposed work on a combined service/goods provisions (European Commission, 2014b).

Position of Industry-Related Services in the EU Economy

When examining political and legal space for servitization, it is worth analysing the position of selected industry related services in the economies of the EU and its individual Member States. Industry-related services include practically all services used or provided by entrepreneurs from the manufacturing sector. The proportion of services in GVA was increasing in the EU in the examined period from 75.6% in 2000 to 79.1% in 2013. Special attention should be paid to what happened during the economic crisis when as a result of substantial drop in the value of manufacturing and little diminishing absolute value of services, the share of the latter increased even to 80% in 2009. In 2013 the highest share (24.5% of the total value added in services) was reported for the services of the public sector (public administration, defence, education, human health and social work activities) and trade related services (wholesale and retail trade, transport, accommodation and food service activities – 23.9%).

In the analysed period of 2000-2013 services related to real estate sector (14.1% share in GVA in 2013) as well as professional, scientific and technical services (professional, scientific and technical activities; administrative and support service activities – 13.3%) increased their importance for the economy (calculated in relation to GVA). When it comes to the latter group of services, they provide the basis for broadly understood industry-related services, which, as it seems in the face of advancing servitization, should be considered together with manufacturing. Thus, adopting the European Commission combined approach to goods and services we added data for manufacturing industry and professional services. The analysis of aggregated data revealed that in the period covered by our analysis the decrease in cumulated share of manufacturing and professional services in GVA (in current prices) was relatively smaller, from 28.6% in 2000 to 25.8% in 2013, compared to the drop in importance of manufacturing only. Whilst considering the values in constant prices, the cumulated share of value added of both product groups increased from 28.6% to 29% GVA (Figure 4.7). It means the manufacturing sector together with professional services are still responsible for more than one fourth of gross value added in the EU. We should also remember issues connected with the creation of new jobs. When the share of manufacturing in total employment was decreasing, the relevance of professional, scientific and technical services for the labour market was gradually increasing from 8.9% in 2000 to 11.8% in 2013. To some extent that is the effect of outsourcing, i.e. the identification of functions within the organisational structure of a parent company to be delivered by other economic operators. According to many researchers, outsourcing has become an ever more popular mechanism for differentiation and the realizing of competitive advantage or even just ensuring survival, due to cost reduction. Moreover, it has moved from efficiently attending to a single function process or activity, to reconfiguring whole process in order to realize greater value across the enterprise (Kakabadse and Kakabadse 2002; PriceWaterhouseCoopers 1999).

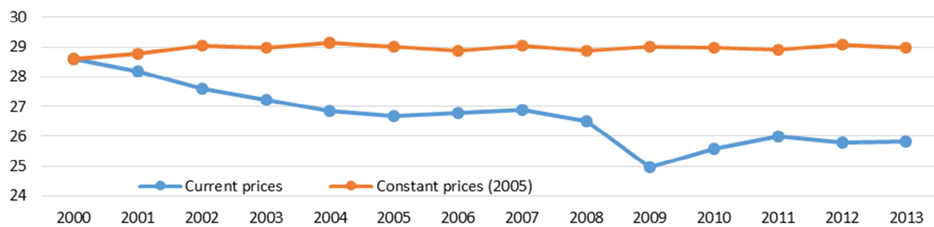

Figure 4.7. Changes in manufacturing and professional services share in GVA in the EU (in current and constant prices for 2005 – base year)
Source: Own studies, Eurostat. Man.

By analysing the situation at the level of individual Member States, we may conclude that between 2000-2013 the drop in the share of manufacturing in GVA was accompanied by the increase in the share of professional, scientific and technical activities; administrative and support service activities (Figure 4.8.). That was true of almost all Member States, in particular those, in which manufacturing was losing in importance in recent years. In 2013 the highest share of the above mentioned services in GVA was recorded in the Netherlands (13.4%), Belgium (13.2%), France (12.8%), the United Kingdom (12.2%), Germany (10.7%), and in Italy (9.5%). Clearly lower dynamics (not exceeding 4 p.p. in 2000-2013) and on average by half lower share of the services in question in national GVA by the end of 2013 were recorded in Member States which joined the EU in 2004 and later. It means entrepreneurs from the EU-15 managed to adapt well to global trends (globalisation, servitization, and outsourcing), while relatively new members still remain a base of broadly understood industrial manufacturing and have just started to develop industry-related services.

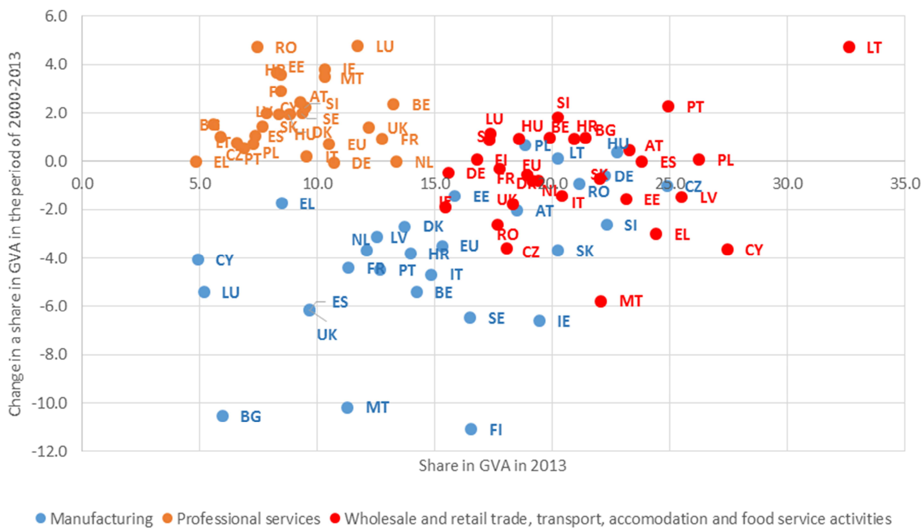

Figure 4.8. Change in share of manufacturing and selected services in national GVA in the period of 2000-2013
Source: Own studies, Eurostat.

Throughout the entire period of 2000-2013 the share of other services (with the exception of real estate related ones) in GVA slightly decreased, above all due to a bit higher dynamics of their growth following the times of economic crisis. Deteriorating position (calculated as a share in GVA) of wholesale and retail trade, transport, accommodation and food service activities (Figure 4.2.) is a reason for concern. These services are fundamental for smooth exercising of all of the freedoms of the EU internal market. Any decrease in the growth of trade or transport may translate into restricted movement of goods and services or distortions in optimum allocation of production factors which, consistently, may negatively impact manufacturing in the EU. At the same time we need to stress the increasing share of the services in question in employment structure, from 8.9% in 2000 to 11.8% in 2013. That may provide evidence of relative decrease in the cost of such services caused by intensified competition in the market, which, in turn, leads to increased employment in the sector.

In most Member States wholesale and retail trade, transport, accommodation and food service activities are relatively relevant section of the economy reaching the ratio to national GVA ranging from 32.6% in Lithuania through 26.3% in

Poland, 25.5% in Latvia down to 21.4% in Bulgaria. With some exceptions (Greece, Spain, Italy, Portugal), the phenomenon can be observed mainly in Member States, which joined the EU after 2004. Also in their case services in question reported a slight increase in their share in GVA in 2000 – 2013. Member States in the South of Europe owe their slightly better position to tourist and accommodation services. However, data for the new Member States demonstrate benefits of integration, trade opportunities and the provision of transport services within the EU internal market. Taking account of deteriorating position of manufacturing and still insufficient share of industry-related services, entrepreneurs from those Member States should gradually integrate their goods with sales and transport services. Requirements concerning the minimum wage in Germany (WSJ, 2015) and France (Emigra.com, 2015), which may substantially undermine the competitive position of transport companies and the manufacturing firms who offer product-related services, are a separate issue.

Summing up, we may conclude that, first of all, our analysis confirms the increase in the share of industry-related services, in particular professional services, in GVA, its resilience to economic crisis and, indirectly, servitization of manufacturing in the European Union. As a result we have come to yet another negative verification of the second hypothesis on the need to increase the share of manufacturing in GDP to achieve economic growth.

4.4. CONCLUSIONS

Based on the study at hand we may formulate some conclusions of legal, political and economic nature. With regard to legal aspects, currently binding EU regulations offer the EU institutions the possibility to pursue industrial policy at the EU level without interfering with Member States competences.

From political point of view it is worth noting that the group of supporters of the Europeanization of industrial policy, i.e. its common (integrated) implementation, is not stable and their numbers are falling. Member States – participants of conferences of the „Friends of Industry" group were changing and not all of them are ready to sign up to final conclusions. That is a sign of differences in the approach to presented ideas of market interventions and the adoption of artificial, unrealistic indicators, which, when achieved would most probably hamper the development of the sectors of the economy, which produce the highest value added (services).

Economic analysis of proposed postulates leaves no room for doubt that decreased share of industry in GDP and GVA is observed in all richer and more developed countries in the world (with no exception of the EU). That can partly be attributed to methodological errors consisting in calculating industry to GDP ratio instead of manufacturing to GVA ratio. Leaving that aside, we must stress that artificial identification of optimal GDP structure in the EU has got no economic or social rationale. Decreasing importance of manufacturing is due to globalisation – which helps seeking cheaper locations for industrial manufacturing and relocates it to countries where environmental, social or health related requirements are much less stringent than in Europe or in North America – but also servitization understood as offering industrial goods together with services. Hence we should rather consider the ratio of cumulated share of manufacturing and industry-related services to both GVA and employment. It reflects economic reality of the beginning of the 21st century including effects of globalisation, outsourcing, offshoring, and progressing servitization. These phenomena should be treated as challenges rather than obstacles to the EU growth.

In principle, the analysis allows us to negate all four research hypotheses formulated at the beginning:

- recent years did not witness any substantial decrease of industry share in GDP since in constant prices the drop was minor and together with industry-related services within servitization we may even observe an increase in the share of manufacturing and professional services in GVA;
- there is no economic or political rationale behind attempts to artificially impact the share of industry in GDP as that would eliminate the benefits of free market and free competition based on the most effective specialisation that takes account of the cost of production and quality of offered goods and services. From the viewpoint of statistics, such indicator would restrict the share of agriculture , as well as services, which have the biggest and the fastest growing impact upon value added in the economy;
- economic crisis of 2008-2010 was the least felt in the service sector and hit industry and manufacturing the most, which contradicts the thesis on the need for Member States to have manufacturing base as a basis for their competitiveness;
- due to extreme differences in the structure of the economy of individual EU Member States, there are no reasons for introducing unified solutions and indicators for all the Member States or for all of the European Union; that could provide grounds for discrimination in the approach to various industries and distort competition in the market.

The above presented considerations provide evidence that the EU needs an open approach based on free market competition to the EU internal market and a comprehensive approach to the sector of goods and services within the new industrial policy of the EU instead protectionism and interventionism.

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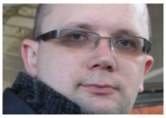

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5

Europeanization of Entrepreneurship and SME Policy: Challenges and Opportunities

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Summary:

Europeanization is an ambiguous concept, analyzed from different perspectives and with different areas that describe changes in the most important aspects of life, creation of favourable conditions for business environment and development of small and medium-sized enterprises (SMEs) within the European Union (EU). Institutional and structural features, as highlighted by the Europeanization literature, may create severe constraints on SMEs policy-making. The research aim of this chapter is to analyze and evaluate the importance of the European entrepreneurship policy for the development of SMEs. A detailed analysis of these issues should provide an answer to the question: What are the challenges resulting from the current EU policy for SMEs and what are the strategic opportunities to overcome them? This paper explores in which ways the EU Policy affects the SMEs entrepreneurship. On this basis, the strategic opportunities will be specified with the aim to overcome the existing problems and to further support SMEs. In order to achieve the assumed goal, literature study as well as an analysis of secondary documents elaborated by the European Commission and other EU institutions will be conducted.

Keywords: small and medium-sized enterprises (SMEs); entrepreneurship; Europeanization; Small Business Act for Europe; European Union (EU)
JEL classification: L53, L26, N14, N84, O52

5.1. INTRODUCTORY REMARKS

Research on Europeanization dates back to the 1970s, although there has been an increase in its importance since the last decade of the 20th century and continues today (Buller & Gamble, 2002; Howell, 2004; Wach, 2014a). In the literature, there are a number of different definitions of Europeanization. For instance, Radaelli (2000, p. 4) defines Europeanization as “processes of (a) construction (b) diffusion and (c) institutionalization of formal and informal rules, procedures, policy paradigms, styles, ‘ways of doing things’ and shared beliefs and norms which are first defined and consolidated in the making of EU decisions and then incorporated in the logic of domestic discourse, identities, political structures and public policies." A detailed systematics and analysis of conceptual approaches to the process of Europeanization research is shown by Wach (2013, pp. 15-50). Europeanization is an ambiguous concept, analyzed from different perspectives and with different areas that describe changes in the most important aspects of life, e.g. geographical, sociological, political, legal, institutional and economic (Wach, 2013, pp. 33-43; Wach, 2014a, pp. 16-19; Riedel, 2008, p. 209-211). One of the dimensions of Europeanization is a macroeconomic aspect *in internal, endogenous sense*, understood as a process of "creation of, on the one hand, favourable conditions for business growth and development within the European Union (European business environment, or more precisely the Europeanization of the business environment), and on the other hand, the convergence of macroeconomic systems of particular member states of the EU" (Wach, 2014a, p. 16).

Among the general causes of Europeanization one can indicate the intensification of integration processes in the EU, and particularly the implementation of the single market rules, which resulted in the possibility of perceiving the markets of all member states - in some ways - as the internal market (Ambroziak, 2012; Pelle, 2015). A further reason for the Europeanization is the European freedom of entrepreneurship as the so-called complementary freedom of the single market, which has intensified the process of the internationalization of enterprises in the EU (Wach, 2013, p. 43). Entrepreneurship makes the economy more competitive and innovative, and is of key importance in the implementation of the aims of various sector policies (Żur, 2013; Czaja, 2014; Kosała, 2014; Kosała & Wach, 2014; Marona & Głuszak, 2014).

One of the elements of the Europeanization process is the European economic integration, which aims to create an efficient mechanism for the functioning of the single market, concerning the free movement of goods and factors of production. The establishment of the single market means among others the creation of better conditions for the smooth functioning of free competition within the group of countries that are involved in the integration process (Buller & Gamble, 2002; Ladrech, 2014; Wach, 2014a; Stanek & Janus, 2012; Wiktorska-Święcicka, 2012).

A key role in this process is played by small and medium-sized enterprises (SMEs), which form the backbone of the European economy and are essential for the development of the EU countries (Wach, 2014b, p. 139). SMEs are seen as the main source of employment as well as entrepreneurship and innovation in the EU, and hence are crucial for improving the competitiveness of the European economy. Both in the theory of economic sciences and in the business practice, SMEs are the subject of numerous policies and research programs designating the directions of the development of EU policies for entrepreneurship and small and medium-sized enterprises (Wach, 2011). This also results from the current strategy "Europe 2020" adopted by the Member States at the European Council in June

2010 (European Commission, 2010). This strategy aims among others at boosting the development of businesses by the three priorities (ESBA, 2011, pp. 14-15):

a. Smart Growth - will be achieved through the initiatives of Digital Agenda, Innovation Union and Youth on the move;
b. Sustainable Growth - will be achieved through the initiatives of a “Resource efficient Europe”, and an “Industrial Policy for the Globalization Era”;
c. Inclusive Growth - will be achieved through the Agenda for new skills and jobs.

This means that the importance of European SMEs in the economic development has been recognized because they adapt well, particularly to the rapid changes in the domestic and foreign demand and to the fast cost reduction. Moreover, the modern economic policy does not accentuate the selection and promotion of individual projects and enterprises, but focuses on the impact of a state, which accelerates business processes. The modern state is intended to create the general conditions for the development of enterprise and entrepreneurship (Surdej, Wach, 2011, p. 76; Rogoda, 2014, p. 41-44).

The aim of this article is to analyze and evaluate the importance of the European entrepreneurship policy for the development of SMEs. A detailed analysis of these issues should provide an answer to the question: What are the challenges resulting from the current EU policy for SMEs and what are the strategic opportunities to overcome them? For this purpose, the definition of SMEs and their importance for the European economy will be presented. Then, the current EU policy for SMEs will be analyzed. As a part of this, the main challenges arising from the current EU Policy as well as problems referring to the perspective of SMEs will be indicated. On this basis, the strategic opportunities will be specified with the aim to overcome the existing problems and to further support SMEs.

In order to achieve the assumed goal, literature study as well as an analysis of secondary documents elaborated by the European Commission and other EU institutions will be conducted. The analysis draws on a number of sources, among others, analytical reports, e.g. the SME Performance Review (Annual Reports on European SMEs), the Survey on Access to Finance of SMEs in the Euro Area (SAFE), as well as other documents available at the European Small Business Portal[1].

5.2. ROLE AND IMPORTANCE OF SMES IN THE EUROPEAN ECONOMY

Small and medium-sized enterprises (SMEs) play a fundamental role in the economic development, due to the flexibility in decision making, creative and highly motivated employees and a less bureaucratic management style (Urbaniec, 2013). Compared with large enterprises, however, they have a lower financial, technological, market and organizational potential and hence - usually fewer opportuni-

[1] European Small Business Portal: http://ec.europa.eu/small-business/index_en.htm (12.03.2015).

ties for the implementation of innovative measures. SMEs are characterized primarily by a great flexibility in adapting to constantly changing market conditions (Wach, 2004, 2008).

However, their role and importance for the European economy also varies due to the size as well as the impact on the labour market and economic growth. It results partly from the definition of SMEs. According to currently valid definition[2] (Wach, 2004), SMEs are divided into three groups (European Commission, 2003, p. 39):

- medium-sized enterprises, which employ less than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million;
- small enterprises, which employ less than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million;
- microenterprises, which employ less than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.

This definition is an update of the first Community definition of SMEs in 1996 and reflects the changes in the economic development which occurred after 1996, as well as greater awareness of the specific obstacles which SMEs have to face. This definition is also more suited to the different categories of SMEs, particularly micro-enterprises, which quantitatively represent the majority of the whole EU enterprises. As a result, this definition also helps to promote innovation and the development of partnerships, while ensuring that public programs have been addressed to only those companies that actually require support (European Commission, 2006, p. 8). For this reason, the definition introduces a method for calculating thresholds of persons employed and financial thresholds to gain a more realistic picture of the economic situation of the company. Therefore, the following categories of enterprises are specified: autonomous, partner and linked enterprises (European Commission, 2003, p. 39). The new definition is applicable to all policies, programs and actions that are implemented for SMEs by the European Commission. Although its application by the Member States is voluntary, in practice it is commonly used (Wach, 2004).

SMEs account for a significant contribution to the economic development of the EU. The key performance indicators are: the number of SMEs, the value added (in current prices) generated by SMEs, and the number of persons employed by SMEs. Across the EU, there are more than 21 million SMEs, i.e. nearly 99.8% of companies, including up to 92.4% micro-enterprises.

In addition, SMEs provide two-thirds of all jobs in the EU and generate nearly 60% of the gross domestic product (GDP) of the EU (see Table 5.1). Taking into account the largest Member States in the non-financial business sector in the EU28 (i.e. France, Germany, Italy, Poland, Spain and the UK), it is seen that they account for almost 66% of all SMEs, 74% of the value added generated by

[2] The new Commission Recommendation on the definition of SMEs was adopted on 6 May 2003 and came into force on 1 January 2005 (European Commission, 2006).

SMEs, and 69% of the total employment in the SME sector (European Union, 2014a, p. 15).

Table 5.1. SMEs and large enterprises: number of enterprises, value added and employment in the EU28 in 2013

Criteria	Micro	Small	Medium	SMEs	Large	Total
Number of enterprises						
Number	19,969,338	1,378,374	223,648	21,571,360	43,517	21,614,908
%	92.4%	6.4%	1.0%	99.8%	0.2%	100%
Employment						
Number	38,629,012	27,353,660	22,860,792	88,843,464	44,053,576	132,897,040
%	29.1%	20.6%	17.2%	66.9%	33.1%	100%
Value added at factor costs						
Million Euros	1,362,336	1,147,885	1,156,558	3,666,779	2,643,795	6,310,557
%	21.6%	18.2%	18.3%	58.1%	41.9%	100%

Source: European Union (2014a, p. 15).

All three performance indicators – total number, value added and employment – are closely interlinked, related and dependent on each other to varying degrees (Table 5.2). Within the EU, the majority of SMEs are concentrated in the largest Member States, as shown in the table below. However, only their number is not an adequate measure of the importance of SMEs to the economy of a Member State, because it does not take into account the different sizes of the respective economies.

Table 5.2. Distribution and importance of SMEs across the Top10 EU Member States in 2013

SME enterprises			SME value added			SME employment		
No	**State**	**%**	**No**	**State**	**%**	**No**	**State**	**%**
1	Italy	17.2	1	Germany	21.6	1	Germany	18.8
2	France	12.0	2	France	14.6	2	Italy	13.0
3	Spain	10.4	3	United Kingdom	14.5	3	United Kingdom	10.8
4	Germany	10.2	4	Italy	12.5	4	France	10.8
5	United Kingdom	8.0	5	Spain	7.7	5	Spain	8.6
6	Poland	6.8	6	Netherlands	5.2	6	Poland	6.4
7	Czech Republic	4.7	7	Sweden	3.3	7	Netherlands	4.0
8	Netherlands	3.7	8	Belgium	3.1	8	Romania	3.0
9	Portugal	3.6	9	Austria	2.8	9	Czech Republic	2.7
10	Sweden	3.1	10	Poland	2.6	10	Portugal	2.5
11	Other EU states	20.3	11	Other EU states	12.1	11	Other EU states	19.4

Source: Own compilation based on (European Union, 2014a, p. 81).

The following economy sectors are among the most important ones for SMEs: “manufacturing”, “construction”, “professional, scientific and technical activities”, “accommodation and food” and “wholesale and retail trade, repair of motor vehicles and motorcycles” (European Union, 2014a, p. 15). The largest sector of SMEs in all Member States is the “wholesale and retail trade sector”. Together, these sectors account for about 78% (nearly 4/5) of all SMEs in the EU28, for roughly 71% of the value added created by SMEs, and for 79% of total EU28 SME employment (European Union, 2014a, p. 7).

A differentiated picture can be observed by analyzing the importance of these five sectors since 2008. Some SME sectors were characterized by a relatively strong positive growth from 2008 to 2013 with the “business services”, “retail and wholesale trade” and “other sectors” (which include all other non-financial business sectors) posting positive value added growth. In contrast, the “construction” industry suffered severely with an almost -22% cumulative decline in value added, an 18% decrease in the level of employment (see Table 5.3). Also the number of enterprises lowered by 10%.

Table 5.3. Change (in %) in three SME indicators with respect to key SME sectors from 2008 to 2013 in the EU28

Key SME sectors	Number of enterprises	Value Added	Employment
Manufacturing	-5.3	-2.9	-9.9
Construction	-10.1	-21.7	-18.0
Trade	-1.8	3.1	-0.2
Accommodation/food	1.2	10.4	6.0
Business Services	10.2	7.0	5.4
Others	4.9	10.3	5.6

Source: Own compilation based on (European Union, 2014a, p. 8).

Summing up the importance of SMEs according to the basic indicators, a relatively varied picture can be observed. However, SMEs can be considered as a key to ensuring economic growth, innovation, job creation, and social integration in the EU. For this reason, the SMEs sector is now one of the priority areas for the EU Policy. This is reflected in the numerous activities undertaken by the European Commission, which will be presented in the following chapter.

5.3. EU POLICY ON SMALL AND MEDIUM-SIZED ENTREPRISES

The development of the EU policy towards SMEs can be presented in many different ways. One of the possibilities, suggested by Dannreuther, is a division of the formal development of the SME policy in the EU into three stages (Dannreuther, 1999, pp. 443-444):

– from 1982–1988: setting the framework for the SME policy;
– from 1988–1992: the formalization of the SME policy;
– from 1992 – now: concerted programmes in broader strategies concerning employment and competitiveness (the SME policy was constructed through ‘concerted actions’ between policy-makers at different levels of policy-making).

According to Wach (2011, p. 198), a more pragmatic classification of the EU policy development for SMEs is based on a systematization of the programming periods of this policy in the EU between 1973 and 2013, including the following periods:

– until 1983 – outline creation of the Community Policy towards SMEs;
– 1983-1986 – preliminary determination of efforts for SMEs;
– 1987–1989 – Action Programme for SMEs (i.e. zero programme);
– 1990–1993 – I Integrated Programme in favour of SMEs and the Craft Sector;
– 1994–1996 – II Integrated Programme in favour of SMEs and the Craft Sector (SME Multiannual Programme);
– 1997–2000 – III Multiannual Programme for Small and Medium-sized Enterprises in the European Union (III MAP);
– 2001–2006 – IV Multiannual Programme for Enterprise and Entrepreneurship and in particular for Small and Medium-Sized Enterprises (IV MAP);
– 2007–2013 – Entrepreneurship and Innovation Programme (EIP) as a part of Competitiveness and Innovation Framework Programme (CIP).

It should be emphasized that also in the current programming period 2014-2020 even more intensified efforts for SMEs can be seen. Such intensity and multiplicity of financial support could not be seen in previous programming periods. The new perspective of programming the EU policy includes the main instruments addressed to SMEs, such as Horizon 2020 Framework Programme for Research and Innovation: InnovFin – EU Finance for Innovators, the 2014-2020 programme for the Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME), the SME Instrument of the Horizon 2020 Framework Programme for Research and Innovation)[3].

Wach (2011), analyzing the importance of the SME sector in the economy and the European policy for SMEs in the years 1973 to 2013, pointed to the evolution occurring in the approach to the economic development. The EU economic policy no longer focuses on large enterprises and large projects, and economic policymakers have discovered the importance of SMEs in ensuring the long-term economic growth.

Despite the different approaches and possibilities of the characteristics of the existing EU policies for SMEs, the European policy on SMEs is concentrated in the five priorities (Commission of the European Communities, 2005):

– the promotion of entrepreneurship and skills;
– the improvement of SMEs' access to markets;
– cutting red tape;
– the improvement of SMEs' growth potential, and;
– strengthening dialogue and consultation with SME stakeholders.

[3] Portal dedicated to the Program „Horizon 2020”: http://ec.europa.eu/programmes/horizon2020 (17.02.2015).

These priorities were an important contribution to the development of the EU policy document containing a framework entitled “Think Small First – A Small Business Act for Europe”, adopted by the European Commission in 2008. The Act was a political commitment of the European Commission to introduce SMEs at the forefront of the decision-making process and highlight the significance of SMEs. The Small Business Act (SBA)[4] reflects the Commission's political will to recognize the central role of SMEs in the EU economy and for the first time introduces a comprehensive policy framework for the EU and its Member States (Commission of the European Communities, 2008, p. 4). It aims to improve the approach to entrepreneurship in Europe, to simplify the regulatory framework and policy for SMEs, and to remove other obstacles to their development. The SBA does not constitute a legal requirement, but a number of guidance activities which can be customized to the specific needs of each country, while achieving a degree of harmonization across the EU. The ten principles of the SBA are presented in Table 5.4.

Table 5.4. Principles of the Small Business Act for Europe

No.	Range of Principles	Principles specification
1	Entrepreneurship	Creating an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded
2	Second Chance	Ensuring that honest entrepreneurs who have experienced bankruptcy are promptly given a second opportunity to succeed
3	Think Small First	Designing rules modelled on the “Think Small First” principle
4	Responsive Administration	Making public administrations responsive to the needs of SMEs
5	State Aid and Public Procurement	Adapting public policy tools to suit SME needs - facilitating SMEs’ participation in public procurement and ensuring better access to State Aid for SMEs
6	Access to Finance	Facilitating SMEs’ access to finance and developing a legal and business environment conducive to the specific requirements of SMEs, including timely payments in commercial transactions
7	Single Market	Helping SMEs to benefit more from the opportunities offered by the Single Market
8	Skills and Innovation	Promoting the enhancement of skills in the SME workforce and all forms of innovation
9	Environment	Enabling SMEs to transform environmental challenges into economic opportunities while acting sustainably
10	Internationalization	Encouraging SMEs to benefit from the growth of global markets and supporting them in this pursuit

Source: Own compilation based on (Commission of the European Communities, 2008, p. 4).

The implementation of the SBA - as the EU strategy to improve the business environment for SMEs - is closely monitored by the European Commission. One of the main tools used by the European Commission to monitor and evaluate the progress of the implementation of the SBA is the “SME Performance Review”,

[4] The EU Portal on the Small Business Act for Europe: http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm (15.02.2015).

conducted on an annual basis. The SME Performance Review provides comprehensive information on the policy activities to implement the SBA and the economic performance of SMEs in the EU28 Member States as well as in 9 other partner countries. The main results of this review are presented in the Annual Report on European SMEs, the Summary Paper on the SBA implementation, the SME policy database and the SBA country fact sheets (European Union, 2014a, pp. 10-11).

To meet the new challenges for SMEs, resulting among others from the economic crisis, in 2011 the European Commission presented the “Small Business Act Review” (European Commission, 2011), taking into account the evaluation of its implementation between 2008 and 2010. As a result of the SBA review, the European Commission took another important step, i.e. prepared the new EU "Entrepreneurship 2020 Action Plan", which addressed the creation of policies to support SMEs and the promotion of entrepreneurship, especially a further improvement at a national and European level. The goal of this Plan is to release entrepreneurial potential and the abolition of barriers to SMEs by simplifying administrative procedures, facilitating access to finance, education, youth entrepreneurship, as well as entrepreneurial activity of women and seniors (European Commission, 2012; Urbaniec, 2014). This document points to the critical areas requiring an urgent improvement and the need for solutions to build a better framework for SMEs in the EU and in the Member States in accordance with the key principle of the SBA “Think Small First”. The main activities of the Plan are implemented by the Commission through the competitiveness and industrial policy and the SBA governance mechanisms.

Furthermore, the EU Policy for SMEs aims at to create a business friendly environment, to improve access to new markets and internationalization, to facilitate access to finance, to support SME competitiveness and innovation, to provide key support networks and information for SMEs. These goals result from the SBA Principles and should help ensuring economic growth, innovation, job creation, and social integration in the EU. This new way of perceiving the role of SMEs has already found expression in the programmes and activities of the EU, influenced by taking into account new factors of the economic development and the new role of the state as well as the growing political power of organizations representing SMEs (e.g. European Association of Craft, Small and Medium-sized Enterprises - UEAPME), (EIM, 2009; Surdej & Wach, 2011). These organizations seek a permanent recognition of the needs of SMEs, a reduction of barriers to their business and an increase in resources for solving problems of small and medium business.

5.4 CHALLENGES AND OPPORTUNITIES FOR SMES IN THE CONTEXT OF EUROPEANIZATION

The answers to the questions: What are the challenges resulting from the current EU policy to support entrepreneurship and what are the strategic development opportunities? will be analyzed on the basis of the monitoring of the strategic documents implementation under the EU Policy for SMEs, among others, SBA, Entrepreneurship Action Plan as well as the SME survey of access to finance in the EU (SAFE).

As for challenges, it must be stressed that the EU policy on SMEs is related to many challenges. One of the main tools the European Commission uses to monitor and assess countries' progress in implementing the Small Business Act (SBA) is the “SME Performance Review”, conducted on an annual basis. Overall, since the beginning of the monitoring of the SBA, it can be seen that the picture of the situation of SMEs in different countries, the size of companies and sectors are varied. As a result of monitoring the implementation of the SBA Principles a number of specific challenges for the SMEs can be identified (see Figure 5.1). The most significant challenge which is currently faced by SMEs involves the access to finance (66%).

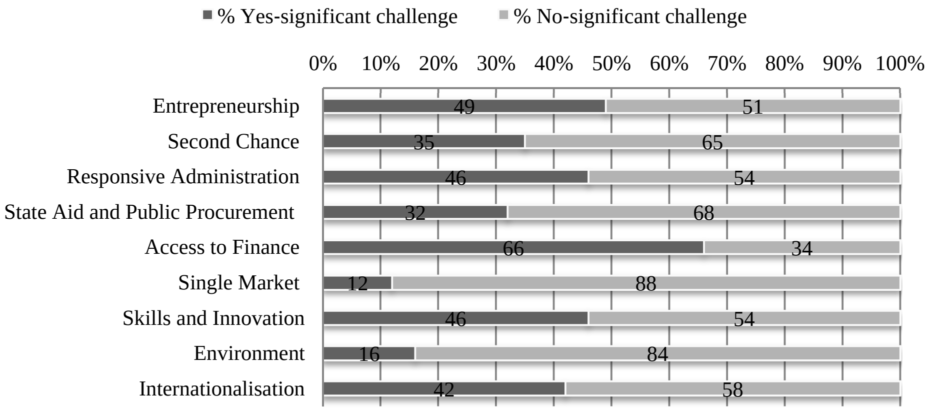

Figure 5.1. Most challenging SBA principles to SMEs at national level – EU28
Source: European Union (2014a, p. 29).

Another political document on SMEs is the "Entrepreneurship 2020 Action Plan", which lists the following three action pillars as the main policy challenges for SMEs (European Commission, 2012, p. 5):

1. education and training in the field of entrepreneurship in order to promote growth and business creation;
2. strengthening of framework conditions for entrepreneurs by removing existing structural barriers and supporting them at critical stages in the business lifecycle;
3. enhancing the entrepreneurship culture in Europe: the upbringing of a new generation of entrepreneurs.

Other challenges can be indicated in addition to the challenges listed in the strategic documents of the EU policy for SMEs. According to the 2013 Survey of

SME Access to Finance in the EU (SAFE)[5] there are many challenges currently faced by SMEs. The survey relates to the seriousness of six potential problems listed in the table below.

In 2014, as in previous years, for 20% of all SMEs finding customers was the biggest problem, but since 2009 there has been a decrease. This means that the demand has been the most important factor in explaining the performance of SMEs in recent years. Finding skilled and experienced staff ranks second and the importance of this problem has increased over the years, like in the case of regulation. Access to finance was the fifth most pressing problem facing SMEs, and since 2009 gradually declining. In 2014 access to finance was the most pressing problem in Cyprus (45%), Greece (32%) and Slovenia (28%). On the contrary, the lowest number of SMEs considered the problem of access to finance as the most urgent in the Czech Republic (7%), Austria (7%) and Slovakia (7%) (European Union, 2014b, p. 144).

All other issues rank broadly the same for SMEs as a whole. The percentages in table 5.5 indicate the proportion of SMEs that consider the specific problem as the most pressing problem.

Table 5.5. Most pressing problems EU28 SMEs faced during the period 2009-2014

Selected problems of SMEs	2009	2011	2013	2014
Finding customers	29%	24%	24%	20%
Availability of skilled staff or experienced managers	8%	14%	13%	17%
Regulation	6%	8%	12%	16%
Competition	13%	15%	15%	15%
Access to finance	17%	15%	13%	13%
Costs of production or labour	9%	12%	14%	12%
Other	15%	10%	7%	7%

Source: Own compilation based on (European Union, 2014b, p. 142).

However, in some cases, there are significant differences between SMEs by size classes. Access to finance is relatively more important for micro firms than for small and medium-sized enterprises. Availability of skilled staff and experienced managers is much more important for small and medium-sized enterprises than for micro firms. Competition, which is the pressure that companies confront on the supply side, is particularly important for medium-sized enterprises (European Union, 2014b, p. 26-27).

Despite the different approaches and the levels of detail all these challenges relate on the one hand to the business environment, including access to finance, and on the other hand to the motivation and skills to create a small business (development of the entrepreneurial spirit). To meet these numerous challenges, it is necessary to intensify the activities not only at the EU level but also in the Member States. For this purpose there are a number of initiatives and instruments to

[5] EU Portal on Access to finance for SMEs: http://ec.europa.eu/growth/access-to-finance/index_en.htm (15.02.2015).

support the strategic objectives and directions of development of the EU Policy for SMEs (see Table 5.6).

Table 5.6. The strategic directions of the EU Policy for SMEs

Strategic objectives	Selected EU actions/instruments
Creating a business friendly environment	– developing SME-friendly policies, e.g. Small Business Act (SBA), Green Action Plan for SMEs, Regional SME policies; – monitoring the progress in their implementation and sharing best practices, e.g. SME Performance Review.
Promotion of entrepreneurship	– promoting entrepreneurship by initiatives listed in the Entrepreneurship Action Plan; – “reignition” of Europe’s entrepreneurial spirit, e.g. by: educating young people about entrepreneurship, highlighting opportunities for women and other groups, easing administrative requirements.
Improvement of access to new markets and internationalization	– helping European businesses to face competition and access foreign markets, e.g. by: the European Single Market, European Standardisation System; – access to markets information and new business partners through the following portals: Enterprise Europe Network, SME Internationalisation Portal, Internationalization of Clusters, Your Europe Business Portal, European Small Business Portal, SME Internationalization beyond the EU.
Facilitating access to finance	– improving of the SMEs financing (e.g. Horizon 2020 Framework Programme for Research and Innovation: InnovFin – EU Finance for Innovators, the 2014-2020 programme for the Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME), the SME Instrument of the Horizon 2020 Framework Programme for Research and Innovation); – providing information on funding (e.g. EU Access to Finance portal, a series of EU Access to Finance Days for SMEs across all EU countries).
Support for SME Competitiveness and Innovation	– support and promote industrial competitiveness, by monitoring competitiveness in the EU and EU countries, analyses of the impact of policy proposals on competitiveness; – determination of priorities for innovation, e.g. support innovation development in priority areas and in SMEs (mainly through Horizon 2020); fostering the broad commercialization of innovation in the EU including Public Procurement for Innovation, Design for Innovation, Public Sector Innovation, and Social Innovation; monitoring innovation performance by the European Innovation Scoreboards, Innobarometers, Business Innovation Observatory; improving regulatory conditions for innovation with measures for entrepreneurship, access to finance, clusters, single market, intellectual property and standards.
Providing key support networks and information for SMEs	– providing entrepreneurs with information and interactive services on foreign markets, e.g. Your Europe Business Portal, SME Internationalization Portal; – access to market information and potential business partners across Europe, e.g. the Enterprise Europe Network, Portal on Access to Finance.

Source: Own compilation based on EU Portal: Entrepreneurship and Small and medium-sized enterprises (SMEs), http://ec.europa.eu/growth/smes/index_en.htm (20.02.2015).

In summary, the presented strategic areas of opportunities, implemented by the EU, focus on three key issues: the conditions for Entrepreneurship (legal, political, market and social), the financial aspect (financial and aid instruments) as well as support for the SMEs competitiveness through Innovation and Internationalization.

In order to achieve these objectives of the current strategy for SMEs, the EU budget for 2014-2020 provides substantial financial resources for SMEs through the European Structural and Investment Funds, the COSME and the Horizon 2020[6] programmes. According to the new Cohesion Policy 2014-2020 the key area for economic growth and job creation is first of all to enhance the competitiveness of SMEs (European Commission, 2013). It requires therefore a significant funding and appropriate support tools within the Europeanization process, especially within the EU policy for Entrepreneurship and SMEs.

5.5. CONCLUSIONS

Europeanization is an ambiguous concept, analyzed from different perspectives and with different areas that describe changes in the most important aspects of life, including the creation of favourable conditions for business environment and SMEs development within the European Union. SMEs are generally considered as the main source of employment, entrepreneurship and innovation in the EU, and thus are crucial for improving the competitiveness of the European economy. The increasing importance of the SMEs in the European policy is one of the necessary conditions for the growth of the economy.

On the basis of the key performance indicators: the number of SMEs, the value added (in current prices) generated by SMEs and the number of persons employed by the SMEs, it can be seen that they play a key role in the European economy, particularly with regard to their number and their creation of new jobs. Moreover, the following economy sectors are among the most important ones for SMEs: “manufacturing”, “construction”, “professional, scientific and technical activities”, “accommodation and food” and “wholesale and retail trade, repair of motor vehicles and motorcycles”. Together, these sectors account for about 78% of all SMEs in the EU28, for roughly 71% of the value added created by SMEs, and for 79% of total EU28 SME employment.

The analysis of the impact of the EU policy on the SMEs shows that the current policy is focused on the improvement of the business conditions (e.g. by the Small Business Act) as well as entrepreneurship promotion and the “reignition” of Europe’s entrepreneurial spirit (e.g. by the Entrepreneurship 2020 Action Plan). These goals help ensuring economic growth, innovation, job creation, and social integration in the EU. The numerous strategic documents and instruments, used for shaping the EU policy for SMEs, also support a partnership between the EU and the Member States in their implementation. For this purpose, since the early 90s of the twentieth century the problem of SMEs has established a presence in the programmes and activities of the EU.

[6] Portal dedicated to the Program „Horizon 2020”: http://ec.europa.eu/programmes/horizon2020 (17.02.2015).

It should be noted that the financial and market factors constitute the dominant challenges. In addition, there are structural problems with the functioning of a supportive environment for entrepreneurship, and the support for the cooperation between public and private actors, which would stimulate the growth of innovative enterprises, is still too weak (Urbaniec, 2011; Bučar, 2014). A detailed analysis of these issues made it possible to determine that the strategic objectives of the EU Policy for SMEs strives to overcome the current problems and challenges (e.g. related to the conditions for entrepreneurship or financial aspects), placing a greater emphasis on the growth of their competitiveness through innovation and internationalization.

As a result of the changes in the global economy, European companies tend to look for new ways to ensure a competitive advantage. An effective SME development involves both the continuous improvement of learning skills in accordance with the idea of a knowledge-based economy as well as the political support through the implementation of the principles of European policy for entrepreneurship. Therefore, an important direction for further research should be to identify and analyze the factors that support the competitiveness of SMEs through their innovativeness and entrepreneurial activities, defined as the ability to create knowledge, and above all, to transform it into new products, services and technologies.

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6

Europeanization of Research and Innovation Policies: Big Achievements but Still a Lot to Do

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Summary:

There has been the common research and development policy in the European Economic Community and the Euratom since their establishment in 1957. Within the Joint Research Centre, several Institutes were set up in the member states. The first framework programme, introducing cross-border collaboration projects, was launched in 1984. The post-socialist Central and Eastern European countries (CEECs) joined the framework programmes already in their accession phase. With EU membership, they enjoy full 'membership' in the EU's research and innovation policies as well. However, evidence shows that there is still a long way to go to reach the real and full integration of the CEECs into these policies. As a matter of fact, the Southern periphery of the Eurozone is not in any more favourable position in this respect. Whether we look at participation in framework programme projects, the location of JRC sites, or participation in the newly formed Knowledge and Innovation Communities under the EIT, the Eastern and Southern periphery is largely underrepresented. The usual explanation for this lies in these countries' weaker research and innovation capacities and their less enabling and supportive research and innovation environments. For sure, that is true. Nevertheless, EU-level policies should not take these circumstances as given but should aim at tackling the differences through improving the conditions in the periphery – because that is the EU's interest as a community. Without closing this gap, the EU's integrity is threatened, and a lot of its research and innovation resources (ideas, innovations, and human talents) are wasted.

Keywords: R&D policy; innovation policy; European Union (EU), economic integration
JEL classification: O3, O38, O52, F02

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6.1. INTRODUCTORY REMARKS

By now more than ten years have passed since the first, largest round of the three subsequent Eastern enlargements (2004, 2007, 2013), in the course of which the Central Eastern European countries (CEECs)[1] joined the European Union, took place. Even more time has passed since these countries were entitled to join the EU's various research and development initiatives. The integration, in this respect as well, occurs as a process. The process is continuously unfolding but has not gone through to its end yet.

The CEECs integration into the common research and development (and, later, innovation) policy (R&D, then R&D&I policy) actions has definitely fostered the Europeanization of these areas in the relevant countries (just as in all of the altogether 13 new member states) both at the level of policy, and of the research and innovation institutions (both public and private). All this has taken place as part of a general Europeanization of different policies all across the EU (Bretherton & Mannin, 2013). And, obviously, the Europeanization of policies has been going on as part of internationalisation and globalisation (Wach, 2014).

In this study, we are interested in the advancements that have taken place in the CEECs in the field of R&D&I. Besides that, we make an attempt to draw an overall picture of where these countries in 2015 are in this respect. We will show that a lot has been achieved by the CEECs in the field of R&D&I since their accession to the EU.

On the other hand, considerable differences between old and new member states seem to persist. Some of these differences can be explained by the largely diverse research and innovation capacities of the member states which, obviously, correlate with the level of economic development. (However, this correlation is not proportionate and not necessarily evident either, as we will discuss in the chapter.) Nevertheless, there are also traceable weaknesses in the EU level policy in respect of handling this evident internal divide and thus really encouraging Europeanization of R&D&I in the CEECs by policy instruments.

The main implication of our findings is that, unless the general attitude in the common policy changes, it will most likely contribute to the further widening of the discrepancies instead of helping in decreasing or closing the gap.

6.2. EUROPEAN R&D POLICY ACTIONS

There has been common research and development in the European Economic Community and the Euratom since their establishment in 1957. Within the Joint Research Centre (JRC), several Institutes were set up in the (at that time) member states. The JRC is 100% funded from the common European budget under the EU's framework programme for research and innovation, Horizon 2020.

[1] By the term we hereby refer to 8 countries: Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary and Slovenia.

The overall budget of the JRC amounts for ca. 330 million EUR annually and further income is generated by the JRC through performing additional work for the European Commission, and contracted work for third parties (e.g. public authorities or industry). The JRC also undertakes nuclear-related research under the Euratom Research Framework Programme (EC Website, 2015a). The JRC currently employs over 3,000 staff, of whom ca. 77% are scientists and researchers or work on scientific projects (EC Website 2015g).

Currently there are seven institutes of the JRC in five locations, and a management centre in Brussels (Figure 6.1). The seven institutes are the following:

- Institute for Energy and Transport (IET);
- Institute for Reference Materials and Measurements (IRMM);
- Institute for Transuranium Elements (ITU);
- Institute for Health and Consumer Protection (IHCP);
- Institute for Environment and Sustainability (IES);
- Institute for the Protection and Security of the Citizen (IPSC);
- Institute for Prospective Technological Studies (IPTS).

The five locations are found in the Netherlands (Petten), in Beligum (Geel), in Germany (Karsruhe), in Italy (Ispra), and in Spain (Seville). Of these locations, only Spain is not a founding member states. No JRC institute has been set up in the new member states since the Eastern enlargement.

The Framework Programmes for Research and Technological Development, also called Framework Programmes or abbreviated FP1 through FP7 with "FP8" being named "Horizon 2020", are funding programmes created by the EU to support and foster research in the eligible countries (EC Website 2015b). The first framework programme, introducing cross-border collaboration projects, was launched in 1984, based on the success of the intergovernmental programme ESPRIT (European Strategic Programme for Information Technology) preceding it (Csonka, 2008).

The specific objectives and actions vary between funding periods. FP6 lasted between 2002 and 2006 and, as such, it was the first full programme adopted and implemented after the Lisbon summit in 2000. Accordingly, FP6 introduced new funding schemes and launched programmes with the aim of establishing strengthening the European Research Area (ERA) as decided in Lisbon. In view of the expert group assessing FP6 (Annerberg *et al.*, 2010), the programme was successful in catalysing European level R&D activities, and the fundaments of the ERA could indeed be strengthened. However, the expert group also found some weaknesses and proposed improvement in those fields. Among these weaknesses, the insufficient level of transparency in consultation with stakeholder communities, the fragmented structure of the framework programme and the inconsistencies deriving from that, weaknesses in implementation (delays, lack of actions taken in order to keep to objectives), and the programme’s vague role in the EU’s policy mix were highlighted. Accordingly, in relation to FP8 (as the report was finalised in 2009 and published in 2010), the expert group recommended, among others, the simplification of the objectives, the clarification of the way stakeholder communities' positions are considered, the increase of small and medium-sized enterprises (SMEs) participation in funding to at least 15%, and to make research an attractive career for talented young people. The report also emphasised that good quality design of the next programme was a necessary condition of its good quality implementation.

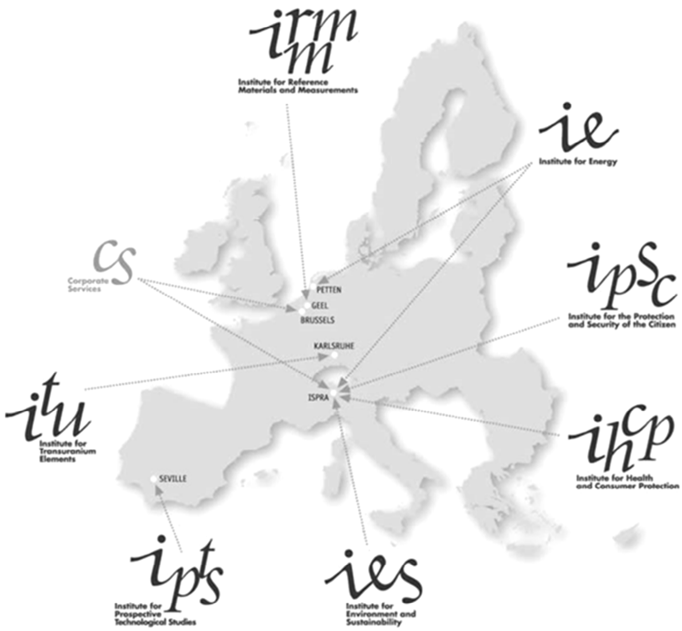

Figure 6.1. Joint Research Centre sites
Source: www.ec.europa.eu/jrc

FP7 was a big step forward in terms of financial resources dedicated to R&D: compared to the previous programme, FP7 meant a 63% rise in budget, amounting to ca. 50 billion EUR for the seven years' period 2007-2013 (EU, 2006). This way, a huge step was taken in the EU towards strengthening one of the three pillars of the knowledge triangle (education, research, and innovation) (EC Website 2015c). Similarly to fp6, largest part of the budget was dedicated to research carried out in the form of cooperation of large international consortia.

While in FP6 and FP7 focus was still on technological research, in Horizon 2020 the focus is on innovation, with the objectives of delivering economic growth faster and delivering solutions to end users (that are not exclusively businesses but often governmental agencies). The framework programmes up until FP6 covered five-year periods, but from FP7 onwards, programmes are running for seven years. With each new framework programme, the budget has increased (Table 6.1).

Table 6.1. Framework Programmes for Research and Technological Development

Framework Programme	Period	Budget (billion EUR)
First	1984-1988	3.750
Second	1987-1991	5.396
Third	1990-1994	6.600
Fourth	1994-1998	13.215
Fifth	1998-2002	14.960
Sixth	2002-2006	17.883
Seventh	2007-2013	50.521
Horizon 2020 (Eighth)	2014-2020	80.000

Source: http://www.jeupiste.eu/horizon-2020-and-around/historical-timeline-framework-programme

6.3. CEECs AND COMMON R&D POLICY

With the Eastern enlargement process, the candidate countries' accession to the European research and development programmes also started in an organic way. In the accession treaties, Chapter 17 covers Science and Research (EC, 2002a). Negotiations of this chapter concerned two areas: participation in the Framework Programmes, and science and technology cooperation agreements with third countries. The negotiations concluded in the case of all of the CEECs that no transposition was required in the national legal order of the accession countries. At the same time, the negotiations also pointed out that implementation capacity did not relate to legal provisions but rather to the existence of necessary conditions for effective participation. These conditions refer to many aspects including infrastructures, effectively functioning institutions, quality of researchers, collaboration capacities etc. As regards the institutional setting, the negotiations documents emphasised the importance of the quality of both public and private institutions.

In the framework of accession to the common R&D activities, National Contact Points (NCP) had to be set up in the at-that-time candidate countries. The relevant chapter was closed in October 1998 for the countries that started negotiations in 1998 ("the Luxembourg six") and in May 2000 for the countries that started negotiations in 2000 ("the Helsinki six").[2]

In parallel with the negotiations, a study was commissioned by the Directorate General for Enterprise of the European Commission on the innovation capabilities of the so-called "Luxembourg six" candidate countries. The study, published in 2001, pointed out that, in general, innovation capabilities in these countries were considerably weak and that the cohesion of the enlarged EU would depend on the candidate countries' ability to sustain high growth rates through increased technological change (Mickiewicz & Radosevic, 2001).

[2] The Luxembourg six were the candidate countries with whom accession negotiations were authorised at the December 1997 European Council: Estonia, Poland, the Czech Republic, Slovakia, Hungary, and Cyprus. The Helsinki six were the candidate countries with whom accession negotiations were authorised at the December 1999 European Council: Latvia, Lithuania, Slovakia, Romania, Bulgaria, and Malta.

There was already some scattered participation on behalf of the CEECs in FP5 (Schuch, 2003) but the CEECs officially (and ceremonially) joined the framework programmes in October 2002, upon the launch of FP6 (EC, 2002b). The association agreements to the framework programme covered the at-that-time candidate countries: Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia, and Turkey. The agreements stated that candidate countries would have the same rights and obligations as EU member states under FP6.

Nevertheless, as Vonortas (2008) reveals, participation showed an obvious gap between the old member states (EU15) and the new member states (NMS): the whole CEECs underperformed the EU15. However, as for success rates, the two country groups' performance was comparable: the EU15 performed an overall 20.8% success rate while the respective rate for the NMS was 18.9%. Still, the success rates at the countries' level in CEECs showed some variety (Table 6.2) and can be roughly approximated with the general level of economic and institutional development of the countries, and of later entry of some countries (especially Bulgaria and Romania) into the programme.

Table 6.2. Success rates for new member states in FP6

Country	Success rate
Cyprus	19.1%
Czech Republic	20.0%
Estonia	22.4%
Hungary	20.4%
Lithuania	19.1%
Latvia	18.8%
Malta	19.3%
Poland	18.6%
Slovenia	18.9%
Slovakia	19.3%
Bulgaria	16.2%
Romania	15.3%

Source: Vonortas (2008, p. 16.)

Regarding the participation rates, Poland, Latvia and the Czech Republic underperformed even the other CEECs. Nevertheless, most of the funding went to the EU member states (more than 70.000 million EUR). Associated and candidate countries received substantially smaller funding (ca. 8.000 million EUR), and third countries even less (ca. 4.500 million EUR). The highest number of proposals was handed in from Germany, the United Kingdom, France, Italy, Spain, Belgium, Sweden and the Netherlands (Rietschel *el al.*, 2009). Besides the Eastern NMS, Portugal, Finland and Greece are also found on the other end of the rank of EU member states in terms of absolute funding. The gap is the most striking in terms of the average participation contract size: while the EU15's average contract size was 250,000 EUR, it was only 112,000 EUR for the NMS (Rietschel *et al.*, 2009, p.32.).

The European science and research community noticed the *problématique* of the gap. As a result, several studies and actions were initiated. In the field of social science research, the MOCEE (Member Organisations in Central and Eastern Europe) project was launched (ESF Website 2015). The project results (ESF, 2008) provide a very useful insight into the issue. Perhaps the most important message of the whole research was that research in social sciences in the post-socialist CEECs practically had to reinvent itself. Another major finding of the project was that research in the CEECs (just like elsewhere) depends largely on the quality and general capabilities of institutions, which were largely underdeveloped at the change of the system and which cannot be built up from one day to the other (Virtasalo, Järvinen, 2010). Evidently, the direction and speed of the development matters greatly and determines the success of the national research and innovation systems in these countries.

6.4. CURRENT STATE OF AFFAIRS AND TENDENCIES

Horizon 2020 is the EU's research and development programme for the 2014-2020 programming period (EC, 2011a). Horizon 2020 is organised around the set of objectives defined by the Europe 2020 strategy: to foster the realisation of smart, sustainable and inclusive growth in the EU by 2020. As regards R&D expenditures, the Lisbon objective is still valid: 3 per cent of GDP should be spent on R&D. The target has not yet been reached at the level of the EU but there has been a slight but definite improvement since the launch of the Lisbon strategy, in spite of the crisis (Figure 6.2).

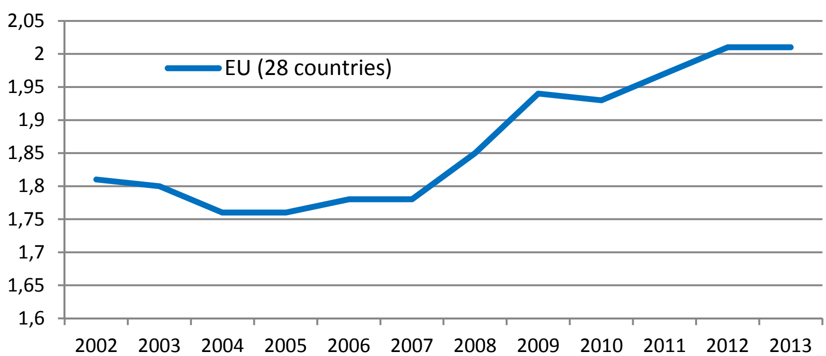

Figure 6.2. Research and development expenditure (% of GDP, 2002-2013)
Source: Eurostat

Regarding the organisational structure, Horizon 2020 forms part of the Innovative Union agenda, one of the seven flagship initiatives under the Europe 2020 strategy and one of the four under the smart growth objective (Figure 6.3). This setup also implies that R&D and innovation are now integrated at the EU policy level and are handled directly as tools of economic development (see also Ambroziak, 2015 on the EU's role in economic development). Also, the framework programme's full name now encompasses innovation as well, besides research[3], so it is justified to discuss the EU's R&D&I policy in relation to the 2014-2020 period.

Europe 2020 strategy			
Priorities	**Smart growth**	**Sustainable growth**	**Inclusive growth**
Flagship initiatives	Digital agenda for Europe Innovation Union Youth on the move	Resource efficient Europe An industrial policy for the globalisation era	An agenda for new skills and jobs European platform against poverty

Figure 6.3. The structure of the Europe 2020 strategy
Source: http://ec.europa.eu/europe2020/index_en.htm (accessed on June 22, 2015).

The European Commission, in order to make the framework programme (the main instrument of R&D&I policy) more effective, enacted some simplifications in Horizon 2020, compared to earlier framework programmes. Of the simplifications, the most obvious one is that there are now only three priorities: "Excellent Science, "Industrial Leadership", and "Societal Challenges" (EC, 2011a, pp. 4-5.), compared to the much more complex structure of FP7 (four areas of intervention, broken down into further sub-activities), not even mentioning the fragmented nature of the previous ones. As for the priorities, Excellent Science targets the development of Europe's science base in order to ensure long-term competitiveness so the first priority already connects research and competitiveness. Industrial Leadership is the priority where business investments into R&D&I are promoted, with special regard to leading technologies. Accordingly, facilitating access to risk finance and support of innovation in SMEs are also included among the eligible activities. Societal (and not social) challenges, as its name also indicates, applies a "challenge-based approach" (EC 2011, p. 5.) and, at the same time, promotes interdisciplinarity in identifying the relevant challenges that European societies are facing, and in finding the ways of resolving them (Vilnius Declaration 2013).

The Commission's impact assessment accompanying the Horizon 2020 programme pointed out that neither the triple objectives of smart, sustainable and inclusive growth, nor the diverse societal challenges can be handled solely through market mechanisms; public intervention is inevitable. And that public intervention has to be undertaken at the European level as the objectives and the challenges are also of that scale. The Commission also emphasised that, by going

[3] Horizon 2020 – The Framework Programme for Research and Innovation.

on with the business-as-usual approach and/or by renationalising R&D&I policies, the results would not be achieved. In fact, the integrated approach applied in Horizon 2020 is needed. The impact assessment quantified the expected economic, competitiveness and social impacts of Horizon 2020 (over and above the business-as-usual and the renationalisation scenarios) as follows (EC, 2011b):

– Horizon 2020 will generate an extra 0.92 (0.53+0.39) per cent GDP.[4]
– It will also enhance Europe's competitiveness, increasing its exports by 1.37 (0.79+0.58) per cent, and reducing its imports by 0.15 (0.1+0.05) per cent.
– It will create jobs and increase European employment by 0. 40 (0.21+0.19) per cent.

The calls for proposals under Horizon 2020 have been launched rather early (some of them already in late 2013, (EC, 2013)); the first calls have in fact been closed and evaluation of proposals has started (EC Website 2015d). The first interim evaluation of the programme is expected in its mid-term, that is, by 2017-2018.

Similarly to the earlier framework programmes, the Joint Research Centre continues to be integrated into Horizon 2020. Nevertheless, now a further institute has become part of the Horizon 2020 scheme: the European Institute of Innovation & Technology (EIT) is responsible for effectively operating the knowledge triangle by establishing and developing thematic Knowledge and Innovation Communities (KICs) (EIT Website 2015b). This setup is highly in line with what economic theory implies in respect of the relations between economic performance, knowledge as a factor of production, and education as investment in that factor. The structure of the EIT is much more modern than that of the JRC; it strives for exploiting the possibilities lying in networking, cooperation, stakeholder consultations, several types of meetings and other events (much of those utilising the advantages of ICT in communication), and operating a vivid, up-to-date, interactive and user-friendly portal (EIT Website 2015a).

At present, there are three KICs: one dealing with the climate challenge, one in the field of ICT, and one searching for innovative solutions in energy production and use (Figure 6.4). We can see that the CEECs (and, in fact, the Southern EU member states as well) are again largely underrepresented in these networks: apart from one of KIC InnoEnergy's offices in Krakow (Poland) (KIC Website 2015), none of the networks' co-location centres can be found in any of the CEECs. The Climate KIC has a regional implementation and innovation centre in Central Hungary (where ca. half of the Hungarian national GDP is produced), and another one in Lower Silesia, Poland. And that's all the CEECs presence in the KICs – which does not appear to be balanced.

[4] First figure in parentheses refers to the positive impact compared to the business-as-usual option, second figure to the renationalisation option, respectively, in all three dimensions.

Figure 6.4. Knowledge and Innovation Communities in the European Union (as of May 2015)
Source: http://i3s.ec.europa.eu/commitment/13.html

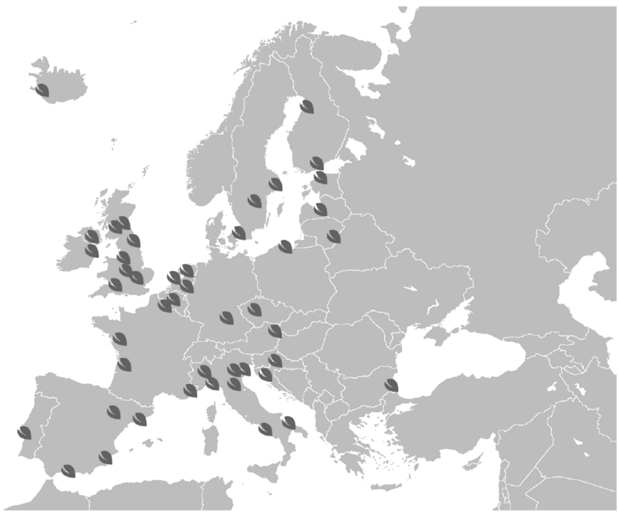

Figure 6.5. Cities under the Green Digital Charter
Source: https://ec.europa.eu/digital-agenda/en/news/two-more-cities-join-green-digital-charter-initiative

Under another flagship initiative of the Europe 2020 strategy, the Digital Agenda, there are many different actions. One of them, closely related to research and innovation, is the Green Digital Charter. The cities signing the Charter commit themselves to introducing solutions for reducing emissions by the use of ICT, and to promoting progress in tackling climate change through the innovative use of digital technologies in cities (Green Digital Charter 2015). This way, the objectives of the Charter are in line with the EU's Horizon 2020 objectives as well (especially through the Societal Challenges pillar). The Digital Agenda supports the actions taken in the framework of the Green Digital Charter, and also the underlying research and innovation activities. At present, there are 46 cities from 20 EU member states representing more than 25 million EU citizens that have already signed the charter (Figure 6.5). Of these 46 cities, very few can be found in the CEECS – again.

After the participation of the CEECS in the different programmes and actions, let us now examine the R&D&I performance of these countries in comparison to the whole of the EU. There are many possibilities to undertake such examinations, and the R&D expenditures is just one of the indicators, not necessarily the best one to depict R&D&I performance (Török, 2005). Therefore, in the following section, we will analyse the countries' R&D&I performance along several dimensions:

- gross expenditure on research and development (GERD);
- business sector's expenditure on research and development (BERD);
- share of business sector in gross expenditure on research and development (BERD/GERD);
- share of government budget appropriations of outlays on research and development;
- research and development personnel;
- human resources in science and technology (HRST);
- patent applications to the European Patent Office.

As shown above (Figure 6.2), the gross expenditure on R&D in the EU28 (as % of GDP) has increased in the past years. Nevertheless there are considerable differences in the performance of individual member states (Figure 6.6). In 2013, three member states outperformed the EU-level target (3% of GDP): the three Nordic countries. Five more member states' performance was better than the EU average – among them, we find Slovenia from the CEECS. The Czech Republic, Estonia and Hungary follow in the CEECS group. Nevertheless, of the ten member states that do not even reach a 1% GERD, four are from the CEECS (Latvia, Slovakia, Poland and Lithuania) besides the Balkan countries (Romania, Bulgaria, Greece and Slovakia), and the two Mediterranean islands, Cyprus and Malta.

Another important indicator of R&D performance is the business sector's such expenditure (BERD). Quite similarly to the GERD data, there are major differences among EU member states' performance in this respect (Figure 6.7). As a matter of fact, the range is even larger, which shows that with the level of development the business sectors role in the overall financing of R&D grows. Most of the CEECs are found among the worst performers, with Slovenia, Czech Republic, Hungary and Estonia being the exceptions.[5] Nevertheless, the tendency of the CEECs' merging with the Southern member states can be traced in this respect as well (Bučar, 2015).

[5] Please note that, both for the GERD and the BERD rates, Luxembourg's data are so low due to the very high level of GDP/capita in the country.

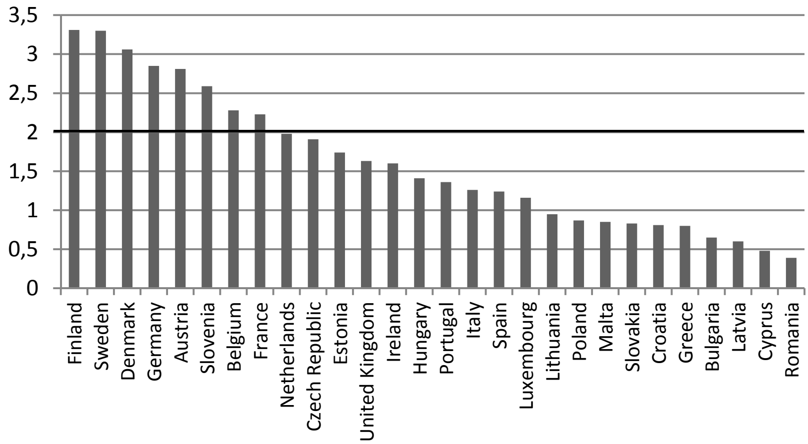

Figure 6.6. Gross expenditure on R&D (GERD) as % of GDP, EU member states, 2013* EU28 data (2.01%) marked by horizontal line
Source: Eurostat.

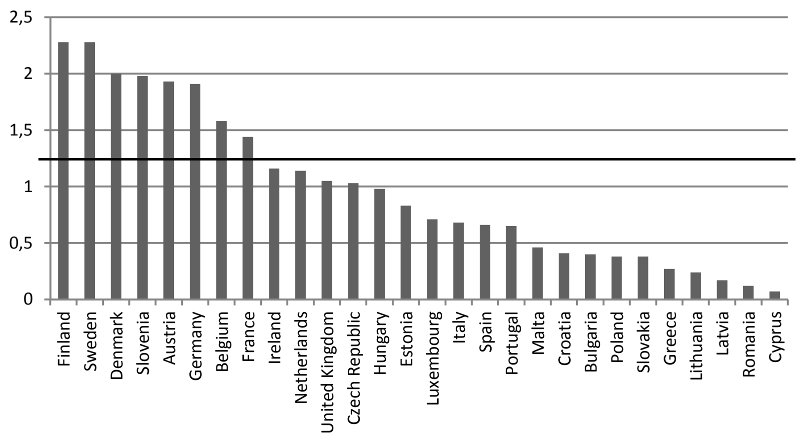

Figure 6.7. Business expenditure on R&D (BERD) as % of GDP, EU member states, 2013* EU28 data (1.28%) marked by horizontal line
Source: Eurostat

In order to see the connection better, we also consider the BERD/GERD rate (Table 6.3). In developed countries, the typical rate of business sector participation in gross R&D expenditure is 2/3 (Borsi & Telcs, 2004). In this respect, the outstanding rate for Slovenia (0.76) and Hungary (0.70) gaining 1st and 3rd positions not only in the CEECs but also in the EU ranking, is remarkable. However, it has not been so earlier (Török & Csuka, 2014). Especially for Hungary, the growth in the business sector's R&D expenditure is outstanding (Table 6.4).

Table 6.3. BERD/GERD rates, EU member states, 2013*

EU member states	BERD/GERD
Slovenia	0.76
Ireland	0.72
Hungary	0.70
Belgium	0.69
Sweden	0.69
Finland	0.69
Austria	0.69
Germany	0.67
Denmark	0.65
France	0.65
United Kingdom	0.64
Bulgaria	0.62
Luxembourg	0.61
Netherlands	0.58
Malta	0.54
Italy	0.54
Czech Republic	0.54
Spain	0.53
Croatia	0.51
Portugal	0.48
Estonia	0.48
Slovakia	0.46
Poland	0.44
Greece	0.34
Romania	0.31
Latvia	0.28
Lithuania	0.25
Cyprus	0.15

*EU average is: 0.64

Source: Eurostat.

The BERD/GERD rate, at the same time, has a further message, namely that in a convergence phase the government's role in developing a critical mass in research and development is crucial. So, as long as countries GERD is not surpassing the 1% (or even 1.5%) of GDP, the government is necessarily playing the main role in providing the financial resources needed for R&D activities. Then, once a certain level of development is reached and critical capacities for R&D&I have been established, incentives can be introduced to foster business participation. Incentives can take various forms, and can work through the tax system or in other areas of regulation shaping the national business environments (Török, 2006; Kosała & Wach, 2014).

Table 6.4. GERD, BERD, and BERD/GERD rates, Hungary and Slovenia, 2004-2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Hungary GERD	0.87	0.93	0.99	0.97	0.99	1.14	1.15	1.2	1.27	1.41
Hungary BERD	0.36	0.4	0.48	0.49	0.52	0.65	0.69	0.75	0.84	0.98
BERD/GERD	**0.41**	**0.43**	**0.48**	**0.51**	**0.53**	**0.57**	**0.60**	**0.63**	**0.66**	**0.70**
Slovenia GERD	1.37	1.41	1.53	1.42	1.63	1.82	2.06	2.43	2.58	2.59
Slovenia BERD	0.92	0.83	0.92	0.85	1.05	1.17	1.4	1.79	1.95	1.98
BERD/GERD	**0.67**	**0.59**	**0.60**	**0.60**	**0.64**	**0.64**	**0.68**	**0.74**	**0.76**	**0.76**

Source: Eurostat.

As public financing is so crucial in a nurturing phase, let us see how big part of the EU member states' national budgets is appropriated for such purposes (Figure 6.7). In relation to these data please note the following:

– as the data are taken from the budgetary plans, they only show ex-ante appropriations and do not show how the actual expenditures were (or were not) realised;
– the rate is expressed as percentage of budget and not of GDP and as the redistribution rates (that is, their budgets' size compared to their GDPs) vary greatly across EU member states, the rate of R&D expenditure compared to the budget can be influenced by these differences (e.g. Estonia has an unusually low redistribution rate);
– in countries where the business sector's role is large in financing R&D, there may simply be less need for public financing of such activities (e.g. Slovenia).

Looking at the data, we again see large dispersion across the EU, and mostly between Northern and Western European 'old' member states in the first half of the rank, and the CEECs and Southern Europe in the second half. Estonia, the Czech Republic, and Hungary are again the countries from the CEECs that stand out from the group (Slovenia not in this respect).

R&D&I is one of the most human capital intensive sectors. It obviously has physical infrastructure input need as well but, still, its main drive is knowledge that can be found in the heads of humans (Pelle & Laczi, 2015). Moreover, business sector financial resources tendentiously move towards entities and activities where human resource capable of pursuing R&D&I activities successfully are available, both in quantity and quality terms (EC, 2014). Therefore, human resource in the field of R&D&I is crucial.

The European Union uses several indicators to assess human resource available for the R&D&I sector. The main unit is the person but that is not obvious as we will soon see. In European statistics, a researcher is "a professional engaged in the conception or creation of new knowledge, product, processes, methods and systems, as well as in the management of the projects concerned" (EC Website 2015e). Perhaps the best basis for comparison is the so-called full time equivalent R&D personnel, expressed as percentage of the total labour force. According to the Eurostat's methodology, "R&D personnel include all persons employed directly on R&D, plus persons supplying direct services to R&D, such as managers, administrative staff and office staff" (EC Website 2015f). The data are calculated by converting these people's working hours into their full time equivalent and then divide it by the full time equivalent of the economically active population.

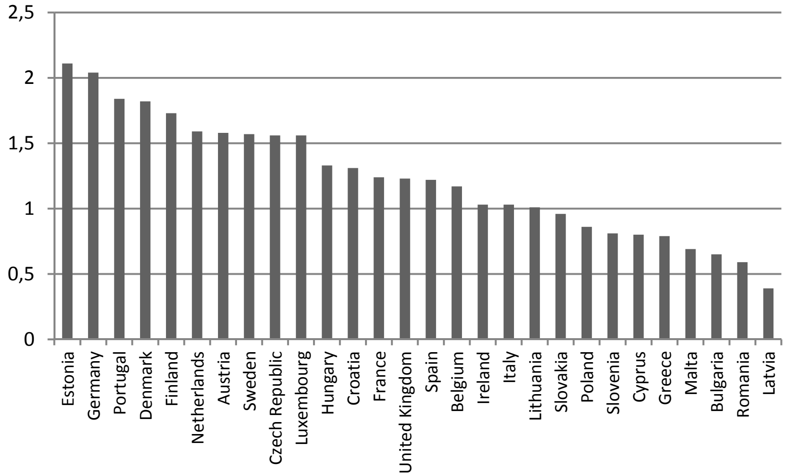

Figure 6.7. Share of government budget appropriations or outlays on research and development, % of total general government expenditure, EU member states, 2013
Source: Eurostat.

Again, we see large differences (Figure 6.8). Along this dimension, Luxembourg also earns a place among the top-performing Northern member states. Slovenia and Austria follow right after. Apart from Slovenia and the Czech Republic, the CEECs (and the Southern member states but Italy) can be found in the second half of the rank. Similarly to the R&D expenditures, the business sector's role grows as overall capacities grow.

Another approach to the human resource potentially available in the R&D sector is the human resource in science and technology (HRST) indicator. This indicator encompasses all persons in the age group 20-64 years who have a tertiary education attainment and/or is employed in the science and technology fields. The indicator is expressed as percentage of working age population. The concept and calculation of the HRST indicator is based on the Canberra Manual (OECD, 1995).

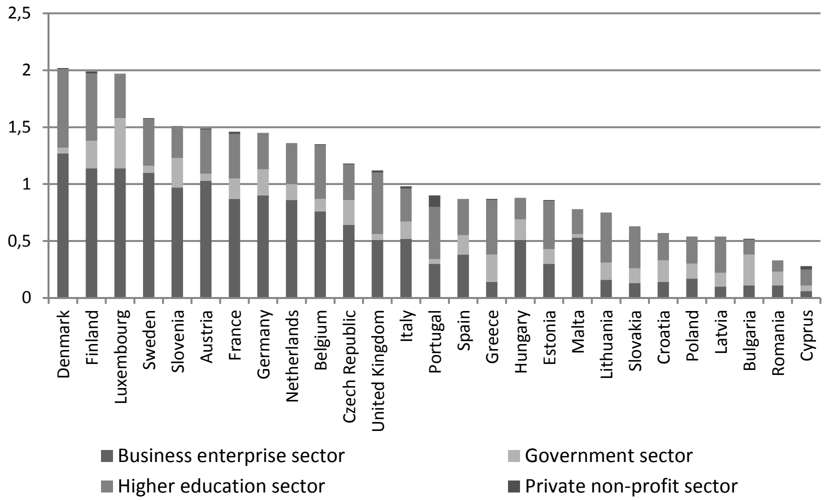

Figure 6.8. Research and development personnel, by sectors of performance, EU member states, 2013, full time equivalent, % of labour force
Source: Eurostat

So, how are the EU member states, and especially the CEECs, performing in this respect? The countries more or less take ‘the usual’ order in the rank (Figure 5.9). However, Luxembourg comes first (61% in 2013). The reason for that is that the proportion of urban population in Luxembourg is exceptional. The country is followed by the three well-performing Northern countries. Then come the United Kingdom, the Netherlands and Ireland. These are the member states where the rate exceeds the 50% – neither of the countries is from the CEECs or from the South. The mid-range (40-50%) consists of 10 member states, out of which 4 are from the CEECs; though 3 of the 4 are the Baltic states (Slovenia is the fourth one). The rest of the CEECs can be found in the last third in the rank.

Last but not least, we examine the data on patents. Literature is not unanimously on the view that patents are good indicators of R&D&I performance as there are numerous innovations that are deliberately not patented, for strategic reasons (Nagy, Pelle & Somosi, 2014). Nevertheless, they definitely give a picture about the intensiveness of innovation activities. As EU member states manifest a large variety both in terms of population and economic output, we consider the data that are normed according to population: the number of patent applications handed in the European Patent Office (the EPO), so intended for utilising in the EU internal market. The indicator shows the number of applications (per million inhabitants), independent of the outcome of their evaluation. (Should a patent application be handed in by residents of several member states, the data are revealed proportionately at the respective member states, thus avoiding multiple consideration.)

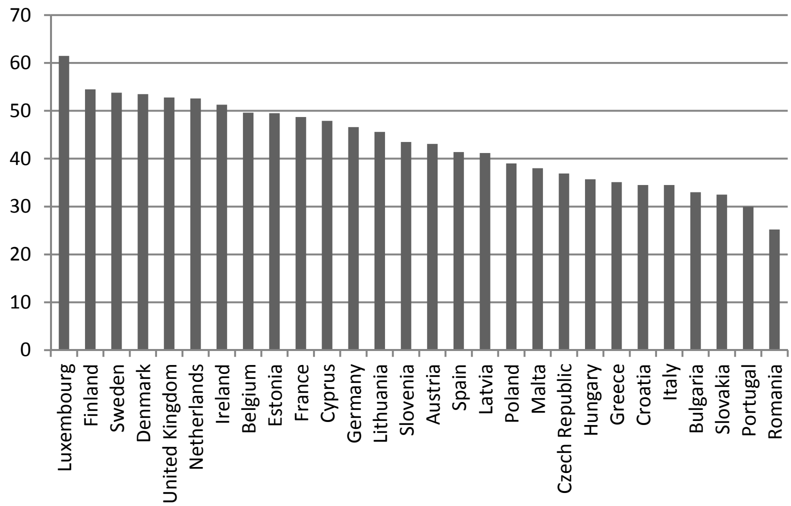

Figure 6.9. Human resources in science and technology, EU member states, 2013, % of active population
Source: Eurostat.

The data reveal that, even normed to population, there are vast differences across the EU, ranging from 290 (Sweden) to 2.8 (Romania) per million inhabitants in 2012 (Figure 6.10). Besides the Northern member states, Germany and Austria are also in the top five with over 200 patents. They are followed by Belgium (133.15), Luxembourg (133) and France (126.4). The United Kingdom, Italy and Ireland are also performing measurable outputs, exceeding 50 patents (per million inhabitants). Among these this relatively well performing member states, we cannot find any country from the CEECs and, outside Italy, none from the Southern countries either.

Nevertheless, as pointed out above, there are vivid academic and practical debates in relation to patents so we would be cautious about drawing any far-reaching conclusions from the data. Instead, we take a look at the development of the respective output of the CEECs since 2004 (Figure 6.11). We omitted the EU28 average data from the chart in order to see the performance of the individual countries of the CEECs better. Nevertheless, the EU average ranged between 117.17 (2006) and 108.55 (2012) in the reference period. Interestingly, after the 2006 peak, the overall EU performance started to decrease. In the meanwhile, most of the previously weak-performing CEECs improved. Slovenia, the member state that stood out from the CEECs group in the early years after EU accession, has lost most of its advantage while Estonia is stepping upper and upper the European patent application ladder.

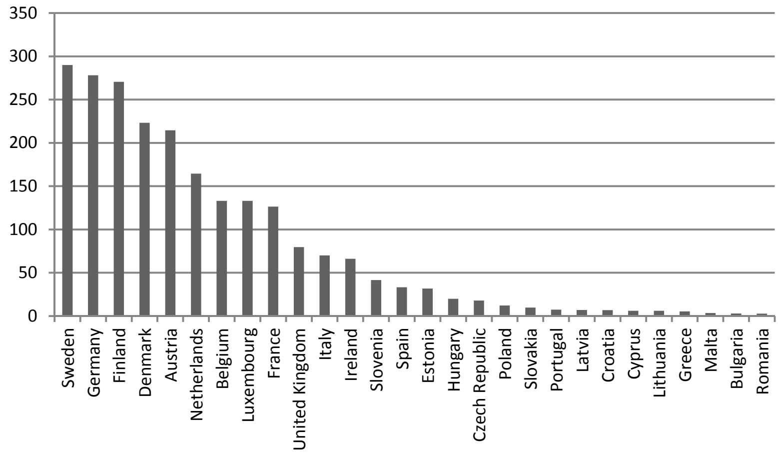

Figure 6.10. Patent applications to the EPO, per million inhabitants, EU member states, 2012
Source: Eurostat

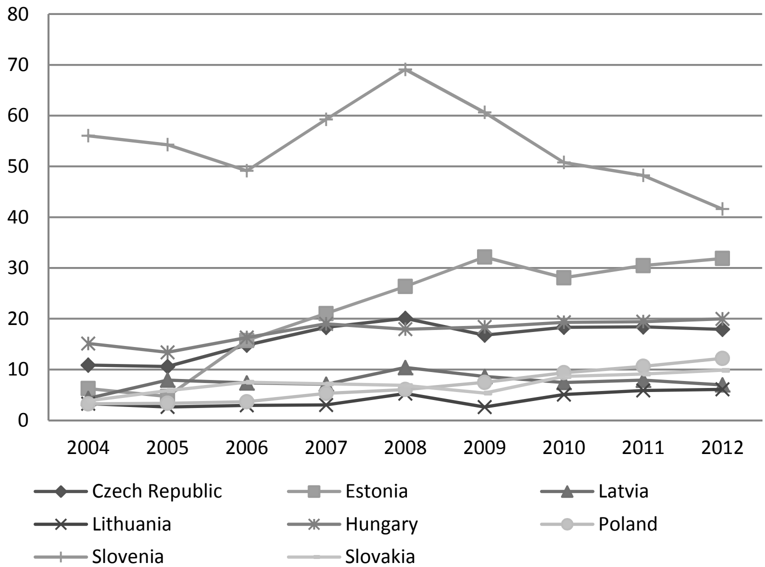

Figure 6.11. Patent applications to the EPO, per million inhabitants, CEECs, 2004-2012
Source: Eurostat

6.5. CONCLUSIONS

The CEECs gradually joined the European R&D&I activities in parallel with their accession to the European Union. The CEECs, after the change of the system, was considerably underdeveloped in these fields compared to the at-that-time member states. On the way to their EU membership, and even more since then, these countries' participation in European R&D&I collaborations has shown spectacular advancement. In certain aspects, some countries from the CEECs have already outperformed some (or, in a few cases, all) Southern European member states and others are on the way of catching up as well.

Nevertheless, the CEECs are apparently not following one single pattern but are rather showing a variety of development paths. Also, the overall gap in the EU in terms of R&D&I performance is not narrowing. Instead, after the economic and financial crisis, a core-periphery divide is unfolding. These tendencies are not favourable and, even if some countries from the CEECs (Slovenia, the Czech Republic and Estonia in the first place) show a development that provides them the chance to adhere to the core in the medium term, the overall divergence at the level of the European Union is in fact threatening the integrity of the whole integration in the longer run.

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7

Europeanization of R&D and Innovation Policies: What has the Membership Changed?

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Summary:

Research and development (R&D) as well as innovation (RDI) are considered as key drivers of competitiveness and growth in modern economies. The science, technology and innovation (STI) policies should have increased in importance during the process of transition to market economy, the latter being a common process for all Central and Eastern European countries (CEECs). The membership in the European Union (EU), where R&D and innovation figure strongly on the Community policy agenda, was expected to provide additional push in this area. The aim of the chapter is to analyse how the Europeanization of R&D and innovation policy took place in the thirteen new member states (NMS13) and specifically, what was the impact on countries' capacities in R&D and innovation. The Eurostat data on R&D and innovation for the 10 countries is discussed and analysed, as well as indicators gathered by the Innovation Union Scoreboard. Major policy mix characteristics, based on Trendchart and ERAWATCH reports are examined. We suggest that in spite of formal increased attention to R&D and innovation policy, brought as the result of Europeanization, the integration of the two policies within the mainstream economic policies of the countries has not occurred. Transfer of best practices, observed in "old" EU member states was done without sufficient adaptation to the country' specific characteristics, resulting in poor or negligible impact on economic development..

Keywords: R&D and innovation; Europeanization; European Research Area; competitiveness and growth
JEL classification: O30, O32, O38

7.1. INTRODUCTORY REMARKS

The aim of the paper is to analyse the changes in R&D[1] and innovation[2] policies in the 13 countries (NMS13), which have jointed the European Union during the last three enlargements (in 2004/2007/2013 respectively). During the period of entry negotiations and during the first years of the membership, the EU was intensely involved in the implementation of Lisbon strategy (European Council, 2000)[3], where the target for investing in R&D and innovation had been set at 3% of GDP by 2010. The Lisbon Strategy as well as related documents (Kok Report, Aho Report (COM 2006/502)) set ambitious targets for member states in the R&D and innovation also in the field of policy-making, by recommending the creation of innovation friendly framework with several measures at the EU as well as at national level (Pelle, 2015). Such measures included support to business R&D projects, fiscal incentives for R&D investment, innovative public procurement, adequate supply of venture capital, developing appropriate innovation support infrastructure (technology parks, innovation centres, incubators, etc.). The newcomers were expected to implement the policies and introduce relevant measures in their own innovation systems.

The Europeanization[4] of R&D and innovation policies has not stopped with embracing the Lisbon targets: EU continues with developing European Research Area (ERA), where again a set of joint targets have been decided on by member states. Once eligible for cohesion funds, the new members were encouraged to direct the resources available through Regional development fund and the Social fund to further develop their capacities in the R&D and innovation field.

The paper examines, how the NMS13 have responded to all these policy challenges and targets. The statistical data on R&D investment as reported to EUROSTAT is analysed as well as data compiled by Community Innovation Surveys (CIS V in 2006 and CIS X in 2012). Also, the indicators, gathered by the European/ Innovation Union Scoreboard are presented.

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[1] Research and experimental development (R&D) comprise creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of man, culture and society, and the use of this stock of knowledge to devise new applications (Frascati Manual, OECD 2005).

[2] Innovation is defined by revised Oslo Manual 3rd Edition (OECD/Eurostat 2005) as the implementation of a nee or significantly improved product (good or service), a process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations. (Article 146). Further, innovation activities include all scientific, technological, organisational, financial and commercial steps which actually lead, or are intended to, lead to the implementation of innovations. Some of these activities may be innovative in their own right, while others are not novel, but necessary to implementation (Article 149 of Oslo Manual, OECD/Eurostat 2015).

[3] In 2000, during the Portuguese Presidency of the EU Council, the Heads of member states of the EU adopted Lisbon Agenda that determined the strategic goal of the EU of becoming “the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion” (European Council, 2000, p. 2).

[4] Europeanization is understood as in the study of Wach (2014).

We wish to explore to what extend joining the EU has impacted R&D and innovation policies in NMS13: can we observe the Europeanization of policies[5] regardless of their appropriateness for own economic and social development. In particular, we wish to test whether a risk of an "unhealthy Europeanization" of policies is taking place, where countries try to adjust policies to an "ideal" set of guidelines rather than develop policies tailored to their specific stage in the development (e.g. technology absorption measures in traditional SMEs versus strengthening global innovation hot spots). As several authors noticed (Radošević, 2006; Havas, 2015; Bučar & Stare, 2009), Europeanization often means introducing policies without sufficient regard to the existing industrial structure, existing technological specialisation patterns, with no foresight on country specific opportunities for future competitive advantages or wholesome assessment of country's capabilities, especially in the area of human resources for R&D and innovation. Such policy trend often led to sub-optimal policies and frustration of policy-makers, since neither R&D investment nor promotion of innovation led to expected boost in economic growth.

7.2. R&D AND INNOVATION POLICY IN THE EU

While science and technology policies have a long tradition in the EU, the innovation policies and especially the notion of national innovation systems which, among other elements, bring together R&D capacities with those to innovate, have been relatively new to the EU. The first "Action Plan for Innovation in Europe" was launched by the European Commission in 1996, and provided for the first time a common analytical and political framework for innovation policy in Europe. But it was the Lisbon Agenda for Jobs and Growth (known as Lisbon Strategy), adopted by the European Council in 2000, that clearly put innovation as one of the most important common policy objectives. This was followed by several communications from the European Commission on innovation as a driver of growth and competitiveness, as well as innovation policies, which need to be pursued by the governments. Among these documents one can find also the comprehensive document on Third Generation Innovation Policy, which introduced the concept on horizontality of policies, to a significant extend inspired by the authors of the concept of national innovation system (Lundval, 1992; Nelson, 1993; Freeman & Soete, 1997) and national innovation capability (Stern, Porter and Furman, 2002) and the discussions held in OECD (1999; 2005). By 2006, Competitiveness Council of the EU concluded that the following nine strategic priorities for innovation action at EU level should be pursued as a matter of priority: (1) Intellectual Property Rights; (2) Standardisation in support of innovation; (3) Public procurement in support of innovation; (4) Joint Technology Initiatives (JTIs); (5) Lead Markets; (6) European Institute of Technology (EIT); (7) Clusters; (8)

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[5] See more on Europeanization in Riedel (2015) or Wach (2014b).

Innovation in Services and (9) Risk capital markets. These priorities were shaped primarily looking at economic structure and capabilities of the “old” member states, but were now recommended policy actions for new members as well.

More recently, EU adopted the Europe 2020 strategy where Innovation Union concept has been introduced as a common framework till 2020 as a *“flagship initiative”*. Innovation is an overarching policy objective, where all policy instruments, measures and funding are designed to contribute to innovation, where EU and national/ regional policies are closely aligned and mutually reinforcing, and where the highest political level sets a strategic agenda, regularly monitors progress and tackles delays (European Commission, 2010).

The transition to market economy and the accession to EU led NMS13 to pay more attention to the national innovation system and innovation policies. The Commission expected from the new members that they fully participate in all of the activities in the field of R&D and innovation policy-making, which included the preparation of the annual documents, where national progress towards the implementation of the Lisbon Strategy was assessed[6]. Part of the report always reflected on R&D and innovation indicators and policy. New member states were very early integrated in the statistical monitoring of the R&D indicators by Eurostat as well as in the Community Innovation Surveys (CIS). Also, ever since the European Community commissioned special projects for monitoring first the innovation policy implementation (Trendchart Country Reports)[7] and later research and development policies through ERAWATCH, the analysis at the country level in accordance with the common methodology is taking place annually.

The R&D and innovation policies (RDI) are typical policies shaped through the Open Method of Coordination (OMC)[8], thus country representatives have been meeting regularly to discuss policy experience and are setting specific objectives and goals in this area. Since 2003, the OMC in the field of research policy has been implemented through a process of yearly cycles. During each cycle, CREST/ ERAC (European Research Area Committee)[9] agree on a selected set of policy issues and install specific working groups to discuss these. The topics for discussion during these cycles have included, among others: policy mixes for research policy, internationalisation of R&D, effectiveness of fiscal measures stimulating R&D, intellectual property rights, etc. (LEG, 2009). All member states are expected to take part in OMC and introduce recommended policies in their national framework.

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[6] The revised Lisbon strategy in 2005 introduced annual progress reports as one of the instruments to stimulate the implementation of the strategy, along with dedicated ministerial posts: so-called Mr./Mrs. Lisbon.

[7] Pro INNO initiative, started in 2007, was developed along three pillars of innovation: policy analyses, policy learning and policy development. Inno-Trendchart annual country reports constituted major part of the first pillar, which by end 2011 was merged with ERAWATCH project of the EC.

[8] The Open Method of Coordination is a policy instrument created in the year 2000 to make member States progress jointly towards the goals of the Lisbon strategy.

[9] CREST is an advisory body (European Union Scientific and Technical Research Committee) whose function is to assist the European Council and the Commission in performing the tasks incumbent on them in the sphere of RTD. In 2010, the Crest was renamed ERAC.

Partly as a result of the OMC, partly as requested by the adoption of the Lisbon Strategy goals, the NMS13 have introduced numerous instruments and measures in support to innovation and R&D. Often, the measures imitated what was seen as best practices in more developed “old” member states (EU15). Most countries have created new ministries, implementation agencies and coordination councils. However, as indicated by Jindra and Rojec (2014), most of the countries retained old governance features of their S&T policies with domination of science or technology-push model. The increased awareness of the importance of innovation support policies led to transfer of innovation system characteristics (measures, institutions, policies) observed in innovation leading countries, yet limited experience with innovation support could be one of the obstacles in adaptation to national specifics.

Another major avenue of impact, observed in all NMS13, is the participation in the EU cohesion policy and ability to draw on the structural funds (SF). Since the financial perspective 2007-2013 stressed the promotion of R&D and innovation, most countries had designed specific measures in this area to be co-funded from the SF. Available new funding opportunities had allowed launching a number of new schemes as well as increase in financial terms the support under the already established measures. Yet, as suggested by Bučar and Stare (2010), country reports on policy mixes revealed a high number of same or very similar innovation and R&D measures across countries, suggesting limited adjustments to country specifics.

At the level of R&D and innovation policy we can observe significant pressure on behalf of the European Commission in direction of harmonisation of policies within EU. This Europeanization is especially vivid in the current programme of Europe 2020/ Innovation Union and unification of the policies and instruments for the two areas. A belief that intensified efforts towards ERA are improving the EU competitiveness position with regard to other global powers (USA, Japan, and increasingly so China and India) is expressed in most policy papers and activities. The EU budget for 2014-2020 reflects this shift towards RDI and other growth enhancing items with a 30% real terms increase in the budget for Horizon 2020. Not only R&D and innovation policy is coordinated, but common approach is suggested for the financial perspective 2014-2020, with a stress on Strategy for Smart Specialisation as a precondition for the SF. Commission’s suggestions to R&D and innovation less intensive countries are to employ SF for the research infrastructure at the national level as well as sources of co-financing joint European research infrastructure. In fact, the Commission expects that 83 billion euro are to be invested in RDI as well as SMEs through the new European Structural and Investment Funds (COM 2014/339). It seems that new EU policies allow less and less room for the introduction of specific national approach to R&D and innovation policy-making, which is counter to what many experts of national innovation systems and innovation policy-mix suggest (Kinsco *et al.*, 2014; Havas, 2015)

7.3. STATISTICAL ANALYSIS AND DISCUSSION

Let us examine the statistical evidence in the R&D and innovation field in NMS13 to see what the impact of policies has been since the membership. Many of the new members have adjusted their statistical monitoring of R&D indicators to the Eurostat much earlier than formally becoming the members of the EU. Also, some of them took part in the Community Innovation Surveys from CIS III (2000-2001) on. For our analyses, we look in particular at the R&D expenditures as a percentage of GDP (Table 7.1), this being an agreed the Lisbon Strategy target. According to the target, two thirds of expected investment in R&D should be contributed by the business sector and one third from the allocation of the government, so the dynamics of these investments are also elaborated (Table 7.2). The data shows that in all NMS13 the expenditure for R&D as percentage of GDP has been increasing in all countries[10]. Still, the amounts are far from the Lisbon target of 3%, which was not achieved by EU as a whole either. So while the positive trends can be attributed to the increased attention to the R&D investment, the dynamics are far from desired or expected in view of the fact that all the analysed countries have accepted the 3% target – obviously a very unrealistic target. The differences in allocation of resources as percentage of GDP have actually increased between NMS3: if the gap between the country investing the least and the

Table 7.1. R&D expenditures in NMS13 and EU28 the years 2002-2013, all sectors as % of GDP

Year	BO	HR	CY	CZ	EE	HU	LV	LT	MT	PL	RO	SK	SI	EU28
2002	0.47	0.95	0.28	1.10	0.72	0.99	0.41	.	0.25	0.56	0.38	0.56	1.44	1.81
2003	0.47	0.95	0.32	1.15	0.77	0.92	0.36	.	0.24	0.54	0.38	0.56	1.25	1.80
2004	0.48	1.03	0.34	1.15	0.85	0.87	0.40	0.75	0.49	0.56	0.38	0.50	1.37	1.76
2005	0.45	0.86	0.37	1.17	0.92	0.93	0.53	0.75	0.53	0.57	0.41	0.49	1.41	1.76
2006	0.45	0.74	0.39	1.23	1.12	0.99	0.65	0.79	0.58	0.55	0.45	0.48	1.53	1.78
2007	0.44	0.79	0.40	1.31	1.07	0.97	0.56	0.80	0.55	0.56	0.52	0.45	1.42	1.78
2008	0.46	0.88	0.39	1.24	1.26	0.99	0.58	0.79	0.53	0.60	0.57	0.46	1.63	1.85
2009	0.51	0.84	0.45	1.30	1.40	1.14	0.45	0.83	0.52	0.67	0.46	0.47	1.82	1.94
2010	0.59	0.74	0.45	1.34	1.58	1.15	0.60	0.78	0.64	0.72	0.45	0.62	2.06	1.93
2011	0.55	0.75	0.46	1.56	2.34	1.20	0.70	0.90	0.70	0.75	0.49	0.67	2.43	1.97
2012	0.62	0.75	0.43	1.79	2.16	1.27	0.66	0.90	0.87	0.89	0.48	0.81	2.58	2.01
2013	0.65	0.81	0.48	1.91	1.74	1.41	0.60	0.95	0.85	0.87	0.39	0.83	2.59	2.02

Source: Eurostat (2015a).

country investing the largest percentage was in 2004 four times, by 2013 this difference increased to 6.6 times. This suggests that we cannot approach the group as

[10] Croatia as the newest member being an exception, where due to the economic crisis we can observe a declining share of R&D expenditures as a percentage of GDP.

a homogenous one and therefore we would expect this to be reflected in the policies as well.

The position of R&D and innovation policy within the government can be interpreted through the allocation of resources for these policies in the budget, so the government budget appropriation for R&D (GBAORD) is discussed through the years 2002-2013 (Table 7.3). We mentioned the importance of EU structural funds and in several NMS13 also the funds for R&D obtained from abroad (FDI flows) has been quite important, so this data on the composition of GERD for the initial position of each member state and the latest available year (2013) as well as the dynamics of funding from abroad are also considered (Figure 7.1 and 7.2).

Table 7.2. Growth rate of R&D expenditure in NMS13 and EU28 as percentage of GDP

Years	BO	HR	CY	CZ	EE	HU	LV	LT	MT	PL	RO	SK	SI	EU28
2004-2005	-6.25	-16.50	8.82	1.74	8.24	6.90	32.50	0.00	8.16	1.79	7.89	-2.00	2.92	0.00
2005-2006	0.00	-13.95	5.41	5.13	21.74	6.45	22.64	5.33	9.43	-3.51	9.76	-2.04	8.51	1.14
2006-2007	-2.22	6.76	2.56	6.50	-4.46	-2.02	-13.85	1.27	-5.17	1.82	15.56	-6.25	-7.19	0.00
2007-2008	4.55	11.39	-2.50	-5.34	17.76	2.06	3.57	-1.25	-3.64	7.14	9.62	2.22	14.79	3.93
2008-2009	10.87	-4.55	15.38	4.84	11.11	15.15	-22.41	5.06	-1.89	11.67	-19.30	2.17	11.66	4.86
2009-2010	15.69	-11.90	0.00	3.08	12.86	0.88	33.33	-6.02	23.08	7.46	-2.17	31.91	13.19	-0.52
2010-2011	-6.78	1.35	2.22	16.42	48.10	4.35	16.67	15.38	9.38	4.17	8.89	8.06	17.96	2.07
2011-2012	12.73	0.00	-6.52	14.74	-7.69	5.83	-5.71	0.00	24.29	18.67	-2.04	20.90	6.17	2.03
2012-2013	4.84	8.00	11.63	6.70	-19.44	11.02	-9.09	5.56	-2.30	-2.25	-18.75	2.47	0.39	0.50

Source: own calculations based on Eurostat (2015a).

Table 7.3. GBAORD in NMS13 and EU28 through the years 2002-2013

Year	BO	HR	CY	CZ	EE	HU	LV	LT	MT	PL	RO	SK	SI	EU28
2002	0.91	.	.	1.04	1.08	.	0.50	.	.	.	0.40	0.7	1.14	1.62
2003	0.85	.	.	1.00	1.07	.	0.60	.	.	.	0.48	0.74	1.18	1.59
2004	0.40	.	0.73	1.12	1.11	.	0.50	1.07	0.40	0.73	0.51	0.80	1.29	1.54
2005	0.79	.	0.75	1.23	1.20	0.83	0.55	1.04	0.42	0.68	0.65	0.74	1.29	1.53
2006	0.83	.	0.76	1.30	1.50	0.70	0.70	0.95	0.37	0.72	0.93	0.74	1.26	1.49
2007	0.66	.	1.02	1.36	1.42	0.78	0.83	1.44	0.35	0.75	0.97	0.62	1.23	1.50
2008	0.80	1.52	1.00	1.29	1.62	0.87	0.75	1.24	0.35	0.70	1.01	0.79	1.16	1.52
2009	0.81	1.51	1.08	1.37	1.54	0.91	0.47	1.16	0.37	0.76	0.74	0.88	1.42	1.53
2010	0.74	1.56	1.00	1.36	1.77	0.73	0.37	1.01	0.55	0.82	0.71	0.96	1.24	1.49
2011	0.70	1.57	0.97	1.56	2.07	0.60	038	1.05	0.53	0.73	0.68	1.21	1.22	1.49
2012	0.71	1.59	0.86	1.53	2.12	0.71	0.40	1.01	0.68	0.85	0.60	1.08	1.11	1.42
2013	0.66	1.59	0.79	1.59	2.24	1.23	0.39	1.05	0.70	0.88	0.60	0.95	0.90	1.41

Source: Eurostat (2015a).

Typically for NMS13, the business sector at the beginning of the observed period invested very little in R&D. It was expected that with more emphasis of the policies on support of innovation, the business interest in R&D would increase as well. Further integration in the common EU market with increased competition would also demand higher investment in RDI, since this is one of the important

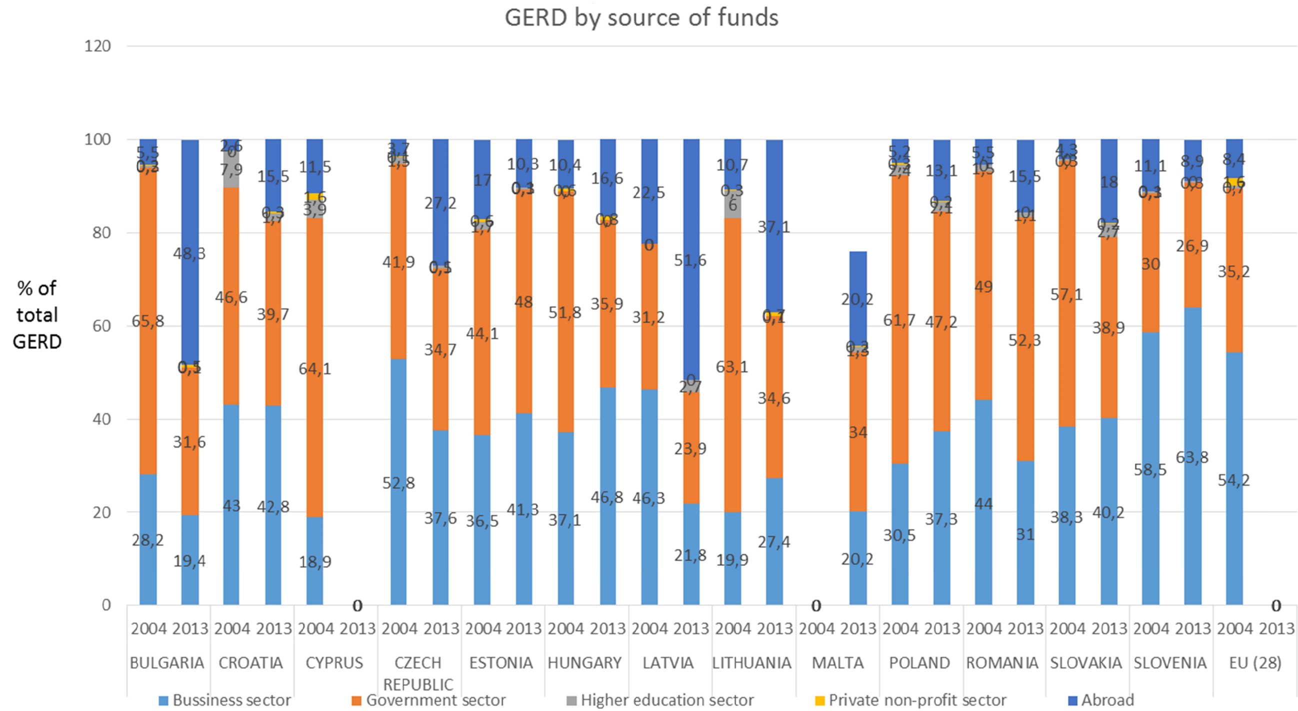

Figure 7.1. GERD structure in NMS13 and EU28 in the years 2004 and 2013
Source: own calculations based on Eurostat (20115a).

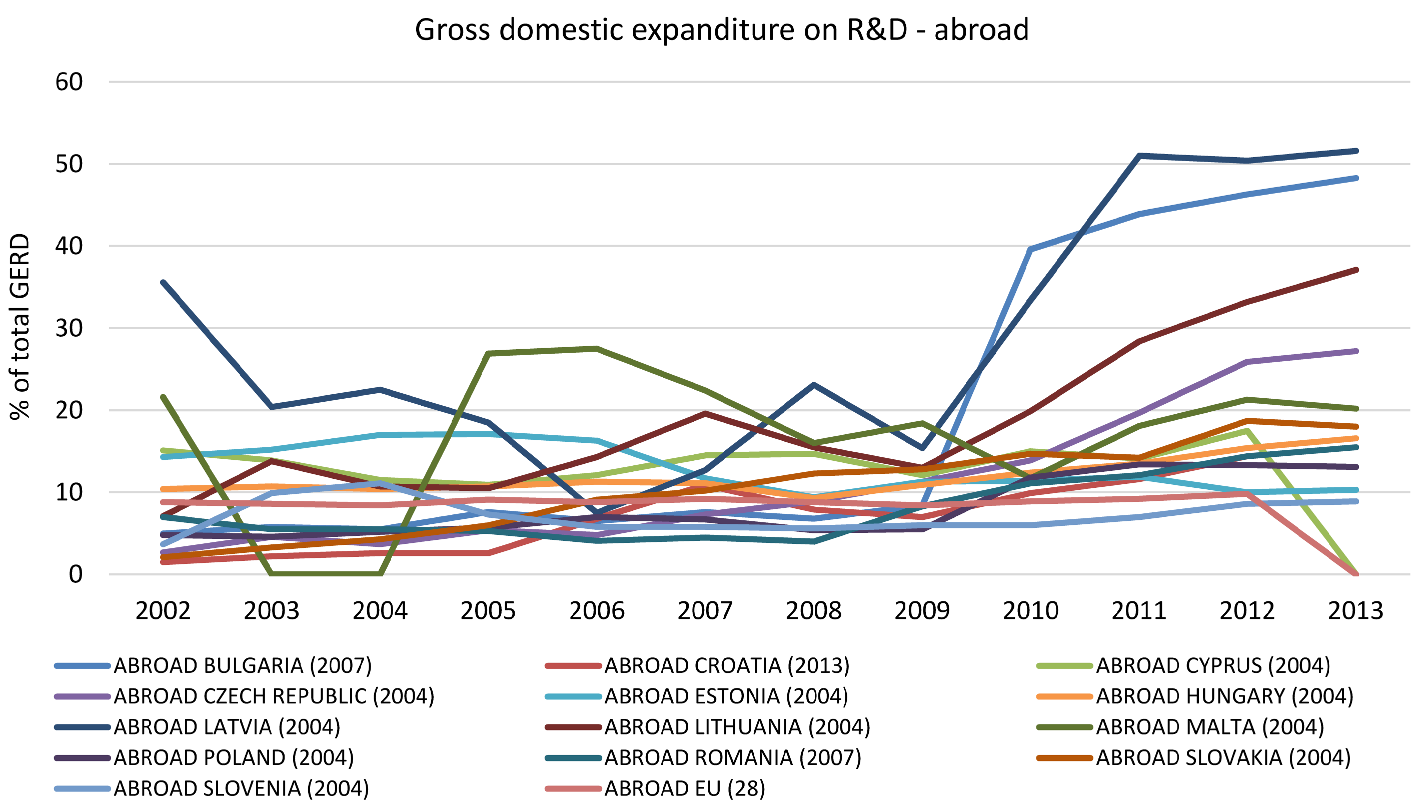

Figure 7.2. GERD from abroad in NMS13 in the years 2002-2013
Source: own calculations based on Eurostat (2015a).

factors determining competitiveness. From the statistical data, no conclusion in this direction can be made: in fact we can observe oscillations in all directions. In some countries the percentage share of business sector in GERD (Table 7.4) has increased, in others initially started to grow, but decreased after 2010, in some countries the percentage in 2013 is lower than at the time of accession. Only in one country the share of business sector in investment has reached the partial Lisbon target of two thirds of GERD coming from business sector (Slovenia: 63% in 2013). Of course a much closer analysis would be needed of individual countries to see how overall investment in R&D developed in nominal as well as in percentage terms, but again we can conclude that there is a significant variety in structures of GERD among the countries.

Table 7.4. Business sector expenditure on R&D (BERD) as % of total GERD in NMS13 and EU28 in the years 2002-2013

Year	BO	HR	CY	CZ	EE	HU	LV	LT	MT	PL	RO	SK	SI	EU28
2002	24.8	45.7	17.4	53.7	29.1	29.7	21.7	27.9	18.6	30.1	41.6	53.6	60.0	54.4
2003	26.8	42.0	19.9	51.4	32.9	30.7	33.2	16.7	.	30.3	45.4	45.1	52.2	53.9
2004	28.2	43.0	18.9	52.8	36.5	37.1	46.3	19.9	.	30.5	44	38.3	58.5	54.2
2005	27.8	34.3	16.8	48.2	38.5	39.4	34.3	20.8	46.8	33.4	37.2	36.6	54.8	54.1
2006	30.6	34.6	15.9	49.1	38.1	43.3	52.7	26.2	45.7	33.1	30.4	35.0	59.3	55.0
2007	34.2	35.5	16.4	47.2	41.6	43.9	36.4	32.8	51.9	34.3	26.9	35.6	58.3	54.9
2008	30.6	40.8	17.8	45.0	39.8	48.3	27.0	29.3	56.5	30.5	23.3	34.7	62.8	54.8
2009	30.2	39.8	15.7	39.8	38.5	46.4	36.9	30.8	51.6	27.1	34.8	35.1	58.0	54.1
2010	16.7	38.8	12.7	40.8	43.6	47.4	38.8	32.4	53.6	24.4	32.3	35.1	58.4	53.8
2011	16.9	38.2	11.0	37.7	55.0	47.5	24.8	28.2	51.0	28.1	37.4	33.9	61.2	55.0
2012	20.8	38.2	10.9	36.4	51.3	46.9	23.7	26.5	45.0	32.3	34.4	37.7	62.2	54.9
2013	19.4	42.8	.	37.6	41.3	46.8	21.8	27.4	44.3	37.3	31.0	40.2	63.8	.

Source: based on Eurostat (2015a).

Similarly, the share of R&D expenditures in the general government budgets (GBAORD) is very different from country to country with no uniform trend. While only in a few countries a trend towards increased share can be noticed, in a majority we can observe clear impact of 2008/2009 economic crisis on declining R&D expenditures. Risking a somewhat simplified conclusion, we can say that in general, a belief that R&D investment can be a source of renewed growth is not shared by the governments of NMS13, at least not by their finance ministries.

With opening of their economies, NMS13 expected as well additional resources for R&D from abroad, both from private investors (FDI) as well as from the EU. The situation is very different from country to country – in some we observe significant increase of funds from abroad, especially in more recent years, while in the majority of NMS13 the share of foreign funds is relatively stable and under 20% of the total GERD.

Along with the investment in R&D, availability of human resources is one of the key determinants of the capacity of the country's research. Therefore, data on growth of human resources in R&D (in fulltime equivalent, FTE) is presented as well as changes in sectors of employment. From the side of the statistical R&D indicators, the size of human resources in R&D is an important indicator of the R&D capacity the country possesses. In principle, one would expect that increase in investment in R&D would result in increase of R&D personnel as expressed in fulltime equivalent (FTE), yet as data on growth rates of R&D personnel for NMS13 reveal, the trends are non-conclusive. On the other hand, looking at nominal figures, interesting, even if diverse, trends can be observed in terms of growth as well as in terms of composition of employment of researchers by sectors. In several countries we can observe a shift of employment of R&D personnel from government and higher education sector towards business sector both in nominal terms as well as in terms of structure (the growth of employment is observed in all categories, but significantly higher in business sector). In all countries except Croatia and Romania the number of FTEs has increased, in some quite dramatically (Table 7.5 and Figure 7.3). These trends suggest that R&D capacities are increasing in the NMS13 and that more and more, the business sector is seeing the need to be involved in research and innovation.

Table 7.4. Growth rate of total researchers (measured in FTEs) in NMS13 and EU 28 (in %)

Years	BO	HR	CY	CZ	EE	HU	LV	LT	MT	PL	RO	SK	SI	EU 28
2004-2005	2.30	-19.79	16.98	48.28	-1.13	6.54	-1.26	3.82	9.86	2.00	8.00	1.89	30.35	4.59
2005-2006	2.82	0.89	9.68	8.68	5.46	10.51	19.90	4.49	8.77	-4.16	-17.15	7.83	11.50	3.47
2006-2007	8.39	6.07	6.82	6.13	5.04	-0.89	5.64	6.10	-5.57	3.06	-1.12	4.91	6.71	2.50
2007-2008	1.62	9.27	0.88	6.84	7.83	6.40	5.12	-0.40	9.96	0.67	3.12	1.89	12.51	4.47
2008-2009	5.13	3.49	8.31	-3.44	8.42	8.43	-17.14	0.68	-8.69	-1.13	-0.63	5.59	5.89	2.11
2009-2010	-8.26	2.50	3.67	1.63	-5.49	6.37	7.59	1.28	21.26	5.57	2.64	14.24	3.45	3.04
2010-2011	8.41	-3.62	1.10	4.97	10.65	7.86	1.31	-2.43	26.71	-0.59	-18.71	0.94	13.90	1.32
2011-2012	-5.06	-2.32	-4.15	8.26	1.57	3.55	-1.09	-4.37	11.73	4.47	12.04	-0.36	1.25	3.29
2012-2013	8.62	-2.38	0.91	3.17	-3.82	5.04	-7.15	6.66	3.18	6.67	3.82	-3.56	-1.99	2.86

Source: own calculations based on Eurostat (2015a).

We have also investigated into CIS 2006 and CIS 2012 for data on innovation activity in NMS13, yet the methodology has changed from one to the other survey so fundamentally no cross-comparison was possible (Eurostat, 2015b). Another source of information, which positions NMS13 in relation to old EU member countries is the Innovation Union Scoreboard (previously known as European Innovation Scoreboard). One of the indicators commonly monitored is the Summary Innovation Index (SII) and the ranking of countries based on SII. Mostly, the NMS13 belong to the two groups of countries: (i) the modest innovators and (ii) moderate innovators, only few made it into the category of (iii) innovation followers. The overall situation in terms of ranking of the countries shows very little change over the ten year period. As in the case of other statistical data gathered, the Scoreboard figures show that it is difficult to identify common

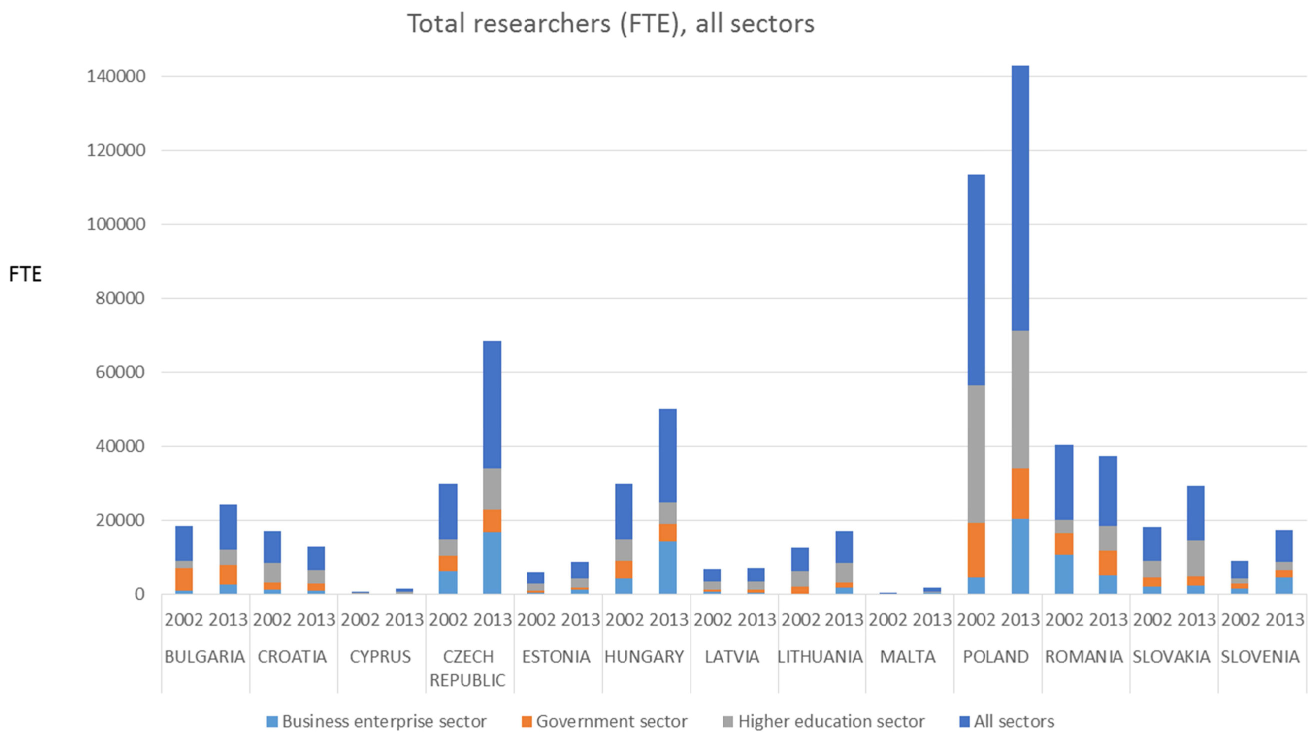

Figure 7.3. Total researchers (measured in FTEs) in all sectors in NMS13 in the years 2002 and 2013 (in nominal values)
Source: own calculations based on Eurostat (2015a).

characteristics for NMS13, again confirming our initial suggestion that it is impossible to detect similar patterns. All we can say is that the gap between the "old" (EU15) and the "new" (NMS13) persists, in spite of certain progress made in individual indicators. It seems that trends in the indicators depicting innovation outputs is slower than with the indicators reflecting input. Since RDI policy can have faster impact at the input side (higher investment in R&D, for example), this is an expected outcome. Still, the question remains whether more specific policy mixes, related to the country's economic structures, could not yield better results on the output side as well.

While the analysis of the statistical data show important differences in countries' performance and RDI capabilities, the analysis of national innovation policies shows remarkable similarities. As stated by the EBRD in the Transition Report 2014, "in particular, the innovation policies in the region tend to follow trends set by countries at the global technological frontiers and focus on creation of technologies." (EBRD, 2014). Already during the accession process the NMS13 have transferred several policy measures and instruments observed in member states into their innovation environment, which was very different with regard to institutional set up, interactions between the stakeholders and most importantly, had very different business environment and entrepreneurial culture. This process continued and was even intensified by strong push towards common R&D and innovation policy at the European level, often leaving little space for "endogenisation" of innovation policy. Notwithstanding the progress achieved by the NMS13 in some innovation related indicators, no break-through has been achieved so far.

On one hand this implies that building of the innovation capacity is a long(er) term process. It requires accumulated efforts in improving innovation inputs that in the end result in better innovation outputs as well. Only partial achievement of results in NMS13 is reported; while investments in RDI have increased, both the size and the structure still do not correspond with the targets set. On the other hand, having in mind the complexity of innovative capacity building, the relatively modest performance of the NMS13 could suggest that the policy mix in the NMS13 for improving their innovative capacity was not adequate to address the major gaps. This may be related to the deficiencies in governance of the innovation policy or to the inappropriate policy mix *per se*.

Governance has an important role to play in balancing different innovation-related policies, in the broad sense of national innovation system. Moreover, it is the governance of the innovation policy which is responsible to take into consideration the specific features of the national framework for innovation as well as the institutional and policy set-up at the EU level (Bučar & Stare, 2010; Radosevic, 2004). The lack of experience and tradition in innovation governance limit the ability of NMS13 to successfully integrate transferred EU policies to the national specifics. Therefore we can talk of about the imitation of the policies with still insufficient learning process in the adaptation of the policies to the specific needs and capabilities of each individual country and its circumstances.

The problem is not only in transfer of the same or similar instruments and measures. What the innovation literature often points out is that different technological and institutional environments may respond in a different way to similar incentives, hence optimal policy mix in one country may not work at all in another (Callon *et al*., 1986). External environment plays a crucial role in stimulating innovation and shaping R&D and innovation policy (Kosała & Wach, 2014). As Kravtsova and Radosevic (2011) warn: "In countries still lagging behind in terms of technology development, policy should foster the knowledge absorption and diffusion functions of the innovation system and hence a policy mix which is focused strongly only on knowledge generation may not be appropriate." Yet, as already mentioned, most RDI policies of NMS13 are remarkably similar in stressing the same scientific fields as national priorities (nanotechnologies, ICT, biotechnologies) and same technology focus: predominantly high tech sector. The policy learning across EU has led to the introduction of similar types of "fashionable" policy instruments such as cluster policies, competence centres, centres of excellence, innovation voucher schemes, etc. Increasingly, new concepts such as demand- side innovation policies, service innovation, social innovation etc. are being popularised at EU level and non-discriminately transferred to national innovation frameworks of NMS13. It is of utmost importance for NMS13 to understand that innovation policy mix has to be tailor-made and new concepts are not solutions for all (Kincso *et al*., 2012).

7.4. CONCLUSIONS

The Europeanization of RDI policies had several positive implications on the innovation policies in NMS13, particularly in the area of awareness-raising, transfer of innovation policy concepts and practices as well as various mechanisms. While recognising this important contribution of the Europeanization of RDI to the NMS13 innovation framework, there are a lot of issues that still need to be addressed more openly and critically.

One of the most important issues is the increase of innovation capability and in parallel, innovation governance capability. It requires a long-term effort, from building of appropriate institutional framework to design of efficient, suitable and coherent innovation policy mix. This needs to be done by the country itself. The EU policy and policy mixes observed in other member states can provide a valuable input, but should not be copied with no adaptation, just because they are championed by the European Commission as good practices (Ambroziak, 2015). The adaptation of the policies and measures is where the national innovation capability is detrimental: a wholesome assessment of the existing capacities of all stakeholders (PRO, business R&D units, administrative capacities) needs to be undertaken to determine the most crucial gaps and deficiencies in the current national innovation system. This should be the basis for policy design. Since the R&D indicators reflect a very different situation even among NMS13, the policy mix in each country should reflect these specifics. Only a proper policy mix will lead to closing the gap between the "old" (Eu15) and the "new" (NMS13), leading eventually to situation where a more uniform European RDI policy would be beneficial to all member states.

Having this in mind, we would suggest that the continuation of the EU projects like ERAWATCH, monitoring of Innovation Union at the EU and at the country level and the work of ERAC, where policy makers are actively involved, is important for NMS13. The benchmarking exercises and continuous monitoring and evaluation contribute to development of governance capability and improved functioning of the national innovation systems. Yet the promotion of appropriate policy mix development is essential, if full contribution of RDI to national economic growth is to be achieved.

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8

Europeanization of Financial Regulation after the Crisis

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Summary:

The aim of the chapter is to assess recent developments in the Europeanisation of financial regulation as means of achieving a robust single market for financial services in the EU. Emphasis is places upon institutional changes in European regulatory framework induced by the financial and the economic crisis after 2007. The crisis highlighted numerous cross-border linkages among European financial institutions, as well as connections between financial and fiscal stability (sovereign risk). It also exposed weaknesses of uncoordinated national regulatory regimes and led to the need for a more comprehensive supervision at the European level. In order to address these issues, the EU established, among others, three European Supervisory Authorities and initiated steps towards the Banking Union. The analysis of the new framework is carried against the background of harmonization vs. Europeanization processes, as well as in the light of the rapidly changing theory of financial regulation, particularly studies on systemic risk, cross-border spill-over effects, and macroprudential policies.

Keywords: financial regulation; financial supervision; macro-prudential policy
JEL classification: E44, F36, G18, G28

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8.1. INTRODUCTORY REMARKS

The structure of financial systems have undergone significant changes in the past decades, driven by phenomena of increased innovation, competition and integration. The financial and economic crisis after 2007, however, revealed serious shortcomings in regulatory frameworks of financial markets and institutions. Financial regulation and supervision solutions proved to be insufficient to prevent building-up of imbalances, facilitate balance-sheet adjustments of financial institutions, and ease negative effects of financial systems on economies. These problems have become particularly visible in the European Union (EU), where the crisis exposed weaknesses of uncoordinated national regulatory regimes and led to numerous postulates for a more comprehensive supervision at the European level.

Changes in financial regulatory framework may be assessed from the perspective of Europeanisation, since they often involve trade-offs between national and European solutions. Europeanisation may be broadly described as a complex process interlinked with internationalization and globalization, and it is often impossible to give a single and universal definition of this term (Urbaniec & Vachevskyi, 2012; Wach, 2014). However, Europeanisation itself has to be distinguished from European integration, as the former notion applies mainly to the institutional dimensions of the European Union (Dyduch, 2015). Europeanisation can be considered as a more incremental, generic idea of bringing European structures, concepts, and identity to national levels. Hence, as it will be shown in the chapter, economic Europeanisation applied for financial regulation – at the mesoeconomic level – means more than domestic sectors regulated by the same EU law, and would be manifested as a higher degree of self-contained interactions of national regulations with the European model regarding financial sectors in member states.

As pointed out by Duke (2014), the crisis brought “favourable climate” to talk about further Europeanisation in diverse areas of public policy. Interestingly enough, before the drastic events caused by the largest economic downturn in the EU history, political differences were sometimes to vast to recognize the need of necessary improvements in the common European understanding of policies towards sectors and industries. After 2008, however, a “critical juncture” (a term originally used in historical institutionalism) was reached, and a window of opportunity for major institutional reforms was opened. Various facets of Europeanisation were being questioned at that time. Even though social and economic costs of institutional adjustments and reforms may be high, they may be communicated to the public as necessary means of achieving medium- or long-term stability. Moreover, voiced could be heard that the recent crisis has been a crisis of the regulated capitalism (e.g. Wagner, 2011). Ironically then, both causes and responses to the crisis events would be connected to regulatory frameworks, particularly in the field of finance. Evolution of financial regulation is also supported by recent developments in academia, as there has been a significant revival of theoretical studies concerning financial regulation at the dawn of the crisis. Research was intensified especially in the areas of linkages between macroeconomics and finance (macrofinance), and inefficiencies of financial markets.

The aim of this chapter is to assess recent developments in the Europeanisation of financial regulation as means of achieving a robust single market for financial services in the EU. We find that the global financial and economic crisis has become a significant catalyst in promoting Europeanization of financial regulation, yet the process of unifying regulatory and supervisory standards is far from finished. The overall form of financial regulation in the EU countries is a resultant of common European framework, as well as national set-up of regulation and supervision. One of the most significant changes in the recent years was the incorporation of macroprudential policy, consisting of a top-down evaluation of systemic risk in financial system, into the integrated regulatory framework. The chapter is divided into five parts. In the second subchapter, we review theoretical aspects of financial regulation that are relevant for the European policies in this area. Section three outlines the evolution of financial regulation in the EU after the outbreak of the crisis. Then we proceed to the discussion of the main theme of the chapter: harmonization vs. Europeanisation in different dimensions of financial regulation. Finally, section five provides conclusions.

8.2. THEORETICAL ASPECTS OF FINANCIAL REGULATION

In most general terms, financial system is defined as an interconnected network of four elements: a) financial institutions, b) financial instruments, c) financial markets, and d) legal and institutional infrastructure. Among financial institutions, banks have traditionally been considered as the most important ones. However, in the last decades there has been observed a rapid growth of non-banking financial intermediaries (the so-called shadow banking), such as investment funds, private equity funds or hedge funds, as well as insurance companies or brokerage firms. Depending on the agents playing the leading role in the system, modern financial systems may be roughly divided into two categories (Cecchetti & Kharoubi, 2012):

– the bank-oriented model (European, continental), in which banks dominate in providing financial services;
– the market-oriented model (Anglo-American), in which financial intermediation is provided to a large extend by financial markets.

Different types of financial instruments serve as vehicles for purchasing power of agents or are considered as financial claims on other assets.

Based on types of securities traded in various segments of financial markets, one can distinguish: money markets, capital markets (equity markets and debt markets), foreign-exchange, and derivative markets. The essence of the financial market mechanism is to shift available financial resources among economic agents. More precisely, however, functions of financial markets may be examined in two complimentary perspectives (OECD, 2010):

– microeconomic – facilitating a more efficient use of scare resources in the economy; allowing economic agents to tackle risk more proficiently, for instance by offering a diversified portfolio; providing valuation of different classes of assets, as well as future rates of return; delivering information on financial situation of economic agents;
– macroeconomic – transforming savings into investments, and building a capital stock in the economy; shaping a share of consumption in the structure of national income; money creation and values of money multipliers; connections between financial and economic fluctuations (correlation of financial and business cycles).

The entire financial system would not work properly without an established institutional and legal framework. Beside specific pieces of legislation, covering areas of activities and setting constraints on financial institutions, other elements of this framework cannot be omitted. Payments systems, alongside clearing systems, allow to settle accounts among counterparties. Last, but not least, regulatory and supervisory agencies constitute necessary elements of financial the system.

The rationale for financial regulation is based on the notion that financial system, in general, possesses important functions in modern economic systems, and may strongly influence the general social welfare. Four of these functions are often described in the following way (Beck, Levine, & Loayza, 2000):

– mobilization of savings: financial intermediaries and markets accumulate diffused savings made by households and make them available for investment purposes;
– capital allocation : households entrust their funds to specialised entities, instead of using them directly to invest in businesses, etc.;
– control: discipline imposed by financial system serves as an important control instrument of economic efficiency in companies;
– risk conversion: reduction of risk through aggregation (pooling) and transfer to specialised agents, prepared for risk management and mitigation.

Financial crises, on the other hand, are associated with high economic and social costs, stemming both from the need of their prevention, but mainly from their transmission to the real economy, as well as direct and indirect costs of crises resolution policies (Bordo *et al.*, 2001). The main problem with financial instability lays in the fact, that financial crises are a “black swan” type of events: they have a small probability of occurring, but when they do, they may have devastating effects on financial systems and economies (high impact-low probability events). Because of the close interlinkages between the financial systems and macroeconomy, there may emerge numerous feedback loops. As aggregate consumption and investment are weakened, economic agents have smaller income and less favourable expectations, therefore are more reluctant to make use of financial services. Furthermore, the global and integrated nature of financial systems lead to an increased possibility of the so-call contagion effects, and transmission of negative financial shocks across the global system. Consequently, proper functioning of a financial system may be considered a public good, and has become a subject of public policies.

The desirable situation, when a financial system of an economy smoothly fulfils its functions and is not subject to severe crises in captured in the term *financial stability*. It is often argued that financial stability, unlike e.g. monetary stability (low and stable inflation rates), does not have a single, widely accepted definition. More importantly, most of the variables used to capture this notion are complex, and difficult to measure and quantify. Scherf (2014), however, offers a set of features that are common for the most definitions of financial stability:

– relates to the entire financial system;
– encompasses the functioning of finance in the economy (including payment systems);
– incorporates the way financial system handles imbalances;
– is embedded in the well-functioning real economy;
– is analysed in a dynamic framework.

All of these characteristics correspond with properties of a policy that is designed to support financial stability (Goodhart, 2006). Firstly, they raise a trade-off between preserving both effectiveness and stability of the financial system, which is a source of choices regarding an optimal degree of protection mechanism that do not restrict the adaptive ability of the financial system. Secondly, difficulties in measuring developments in financial system often bring uncertainty regarding setting and fulfilling policy goals. Thirdly, developments of financial sector are hard to forecast, which poses a dynamic inconsistency problems for regulatory and supervisory policies.

A comprehensive definition of financial stability that captures interdependencies between financial and real economy was proposed by Moenjak (2014). Financial stability in this view is considered to encompass three related areas: a) a macroeconomy free of significant financial imbalances, b) sound and stable financial institutions, and c) smoothly functioning financial markets (Figure 8.1). These “overlapping dimensions” are based on the assumption that for financial institutions to be sound, and for financial markets to operate in an effective way, macroeconomy has to be free of significant imbalances, such as excessive indebtedness or asset price inflation. On the other hand, if losses of financial institutions are too large, they may cause a decrease in lending, lead to disruptions in financial markets, and decline in investment and consumption. Finally, inefficiencies in financial markets bring feedback loops to financial institutions (due to shortages of funding) and negative wealth effects to household and companies.

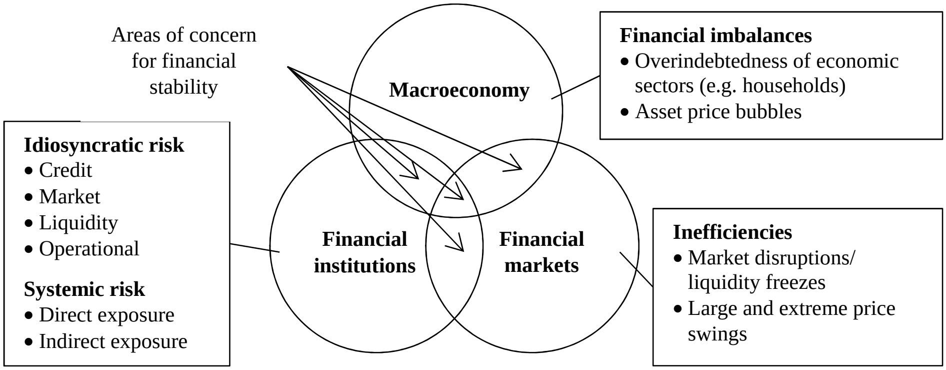

Figure 8.1. Financial stability in overlapping dimensions of macroeconomy, financial institutions, and financial markets
Source: Moenjak (2014, pp. 191, 211, 216, 220).

Regarding the first dimension, macroeconomy, regulatory policy is mainly focused on the influence of financial activities on real economy. These relationships have been thoroughly documented, starting at the time of the Great Depression (see von Peter, 2004). After the 2008-2009 financial crisis, many commentators referred to Minsky's (1986) financial instability hypothesis, which states that financial systems may be periodically leaning towards "bad" equilibria. According to Minsky, capitalist economies go through phases of asset inflation and debt deflation, that are highly non-stationary, because of the unsustainable practices of financial firms and investors (such as infamous Ponzi schemes). Attention was also drawn to works on the so-called financial accelerator, originated by Bernanke and Gertler (1990). This concept explains how changes in economic conditions alter decisions made by financial intermediaries, which – in turn – have an impact on total lending and availability of external financing to household and enterprises. More recently, financial instability was built into a macroeconomic model by Koo (2008). His theory of the balance-sheet recession attributes prolonged periods of economic downturns to rigid and persistent processes of deleveraging across financial sector. Specifically, Koo asserts that in economies with highly developed yet instable financial systems, economic agents may temporarily shift their objectives, and instead of maximizing their profits focus on minimizing their debt burden. A vast body of research suggests strong junctions between prices of assets, as well as balance sheets of economic agent and their decisions regarding consumption and investment. An emphasis is placed upon the mechanism leading to property bubbles, such as speculative finance.

Financial institutions, the second dimension of the notion of financial stability, play a different role in monitoring and identifying risks to financial system, as one has to consider both individual institutions and financial sector as a whole. As financial institutions are chiefly responsible for financial intermediation, they are at risk when their counterparties are unable to repay debt (credit risk). However, financial institutions are also prone to market risk (movements in market prices and rates), liquidity risk (an inability to meet obligations on time), and operational risk. Historically, one of the greatest threats to financial stability in this respect were bank runs. These phenomena occur when a large share of depositors withdraws their deposits from an institution at the same time, and often leads to a decrease in overall lending to business. It also causes network effects through direct (money markets) and indirect (valuation of portfolios) financial linkages. As a result of a growing role of financial institutions in economies, theories of financial crises were supplemented with the "non-monetary effects" stemming from credit rationing by financial institutions (Diamond & Dybvig, 1983). The growing number of defaults of financial institutions, and "runs" on banks can lead to liquidity constraints and inefficiencies in intermediating processes. Financial multipliers, on the other hand, imply reduction in broad monetary aggregates, increase external funding costs, lower its availability, and eventually distort investment and consumption decisions (Bernanke, 1983).

With regard to the third dimension of financial stability, financial markets, it is good to start with indicators of "healthy" markets, such as liquidity, efficiency, informational effectiveness: transparency, reliability, and innovativeness. Ideally, financial markets are characterised by all of these properties, and they effectively incorporate available information into prices and yields of different financial products (stocks, bonds, etc.) and financial derivatives (such as options on currencies). An important branch of theoretical studies focused on asymmetric information in financial systems. According to the definition of a financial crisis proposed by Mishkin (1991), the main roots of financial stability are adverse selection and moral hazard, that drastically increase costs of obtaining information by economic agents. Discouraged by a possibility of choosing unreliable counterparties, agents restrict their participation in markets, what causes a decrease in availability of funding both for speculative purposes and productive investment projects. In consequence, financial system becomes less effective, negatively impacts economic activity, and may lead to periods of recession and deflation.

Based on previous theoretical remarks, one can distinguish two "arms" of financial regulation: crisis prevention and crisis management. Traditionally, providing liquidity to distresses financial institutions (particularly commercial banks) was a domain of central banks in their lender of last resort function (Oganesyan, 2013). According to the ground rules of the lender of last resort emergency operations should be provided to all banks under the same conditions, lending should be charged with a relatively high interest rate (the so-called penalty rate), central bank loans should be collateralized using highly quality eligible assets, and, most importantly, institutions receiving support can have liquidity problems but should be solvent. This approach proved to be insufficient, and policymakers came to realization that a pre-condition of a sound financial system lays in the existence of a broader safety net, comprising of governments, central banks, regulatory agencies and deposit guarantees systems. In the context of the safety net, regulatory and supervisory bodies were given prerogatives to licence, regulate, control, and discipline financial agent. More recently, however, their focus was shifted to fragility and resilience of financial system as a whole caused by external shocks (Adrian & Liang, 2014). Recognition of such phenomena, as systemic risk, contagion effects, leverage, risk-taking, and separation of different kinds of banking activity has led to identification of two separate branches of financial regulation micro- and macroprudential policies. This distinction takes into consideration, among others, specific targets, goals, perspectives, and different time-orientation of policies aimed at achieving financial stability (Table 8.1).

Table 8.1. Micro- and macroprudential approaches to financial regulation

Criterion	Microprudential policy	Macroprudential policy
Target	Reduction of risks in financial institutions	Reduction of risks in financial system
Goal	Protection of depositors and investors	Avoidance of financial crises and their macroeconomic costs
Interdependencies among financial agents	Neglected	Important
Assessment perspective	Bottom-up: risks for individual financial institutions	Top-down: threats to the financial system
Analysed object(s)	Individual institutions, firm-level data	The entire financial system – aggregated data
Time-orientation	Static or backward-looking	Dynamic or forward-looking
Key indicators	Concentration ratio	Credit to GDP

Source: own study based on Borio (2003), Galati & Moessner (2011), and Adrian & Liang (2014).

Financial regulation, considered at the microprudential level, takes a traditional approach to this issue, with a central problem of instability of individual financial institutions. The main goal of such a policy is to protect depositor and investor from potential losses that can be materialized when financial institution become insolvent or markets are freeze and no longer operational. As it adopts a bottom-up perspective, microprudential policy assesses risks attached to separate institutions, with analysis based on firm-level data. It does not explicitly studies interdependencies among financial agents (e.g. banks mutual exposure to each other’s portfolio risk), yet may take SIFIs problem into consideration. Supervisory standards are set-up using historical data, for instance regarding capital adequacy ratios, and follow some benchmark values, rather than their evolution over time.

On the other hand, macroprudential takes into consideration aggregate measures of risk that can emanate from the financial system in order to avoid eventual financial crises and their macroeconomic costs. The rationale for macroprudential policy is originally associated with procyclicality of financial systems, the observed fact that changes in aggregate financial indicator (e.g. credit to GDP) generally have broader amplitude than macroeconomic variables. However, certain variables, such as asset prices, may follow less regular paths, for instance display various non-linearities or discontinuities. Macroprudential policy reduction of the so-called systemic risk, the kind of risk emerging from interactions among various players in financial system. Specifically, systemic risk may be defined in two ways (Galati & Moessner, 2011):

- the risk of simultaneous default of many financial institutions or distortions in various financial markets occurring as a result of a single financial shock;
- the risk that a default of one or a few systematically important financial institutions (SIFIs) triggers contagion effects and spill-overs to other sectors or markets (too big to fail problem).

The design of optimal regulatory policy often involves various choices, such as assignments of objective-specific instrument. These problems tend to follow the so-called Tinbergen rule, that states that number of goals achieved by any public policy must be equal or smaller that number of instruments at its disposal. Consequently, policymakers equipped with a limited number of tools often face trade-offs, especially when trying to avoid financial crises (for instance by limiting excessive risk taking), while preserving efficiency of financial system. These uneasy choices may by expressed as the regulatory trilemma (Scherf, 2014):

- financial stability;
- credit access;
- bank competitiveness.

The trilemma is reinforced by the “cat-and mouse” game between regulators and regulatees: the observed fact that regulations frequently lag behind market innovations, but also are periodically more or less restrictive (“swings of pendulum”). Due to the fact that the theory behind financial regulation is in the process of revision after the crisis, many economist formulate their own solutions, how regulatory frameworks should change to provide an optimal level of S. Bair (2014, p. 129) claims that policies must ensure that financial systems are “smaller, simpler, less leveraged, and more focused on meeting the credit needs of the real economy”.

8.3. EVOLUTIONS OF EUROPEAN REGULATORY FRAMEWORK SINCE 2009

Global financial turmoil acutely revealed the weaknesses of the regulatory framework, which was unable to prevent the crisis and to avoid the transmission of shocks. Important institutional and regulatory changes which followed at the global, European and individual country levels, attempted to address these failures in all the dimensions of financial stability presented in the previous section: regarding financial institutions, markets, and the macroeconomy (see figure 8.1.).

These considerations, however, will be preceded by a brief description of institutional framework of financial law-making in the EU and its own evolutions.

To understand the institutional and regulatory dynamics in the EU one must comprehend a few key factors. First, the EU financial market (based on the freedom of capital and services flows) is one of the core elements of the single European market. Second, the contemporary financial sector is so complex that the European Commission would not be able to prepare all the necessary regulatory solutions with their own means. Third, the degree of interconnectedness of international financial markets (especially within the EU) necessitate a very high scope of regulatory and supervisory cooperation (Davies & Green, 2008, p. 141). That is why the Commission delegated to the "Committee of Wise Men" chaired by Baron Alexandre Lamfalussy the task to work out procedures ensuring a satisfactory degree of supervisory harmonization in the EU.

The (implemented) recommendations of the committee lead to the introduction of the so-called Lamfalussy process. It distinguishes two layers of legislation: Level 1, covering basic principles of functioning of the financial markets, which would be changed only with the (political) approval of the EU Council and European Parliament. Level 2 legal acts would concern more technical aspects and possibly requiring more frequent amendments due to e.g. new market phenomena. Importantly, the Lamfalussy process also set out the institutions involved in the cooperation between the supervisors of individual segments of the financial market. This cooperation, within the so-called Level 3 committees covers both advisory role in the process of financial law-making and continuous cooperation aiming at harmonization of supervisory practices. Initially, Level 3 committees included Committee of European Banking Supervisors (CEBS), Committee of European Securities Regulators (CESR) and Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). Level 4 is again represented by the Commission, which this time is responsible for implementation and ensuring the proper transposition of the financial directives to national legal orders. Implementation of the Lamfalussy process allowed for a significant shortening of financial law-making process in the EU (Alford, 2006).

These architecture turned out to be insufficient in the light of acute crisis unfolding among the EU financial institutions. Its strengthening relied on granting some more powers to the reformed Level 3 committees (renamed European Banking Authority – EBA, European Insurance and Occupational Pensions Authority – EIOPA, and European Securities and Markets Authority – ESMA). Reinforcement of European Supervisory Authorities (EBA, EIOPA and ESMA) included issuing directly applicable regulations and overruling decisions of national regulators to "remedy an emergency situation" (e.g. *Regulation (EU) establishing a European Supervisory Authority 2010*). This did not mean, however, granting to these newly established authorities any supranational supervisory or law-making powers (Gortsos, 2015).

The main tasks conferred to EBA rely on preparing single rulebook to be uniformly applied by national supervisors, including binding technical standards, reporting forms, necessary to implement Level 1 banking legislation in a harmonized way. The very legislation was also significantly extended (e.g. introduction of *Capital Requirements Regulation 2014*, or *Bank Recovery and Resolution Directive 2014*) and remodelled (e.g. *Capital Requirements Directive IV 2013* or *Directive on deposit guarantee schemes 2014*).

Additionally, the Commission proposed setting up of two new institutions for the micro- and macroprudential supervision. These are the European System of Financial Supervisors (ESFS) and the European Systemic Risk Board (ESRB). Their creation was officially introduced into the legal system in a co-decision procedure between the Council and the European Parliament in October and November 2010 to start their functioning on January 1st 2011, together with the official launch of EBA, EIOPA and ESMA.

ESRB is responsible for the stability of the EU financial system in the context of macroeconomic situation and general trends on the financial markets. As this is traditionally a domain under control of central banks, the main decision-making body of the ERSB – the General Board - is built upon the structure of the General Council of the ECB completed by a representative of the European Commission, chairpersons of EBA, EIOPA, and ESMA, as well as the Chair and the two Vice-Chairs of the Advisory Scientific Committee (ASC) and the Chair of the Advisory Technical Committee (ATC). Additionally, one high-level representative per Member State of the competent national supervisory authorities without and the President of the Economic and Financial Committee (EFC) are members of the General Board without voting rights.

Even if the ESRB does not have prerogatives to issue any binding legal acts, its advisory and analytical publications, be it only for the reason of the high standing level participants of its General Board, are respected (which can be attributed to moral suasion phenomenon).

It can be legitimately argued that this significant institutional and regulatory upheaval is to a large extent a direct consequence of the de Larosiere (2009) report. Having diagnosed the main causes of the crisis (excessive liquidity, mispricing of risk, misbehaviour of credit rating agencies, as well as failures of the private sector corporate governance and of the regulatory and supervisory functions of state agencies – including weaknesses of the Lamfalussy process) the report presented some proposals for the reform of the EU financial architecture. There were 31 recommendations concerning notably:

- fundamental review of Basel II principles (which happened as the Basel III agreement implemented in the EU via CRD IV and CRR package);
- stricter regulation of the credit rating agencies, as well as “shadow” or “parallel” banking system;

- standardization of over-the-counter derivative instruments, introducing central counterparty for this kind of trades and forcing issuers to keep until the maturity "a meaningful amount" of the issued asset;
- avoiding financial legislation allowing for inconsistent transposition to the national legal order and/or heterogeneous application;
- enhancing bank deposit guarantee schemes;
- full adoption of stricter rules for insurers in terms of *Solvency 2 directive*;
- improvement of corporate governance including providing more appropriate (long-term) incentives for top management of financial companies;
- setting up macroprudential authority (ESRB) and strengthening microprudential supervision (creation of ESFS with the European Supervisory Authorities instead of Level 3 committees).

De Larosiere *et al*. (2009) recommendations were implemented not only with respect to the institutional setup, but also in its regulatory aspects. Importantly financial institutions (banks, insurers and investment companies) saw their scope of activity significantly more controlled. The recommendations were not only followed by the EU (which commissioned the report) but were adopted in parallel in the framework regulation by the Basel Committee for Banking Supervision under the Basel III agreement.

Among numerous tightened regulations regarding financial institutions, the most influential include:

- *Directive on Alternative Investment Fund Managers 2011* regulating hedge funds;
- *Regulation of the European Parliament and of the Council on credit rating agencies 2009* with a number of delegated regulations by the Commission;
- Directive of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance 2009 (Solvency II) with the amending "Omnibus 2" directive (enhancing the powers of European Supervisory Authorities) and the Commission Delegated Regulation of 2014 regarding the microprudential supervision of Insurers.

However, as Mongelli (2013) remarks, the most significant change with respect to the ECB's role in its relatively short history was the creation of the banking union. It will be based on three pillars: 1) banking supervision, 2) banking resolution, and 3) deposit guarantees. It is to a large extent a consequence of recognising the intertwined relation between the sovereign debt and private sector debt (concentrated in the banking sector).

Thus, the banking union project will move the supervisory burden with respect to the biggest EU banks from national supervisors into the hands of the ECB. This regulatory shift is obligatory for the euro area countries and voluntary for the countries with derogation and was not attained without significant controversies (Howarth & Quaglia, 2014).

The efficient use of additional functions by the Bank will be dependent on setting proper rules of cooperation between the European monetary authorities and national supervising agencies (Scherf, 2014).

8.4. POST-CRISIS FINANCIAL FRAMEWORK REFORM: BETWEEN HARMONIZATION AND EUROPEANIZATION

In spite of the European financial system's success in the early years after introduction of the common currency, by the 2009 cracks began to appear as several member countries suffered from consequences of the global financial crisis. The burst of property bubble in Ireland led to the government's decision to bail-out the banking system, which effectively converted private into public debt. The fall in GDP growth, combined with countercyclical government spending, and decreased public revenues prompted fiscal deficits in Greece, Portugal and Spain. These troubled euro-area countries had to cut spending, which did not help slowly recovering economies. They could not, at the same time, resort to monetary policy, which was handed over to the ECB, or currency devaluation. In consequence, the risk that these countries may not be able to meet their obligations to bondholders triggered increases in market interest rates which, in turn, weakened banking sector and the entire financial system. These problems, stemming from the institutional setup of the EMU, were captured by Pissani-Ferry (2012), and may be represented as another form of the "impossible trinity" (Figure 8.2). A slightly different approach was suggested by Cour-Thiemann and Winkler (2013), who proposed a simplified framework of monetary, fiscal, and financial stabilities. The responsibility for the first area, monetary stability, was centralized as the ECB took it over from national central banks. At the same time, fiscal stability remained within the national competences. Even if it was theoretically subjected to the Stability and Growth Pact rules, in practice they were often violated. The same applied to financial stability which, in spite of being subordinated to the set of directives (CRD, Solvency etc.) were in practice implemented with a significant degree of heterogeneity.

Davies and Green (2008) distinguish two approaches to harmonization processes. The first one, "minimum harmonization" relies on basic framework of regulation that was to be the same at the European level. However, national variations would be allowed. The main argument for this proposition was an opportunity to enable national authorities to take into consideration numerous national futures and characteristics of domestic financial system. Interestingly, it may also foster competitiveness, and facilitate financial innovations. The major drawback of such an approach may be a "race to the bottom" of national regulatory authorities. It also may cause migration of financial business to the most competitive financial centres.

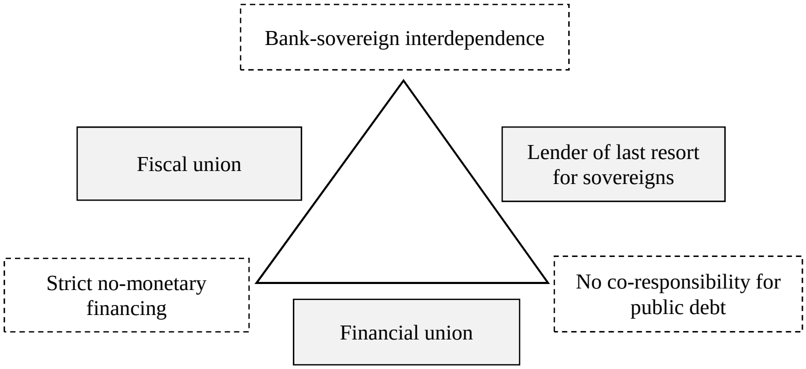

Figure 8.2. Institutional constrains in the Economic and Monetary Union: financial and fiscal interlinkages
Source: Pisani-Ferry (2012, p. 8).

The opposite proposition, called "Maximum harmonization" denotes a standardization of regulations, levelling playing field in all the markets. According to Davies and Green (2008, p. 135) it "(…) was promoted by those committed philosophically to greater European centralization". The primary objective of a high level of harmonization was to have a single set of rules that applies to financial firms operation through the EU. Consequently, this approach is naturally supported by large cross-border financial groups. It may lead to a tension between harmonization of wholesale markets and retail markets. Lobbying for certain regulations also reveals differences among the EU countries. Large British companies, based in the London's City, typically were interested mainly in Europeanisation of wholesale markets. However, in the majority of the Eurozone countries financial systems are mostly retail-based, and thus regulations in this domain draw closer attention of local authorities. On the other hand, retail services are overwhelmingly provided by domestic companies, that may be foreign-owned yet do not operate on a cross-border basis.

Europeanisation of financial regulation lagged behind other aspects of EU integration, such as adoption of euro. Harmonization was restricted mainly to Basel (CRD) and EU directive on deposit guarantees. Up to the crisis changes were rather insignificant, in spite of growing interest of financial stability issues on national levels. Thus, there existed practical, legal and political obstacles to Europeanisation.

Tirole (2014, pp. 143-153) provides rationale for Europeanization of financial supervision, and for abandoning of domestic regulation via the following arguments: 1) expertise – more efficient pooling of resources, 2) cross-border externalities (national agencies favoured domestic financial institutions), 3) connections with government debt (vicious circle). In turn, Scherf (2014) points out that financial regulation left on the national level in a monetary union is subjected to the standard political time-inconsistency problem. Proper functioning of the EMU needs supervision ex ante, in order to properly signal the common monetary policy stance. However, ex post, particularly in the environment of highly expansionary monetary policy, national regulators can be subjected to political pressure that may constrain their optimal response to fluctuations in a country's financial cycle.

Somewhat analogically, Schoenmaker (2008) places the regulatory policy in a financial trilemma: out of three goals, only two can be pursued simultaneously: 1) financial stability; 2) international (European) financial integration, 3) autonomous financial policy (e.g. banking regulation, resolution policy). Before the crisis, the answer to challenges of financial stability was rather ambiguous. Following the wide-spread notion of moral hazard, the argument was that the banks would behave differently if the Europe-wide arrangements were laid-down. It was particularly emphasised with regard to bail-out regulations, enhancing credit support, as well as deposit guarantees.

Finally, Davies and Green (2008) point out that the EU represents a special case. Most of cooperation throughout the world is voluntary, yet the EU members formally bound themselves to adhere to common European rules, also in the area of financial regulation. They underline that potential benefits of the adoption of euro cannot be fully achieved in the absence of efficient financial institutions, sound capital markets and reliable financial infrastructure. In consequence, one of the central questions is whether regulatory directives should be stronger in the Eurozone, or if the same set of rules should apply for the EU as a whole.

The higher degree of the European regulatory utility has even stronger impact on the Eurozone economies, since the European Central Bank was designated to fulfill a large part of macroprudential supervisory tasks. This, in turn, is expected to lower systemic risk at the European level, as the ECB may now influence the main parameters of this policy, in particular change values of countercyclical buffers. Europeanization of macroprudential policy has a significant meaning for one of the most important features of the Economic and Monetary Union, common monetary policy. When facing financial instabilities of different magnitudes in member countries, monetary authorities in the Eurozone are subject to difficulties in achieving their main goal, price stability.

8.5. CONCLUSIONS

Jean Monnet, one of the leading European statesmen, said in 1978: "Europe will be forged in crises, and will be the sum of the solutions adopted for those crisis" (cited in: Dorrucci *et al.*, 2015, p. 8). This notion proved to be an accurate description of the changes in financial regulation in the EU during the recent crisis. Even though the crisis broke out in the US, it uncovered structural problems embedded in the functioning of the European financial system. The specific junction among fragile banking system, disintegrated markets and sovereign debt crisis has become the hallmark of the European financial sector in the recent year. It led, however, to bold solution adopted on the European level, such as the Banking Union. This paper argued that, an overall response of the EU to the crisis resulted in a stronger Europeanisation in the area of financial markets regulation. In particular, it took form of assigning stronger powers to European Supervisory Authorities and more rules being set in the form of directly applicable regulations rather than directives. It also led to the realization of the benefits that go beyond a mere harmonization, and which impose a truly European dimension.

Despite a significant increase in the degree of Europeanisation of financial markets regulation since the outbreak of the crisis, there are at least several areas which may need additional actions in the near future. Various financial system segments, next to the banking sector, will also face a need for a more coherent, integrated regulatory framework. Considering the on-going cross-border penetration of European financial institutions, one may also indicate integrated solutions at the EU-level for bankruptcy law, markets for securitization, as well as "over-the-counter" markets, which are, according to Christine Lagarde, the head of the IMF, until now better described by "under the table" deals. These areas also constitute areas of the future research.

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9

Internationalization, Competiveness and Green Building Certification in Europe

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Summary:

This chapter presents the state of discussion on institutional framework for green innovation diffusion on a property market. The aim of the chapter is to describe the competitive position of major certification systems in Europe. The chapter consists of three parts. The first part is focused on the emergence of sustainability concepts in real estate and construction. In the midsection of the chapter, a conceptual framework used to address the problem of competiveness between green building certification systems is discussed. The empirical analysis is based on data on real estate projects certified in three multi-criteria green building certification systems, namely Building Research Establishment Environmental Assessment Methodology (BREEAM), Leadership in Energy and Environmental Design (LEED), and Deutsche Gesellschaft für Nachhaltiges Bauen (DGNB). The last part of the chapter is the empirical analysis of competitive position of BREEAM, LEED and DGNB certification systems in Europe.

Keywords: sustainability; certification; real estate; competition; internationalization; LEED; BREEAM; DGNB
JEL classification: L15, L74, L85, O33, 052, Q01, R33

9.1. INTRODUCTORY REMARKS

Construction is a resource intensive sector of the economy, with a significant environmental influence (Belniak *et al.*, 2013). Energy consumption during operation of buildings (lighting, heating, air conditioning, etc.) is responsible for approximately 25% – 40% of total energy consumption in the OECD countries. It is not surprising that since several decades institutional arrangements are implemented in order to facilitate dissemination of the principles of sustainable development in the construction sector (Belniak *et al.*, 2013). In the report "Roadmap to a Resource Efficient Europe" The European Commission identified construction as one of the three sectors, which should be the focus of efforts to resource efficiency of resources (EC, 2011, p. 18). Despite numerous economic incentives, institutional support and the growing understanding-oriented solutions that optimize life cycle costs of the building, the results of other studies show that a significant part of the construction investment is not carried out in accordance with the principles of sustainable development. In the literature one can find different explanations for this, without a doubt, the barriers are institutional factors, market uncertainty and the problem of information asymmetry. Reflections on investment in the context of environmental problems are present in the economic literature.

9.2. SUSTAINABILITY IN CONSTRUCTION AND REAL ESTATE

There are numerous synonyms for sustainable buildings in the literature. The list consists but is not limited to: green buildings, eco buildings, passive buildings or energy efficient buildings[1]. In most general terms, sustainable buildings are characterized by efficient and rational use of natural resources at the construction stage, their exploitation stage, and demolition. Put it differently, sustainable building has low negative impact on the natural environment, on bio-diversity of the environment, while providing optimal utility for their owners, tenants and other users. Nevertheless, sustainable buildings are not merely friendly to the environment, but also to their users and local community, while ensuring certain profitability for investors. To conclude, sustainability in built environment is a broad concept, with at least three dimensions to be considered:

- environmental;
- social;
- economic.

As defined by Kibert (2009): “sustainable buildings are responsibly created and managed construction environment, complying with the guidelines of natural environment protection and the efficient use of natural resources”.

It can be easily seen, that implementing sustainable solutions in the architectural design and construction of built environment will yield positive effects throughout the building's life cycle, especially at the stage of its operation. Most of the benefits will be related to their users (occupants).

Despite relatively fuzzy definition of the sustainable building found in the literature, there is consensus on typical characteristics. The list includes (Belniak *et al.*, 2013):

- maximum use of daylight;
- high indoor air quality and individual climate control of the indoor environment;
- low energy consumption;

[1] Despite semantic differences, all terms will be used as synonyms in the chapter.

– minimal site impact, due diligence in site selection, building design and landscaping;
– recycling of grey water and using it for watering vegetation and flushing toilets;
– accessibility to public transport infrastructure;
– selection of low impact construction and interior design materials;
– recycling of materials and demolition waste.

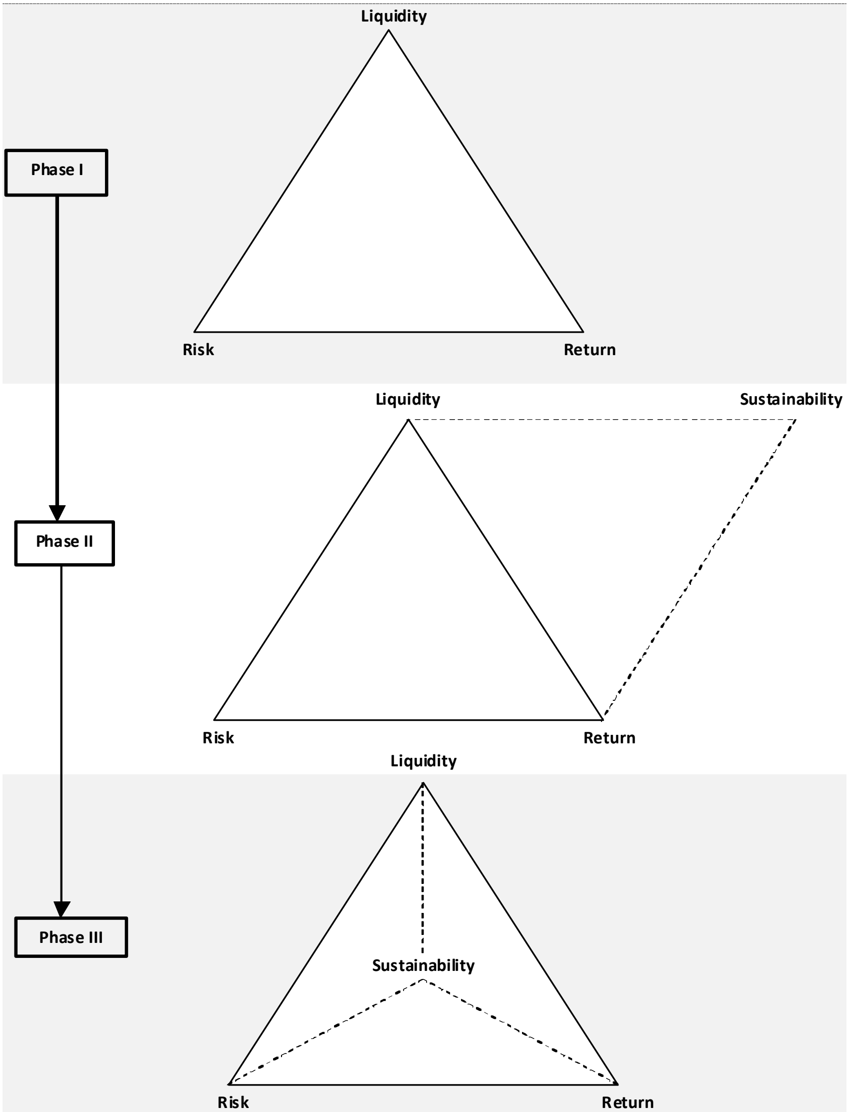

Figure 9.1. Sustainability and the change in property investment paradigm
Source: adapted from Lorenz (2006, p. 230).

At least since 1990s we have observed increasing importance of sustainable development principles in construction industry and property market practices across the world. Key factors were: (1) emergence and development of institutions (organizations) that promote sustainability in real estate, (2) growing ecological awareness and adoption of Corporate Social Responsibility guidelines by major multinational companies. The influence of environment-oriented cooperation on green innovations was analyzed by Urbaniec and Gerstlberger (2011). It resulted in increasing share of green buildings in new supply both on housing and commercial property market. As noted by Lorenz (2006, p. 230), in recent years there has been gradual shift in property market investment paradigm (Figure 9.1).

Until 1970s major factors taken into account in real estate investment were: return, risk (security) and liquidity of the investment. Typical investor faced a trade-off between choosing relatively secure and liquid assets but at the expense of lower rate of return (for example apartments) or less secure and less liquid commercial property types (for example retail) expecting higher future yields. The market reality was reflected in theory, empirical research and education (via curricula at university level). The shift from phase I to phase 2 was possible since the Oil Crisis and growing concern about environment and ecology. Sustainability concept was adapted to fit construction industry, and reflected by numerous green buildings and structures. At first, the outcome was outside the mainstream architecture – projects served more as the examples of ecological trends. Sustainable design was perceived as the opposite to economical design. The higher construction costs were not compensated by high return, at least not within an acceptable payback period. In the beginning of 2000s another shift – or more precisely an evolution from phase 2 to phase 3 was more and more visible. Sustainability has been incorporated into mainstream architecture. At the same time, growing literature provided robust evidence that sustainable design is positively related to return on investment and investment liquidity, but negatively related to risk.

Currently most scientific papers show that innovative and sustainable real estate have higher value than comparable counterparts. The cash flow explanation of the phenomenon was provided by Bulier *et al.* (2005). An alternative interpretation is provided in Belniak, Głuszak and Zięba (2013). Following Bulier *et al.* (2005) value of the property is the function of income from property (Net Operating Income, NOI) and yield (y).

$$V = \frac{NOI}{y}$$

Where:

V = Value;
NOI = Net Operating Income;
y = yield.

Net operating income comes from annual rent (R), and is diminished by operating expenses (OE). In the same time yield is the function of risk free rate (r_f), risk premium (r_p) to compensate market and project specific risk, as well as growth rate (g) and depreciation rate (d).

$$V = \frac{R - OE}{r_f + r_p - g + d}$$

Where:

R – Rent;
OE – Operating Expenses;
r_f – risk free rate;
r_p – risk premium rate;
g – growth rate;
d – depreciation rate.

According to Bulier *et al.* (2005), not only sustainable design can be reflected in variables influencing property value, but also they result in substantial value increase. In the article they identify several links between major determinants of real estate value, from cash flow perspective (Table 9.1).

Table 9.1. Hypothetical links between sustainability and real estate value determinants

Determinant	Explanation
Rent (R)	Changes in tenants preferences and expectations (+) Lower vacancy, thus lower share in operating costs (+) Lower costs of fittings (+)
Operating Expenses (OE)	Lower maintenance and servicing costs (-) Less refurbishment and modernization (-) Lower rent waivers (-)
Risk premium (rp)	Higher marketability and liquidity (-) Shorter vacancy periods (-)
Growth (g)	Competitiveness (+) Rising energy costs (+) Sustainability hype (+)
Depreciation (d)	Longer life span (-) Compliance with environmental legislation (-)

Source: own study based on Bulier *et al.* (2005, pp. 37-40).

As can be seen from the table (Table 9.1) net rent in sustainable property may be higher because tenants' preferences have changed in recent years. Preferences shift towards green real estate is accompanied by an increase in willingness-to-pay (WTP) for more sustainable living/working space. Superior design of green properties is expected to lead to lower maintenance costs, and lower probability of costly refurbishment in future. The latter two facts will results in lower operating expenses.

From investment perspective, authors suggests that sustainable property is subject to lower risk premium due to higher liquidity, and shorter vacancy periods. The risk of losing tenants is also smaller. Growth argument refers to predicted increase in future rents (thus owner's income) due to competiveness, and "green hype".

The last argument refers to functional depreciation issue. Because of different architectural design and compliance with current (possibly also future) environmental legislation, green property is expected to have longer life span (longer operation phase within life cycle model). Decrease in depreciation rate results in yield decrease, thus the value of real estate (estimated based on income approach) is higher.

Although any change in input variables may result in value increase, other stay equal, it is likely that they will influence the value simultaneously. Monte Carlo simulation of green building value increase based on similar cash flow model was presented by Belniak *et al.* (2013).

In other paper, Eicholtz *et al.* (2009) depart from cash flow perspective and present more general perspective on links between sustainability and property market behaviour. They indicate that there are four features shared by sustainable property that significantly increase propensity to choose them for premises instead of typical counterparts. These are:

– direct economic benefits resulting from lower operating costs and lower energy consumption in those buildings;
– indirect economic benefits drawn from improved image, increased work efficiency of staff, lower staff turnover, lower absenteeism due to sick building syndrome;
– risk avoidance which in market conditions translates into the rate of functional and moral deterioration of sustainable building, commercial character of a facility, future changes of energy prices and future institutional and legal changes;
– ethical conduct related to CSR (Corporate Social Responsibility), responsible property investing, and corporate culture.

As, discussed earlier, according to economic theory, higher utility of office environment should translate into willingness to pay for better work space, and finally higher office rents. The problem was addressed empirically. Literature is quite consistent on rent premiums in sustainable office space. Most studies report rent increase in such buildings. According to the empirical results, rent premiums in green buildings range from: 5% (Pivo & Fisher, 2009), 12% (Fuerst & McAllister, 2008), even up to 17% (Wiley *et al.*, 2010).

Most authors also indicate lower operating expenses of sustainable buildings (Shiers, 1999, Miller *et al.*, 2008, Pivo & Fisher, 2010). On the other hand, Barrientos *et al.* (2007) indicated that operating costs are typically underestimated at the design stage of green buildings, but eventually they are slightly lower than those recorded in comparable traditional buildings.

Eicholtz *et al.* (2009) noted that CSR is reflected in corporate decisions on a property market (e.g. in decisions to lease LEED certified office space). Similarly, non-profit and government organizations display higher propensity to rent office space in an ecological building, guided strongly by legal considerations.

It is worth noting that although certification systems for ecological solutions such as LEED, Green Star, BREEAM, DGNB, CASBEE have been applied in highly developed countries, their distribution on emerging markets is limited. That uneven share is replicated in the economic literature. The discussion on sustainability in built environment is based on empirical evidence from mature markets, where sufficient data exist. As noted by Sayce *et al.* (2010), critical analysis of 128 green building related scientific articles found in mainstream academic journals indicates that until 2009 majority of papers focused on the US (28%), Great Britain (26%), and Australia (22%). In their conclusions to the literature review, Falkenbach *et al.* (2010) admit that further empirical research is needed. They also advocate for more robust, and theory driven results, that are tested with econometric models. Critical analysis of the literature was expanded and updated by Belniak *et al.* (2013). The major conclusions and recommendation for future research remain relatively unchanged.

9.3. GREEN BUILDING CERTIFICATION FROM ECONOMIC PERSPECTIVE

The green building certification systems were created because of uncertainty, and asymmetry of information both in construction and property market. Earlier research indicate that although occupants may be willing to bear the higher costs associated with the use of ecological solutions in the construction industry (Belniak *et al.*, 2013), the interest of the occupants is not always consistent with the interests of the investor.

In early 1970s Akerlof discussed market consequences of asymmetry of information between buyers and sellers (using automotive market as an example), while Arrow and Fisher (1974) analyzed the problem of irreversibility of investment and uncertainty. Nevertheless, the major contribution to the theory of institutional framework behind green building certification can be attributed to Sedlacek and Maier (2012), who argued that under asymmetric information on the life cycle costs of the building, the developers will be subject to moral hazard. From game theoretical positions they suggested that evolution of the property market resulting in more sustainable built environment is not be possible if end users cannot differentiate bad (less sustainable) from the good (more sustainable) real estate.

Other problem arises because of agency issue. In the case of a typical property investment and construction activities, typical business model involves a developer, who is responsible for the outcome, but acts as an representative to the investor or end users. The situation is an example of agency relationship (and representation problem). It arises then when one party (the principal) delegates the task of the other side (representative, called the agent), giving decision-making powers at the same time. Agency theory assumptions: (1) rationality of both parties of the contract, each acting in their own interest, (2) a representative (agent) avoids the risk and minimizes costs (Jensen & Meckling, 1976), (3) there is an asymmetry of information (Alchian & Demsetz, 1972). Contracts between developers and investors or end users (for example tenants) meet all of these conditions. Both sides of the contract (investor/end user and developer respectively) have conflicting interests. Developer seeks to maximize profit (which is also dependent on the cost of construction), while the buyer's utility depends on the characteristics of the building (which should include life-cycle costs). Due to the asymmetry of information neither investor nor end user is able to assess the architectural and construction project and control the actions of the developer.

To conclude, because of the agency problem, under conditions of asymmetric information in the property market, the end user is not able to observe and supervise the design and construction phase of an investment project. Due to asymmetric information developer is subject to moral hazard, and may be willing to reduce the cost of construction at the expense of quality. Minimizing the cost of construction can lead to inferior quality, and significant increase in operating costs incurred by the potential user. Less sustainable building is a suboptimal solution in the context of the life cycle theory. The agency problem, and the nature of developer-client contracts on property market was not sufficiently addressed in empirical research.

In a seminal paper Sedlacek and Maier (2012) argue that multi-criteria green building certification can contribute positively to the development of more sustainable built environment. Independent assessments of building quality performed by third party organization can mitigate tensions between developers and investors (end users). Information on building quality reduces the asymmetry of information for investors. In the same time it increases the propensity of developers to deliver buildings of quality they are paid for (Sedlacek & Maier, 2012).

The most popular green building certification systems are:

- *Building Research Establishment Environmental Assessment Methodology* (BREEAM) created in 1990 by Building Research Establishment (BRE). According to the BREEAM website currently there are more than 250,000 buildings certified BREEAM (located in more than 50 countries around the world, but mostly in UK)[2].
- *Haute Qualité Environnementale* (HQE) created in 1992 by Association pour la Haute Qualité Environnementale (ASSOHQE).
- *Leadership in Energy & Environmental Design* (LEED) created in 1998 by United States Green Building Council (USGBC).
- *Comprehensive Assessment System for Built Environment Efficiency* (CASBEE) created in 2001 by Japan GreenBuild Council (JaGBC) and Japan Sustainable Building Consortium (JSBC).
- *Green Star* (GS) created in 2003 by the Green Building Council of Australia (GBCA).

[2] Since the major update in BREEAM system has changed significantly. Public database is available for projects certified in 2008 and after.

– *Deutsche Gesellschaft für Nachhaltiges Bauen* (DGNB) created in 2007 by Deutsche Gesellschaft für Nachhaltiges Bauen e.V.

To reduce complexity, and discuss internationalization and competiveness in more detail, we will focus on three systems that become the most popular in Europe – DGNB, BREEAM and LEED. Basic comparison between the later three systems was presented in a table (Table 9.2).

Table 9.2. Basic comparison of DGNB, BREEAM and LEED

Classification criterion	DGNB	BREEAM	LEED
Certification body	Deutsche Gesellschaft für Nachhaltiges Bauen e.V. (DGNB)	Building Research Establishment (BRE)	United States Green Building Council (USGBC)
Launch	2007	1990	1998
Country of origin	Germany	United Kingdom	United States
Internationalization	DGNB International DGNB Community, Local DGNB System partner	BREEAM International, BREEAM Europe, BREEAM Gulf, BREEAM Netherlands, BREEAM Spain	LEED Brazil, LEED Canada, LEED Emirates, LEED India, LEED Italy, LEED Mexico
Third party assessor	DGNB	BRE	Green Building Certification Institute (GBCI)
Auditor	Certification performed by "DGNB auditor" – registered and independent	Certification performed by "BREEAM Assessor" – registered and independent	Certification performed by "LEED Accredited Professional" – registered and independent
Rating levels	Certified (35%) Bronze (50%) Silver (65%) Gold (80%)	Pass (30 points) Good (45 points) Very Good (55 points) Excellent (70 points) Outstanding (85 points)	Certified (40 points) Silver (50 points Gold (60 points) Platinum (80 points)

Source: own based on Ebert *et al.* (2011, p. 92).

The definition of sustainability is complex, thus there is no consensus on criteria used to assess the sustainability in real estate context. In practice, each system applies different set of indicators, as well as weighting and scaling logic. As noted by Wilkinson *et al.* (2009, s. 9) when green buildings system are compared "there is variation in the standards of each system, when sustainability issues are concerned".

Elbert *et al.* (2011) analyzed differences between DGNB, BREEAM and LEED using 10 categories that describe sustainability. Additionally, within each major category they identified subcategories. For example, a broad category "Health and Comfort" can be broken down into five indicators: (1) Thermal comfort, (2) Indoor air quality, (3) Acoustic comfort, (4) Visual comfort, (5) Occupants' extent of control. The major differences are presented in a table (Table 9.3).

Although it should be treated with caution, Table 9.3 shows the major differences between three certificates used to assess sustainability of built environment. All certificates puts more or less equivalent weight on: Ecological aspects, Energy, Health and comfort and Site categories. Nevertheless, there are subtle differences between certification systems. LEED certification does not include Economic, Technical and Functional aspects in evaluation. DGNB is the only certification system that scores Functional aspects (site efficiency and suitability for conversions). It puts a lot of weight on technical aspects, while both BREEAM and LEED fall behind. Both BREEAM and DGNB put more emphasis on building management compared to LEED.

Table 9.3. Assessment criteria in DGNB, BREEAM and LEED

Classification criterion	DGNB	BREEAM	LEED
Ecological aspects	4/4	4/4	4/4
Economic aspects	2/2	1/2	0/2
Sociocultural aspects	2/3	1/3	1/3
Energy	6/8	7/8	6/8
Health and comfort	5/5	5/5	4/5
Functional aspects	2/2	0/2	0/2
Technical aspects	4/4	1/4	0/4
Design and innovation	2/3	1/3	1/3
Process/management	4/4	4/4	2/4
Site	7/9	7/9	6/9

Source: Own based on Ebert *et al.* (2011, p. 97).

9.4. INTERNATIONALIZATION AND COMPETITION BETWEEN CERTIFICATION SYSTEMS

As noted earlier, numerous green building certification systems has been created and developed. Some of them remained local, while others have spread throughout the world (Reed *et al.*, 2009). Diffusion of green innovations, or internationalization of the most successful certification systems, was fostered by institutional support of parent organizations (for example US Green Building Council in case of LEED certification). The nature of the process of diffusion of ecological innovations in construction and real estate was discussed by M. Gluszak and M. Zieba (2014), who analyzed the LEED certification dynamics and spatial distribution in OECD countries. Despite numerous articles on Europeanisation and internationalization (see Wach 2013; Wach 2014a; Wach 2014b) the problem in the context of real estate market is still understudied, both conceptually and econometrically. The same remark applies to the problem of competition between certification tools, used to evaluate the sustainability in built environment.

There is no consensus on the nature of competitive position in the economic literature. According to Gorynia and Jankowska (2008, p. 70) competitive position can be understood as a result of competition. As such it is fluid, and can change over time. Competitive position is also relative, can be meaningfully addressed only with respect to other competitors on the market. When used to describe situation of given company, competitive position may be ranked as suggested by Wach (2014c, p. 110):

– dominating (leader on the market);
– strong (major players on the market);
– average (players competing with difficulty);
– poor (players with limited potential for effective competition).

More elaborate classification of competitive position on the market was suggested by Gogel-Larreche (1989). The graphical representation of the classification is presented in figure 9.2.

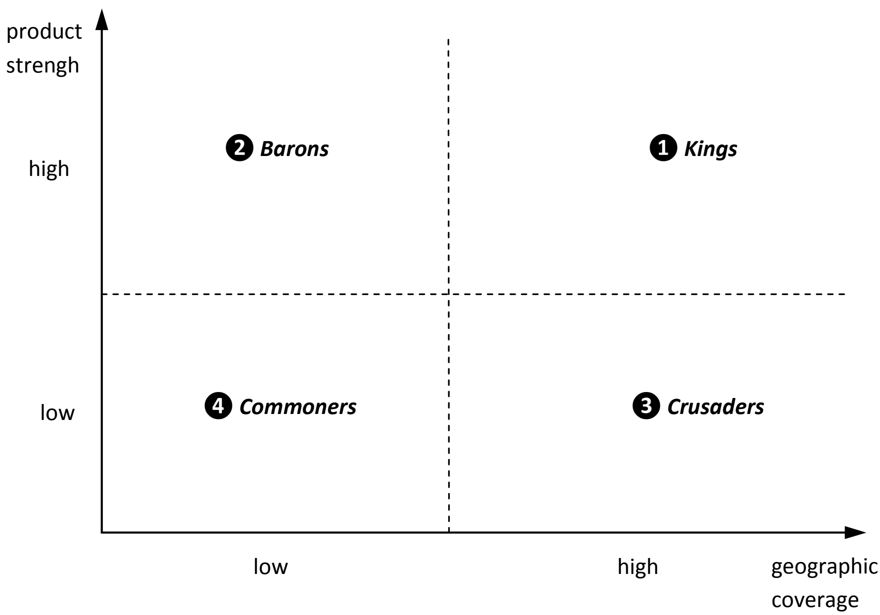

Figure 9.2. The Gogel-Larreche international competitive matrix
Source: adapted from Wach (2014c, p. 119).

Using a military metaphor, Gogel and Larreche (1989) provided a two dimensional framework, that helps to understand the competitive position of a company. Two dimension considered are geographic coverage and product strength. Although both indicators are in general quantitative (at least they can be), authors identify four major groups representing dichotomous positions on two dimensions described above (Gogel and Larreche 1989):

1. Kings – global companies with attractive product, and strong competitive position,

2. Barons – companies with a quality product, operating locally
3. Crusaders – companies with large geographical range, but weak product
4. Commoners – companies present on a local market, with relatively weak product

Unfortunately despite substantial theory behind competiveness, competitive process, and competitive positions (Ma, 2000; Redmond, 2013, Wach 2014a) empirical research is still needed (Ma, & Liao, 2006, Wach, 2014b). Meanwhile, empirical evidence related to real estate market is rather weak.

The same conclusion applies to green building certification systems. To author's best knowledge, there are not many empirical studies addressing the problem of competiveness of green building certification schemes. Several studies compared green certification schemes – possibly addressing the question of product's strength. Other papers discussed the implicit value of green certifications, based on hedonic models. Yet another interesting approach to the competitive position was presented by Zięba *et al.* (2013), who looked for occupiers' willingness to pay for having LEED, BREEAM and DGNB office building as the measure of certification competitive position. A research based on a conjoint experiment shows that highest utility for office tenants in Poland is linked to BREEAM certificate (highest willingness to pay for having BREEAM certified office space). Slightly lower propensity to pay was observed for LEED certificate. The lowest willingness to pay was estimated for DGNB certificate (Zięba *et al.*, 2013). One of possible explanations is connected to tenants awareness (BREEAM is the most popular certificate in Poland, yet another measure of its competitive position).

On the other hand, several papers focusing on diffusion of green buildings – contributing to the body of knowledge about geographical coverage. Nevertheless, green certification competiveness was investigated not in a rigorous manner.

9.5 COMPETITIIVE POSITION OF BREEAM, LEED AND DGNB CERTIFICATION SYSTEMS IN EUROPE

Empirical part of the chapter focuses on competiveness of DGNB, BREEAM and LEED certification systems in Europe. As discussed earlier, two former certifications schemes originated in European context (in Germany and United Kingdom respectively), whereas the latter was created in United States. All three certifications were internationalized with significant success. Two interesting questions arises. What is the competitive position of DGNB, BREEAM and LEED certificates within property market in Europe? Are there differences in adoption process in individual countries?

We try to answer both questions analyzing geographic coverage of all three green building certification systems. The exploratory analysis is based on publicly available projects registered and certified in each multi-criteria sustainable assessment methodology. More specifically:

– data on DGNB projects come from *DGNB Pre-certified and Certified Projects* (2015);
– data on BREEAM projects come from *BREEAM Certified Assessments* (2015);
– data on LEED projects come from *LEED Projects Directory* (2015).

In the analysis we focus our attention on projects that received certificates not later than on 31 December 2014.

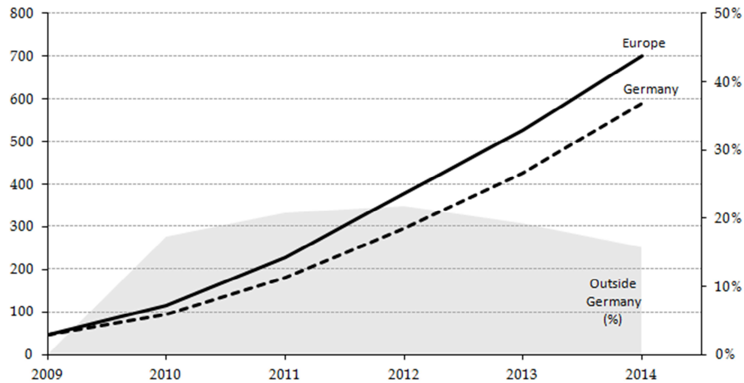

Figure 9.3. Internationalization of DGNB Certificates between 2009 and 2014 (left axis: number of certified projects; right axis: % of projects certified outside Germany)
Source: own based on DGNB Pre-certified and Certified Projects.

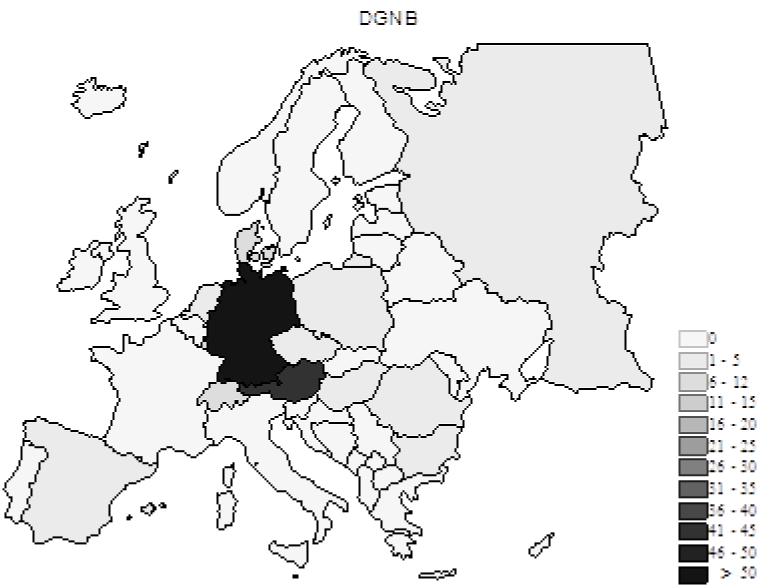

Figure 9.4. Distribution of DGNB Certificates in Europe (number of certified projects)
Source: own based on DGNB Pre-certified and Certified Projects.

Analysis of DGNB projects database shows steady growth in number of projects certified within the framework (Figure 9.3).

Data presented on Figure 9.3 show sharp increase in share of projects certified outside Germany in 2010. While in 2009 all projects certified in DGNB system were located in Germany, in 2010 approximately 17% of all DGNB certificated buildings were abroad. The share increased in 2011, to reach its peak in 2012 (approx. 22% of all projects were outside Germany). Surprisingly, the internalization rate decreased in 2013 (19%) and yet again in 2014 (16%).

Internationalization of DGNB certification system is influenced by economic connections between Germany and other countries. The geographic distribution of DGNB certificates was presented on a map (Figure 9.4).

As it can be seen from the map, there are several countries in Europe that have not adopted DGNB certification (for example France, United Kingdom, Italy). Most projects certified outside Germany were located in Austria (42), and Luxemburg (9). Other countries with significant number of DGNB certified buildings were Denmark (8) and Switzerland (6).

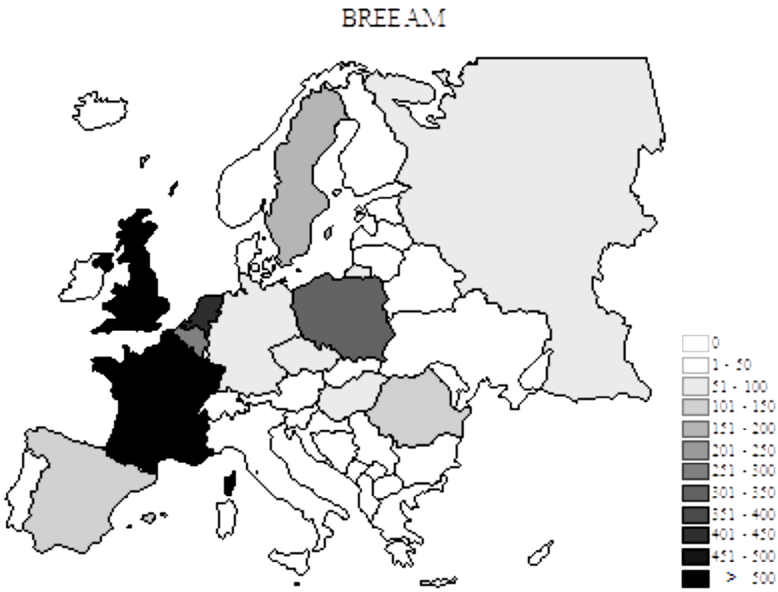

Figure 9.5. Distribution of BREEAM Certificates in Europe (number of certified projects)
Source: own based on BREEAM Certified Assessments.

Not surprisingly, a spatial distribution of BREEAM certified buildings is completely different from its German counterpart. Geographic coverage of BREEAM certification system was presented on a map (Figure 9.5). As it can be seen from the map, the BREEAM certification system is widespread and more recognized within Europe. It is reflected both by number of certified buildings and number of countries with at least one green building certified in BREEAM.

There are not many countries in Europe that have not adopted BREEAM (one being Switzerland). Most projects certified outside United Kingdom were located in France (736), Netherlands (410), Belgium (274), Poland (340), Sweden (168), Spain (144) and Romania (106). What is interesting, 56 projects in Germany were BREEAM certified, despite the presence of domestic assessment system.

At the end, we focus our attention on internationalization of LEED certification in European countries. Contrary to DGNB and BREEAM, LEED certifications origins outside Europe. Consequently, one may suspect that geographical distribution of LEED certified projects would not follow the same patterns as in case of two European counterparts. Geographical coverage of LEED certification in Europe was presented on a map (Figure 9.6).

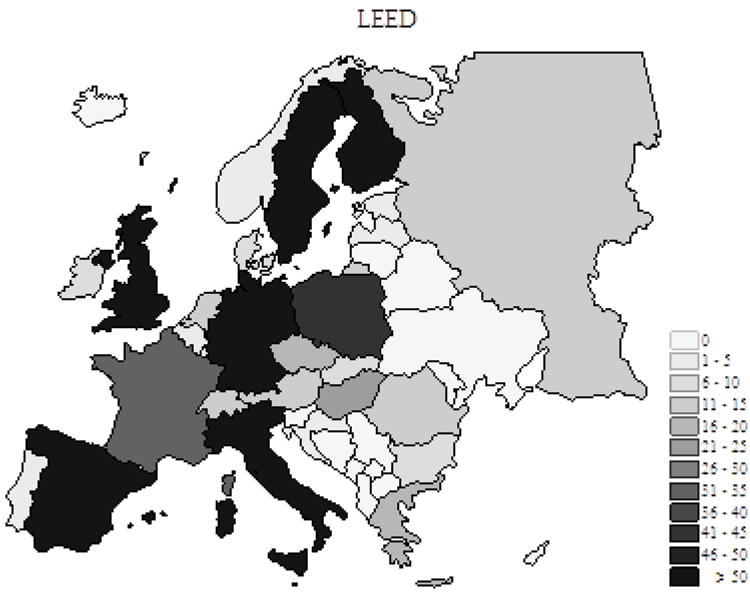

Figure 9.6. Distribution of LEED Certificates in Europe (number of certified projects)
Source: own based on LEED Projects Directory.

As it can be seen from the map (Figure 9.6), the LEED certification system is present in most European countries (not a surprising feature, as it a truly global rating tool). As in case of BREEAM, it is reflected both by number of certified buildings and number of countries with at least one green building certified in LEED. Most LEED certified projects in Europe were located in Germany (143), Sweden (119), Spain (94), Italy (92), Finland (83). Additionally, 61 LEED projects were located in United Kingdom.

Competitive position of LEED, BREEAM and DGNB systems in Europe is not only represented by the number of projects certified in each of these three systems. One may argue that in a competitive market, where developers and investors must choose from existing certifications systems, revealed preferences reflected in market share (both cumulative and current) may serve as an indicator of competitive position. On the other hand, it should be noted that choice of the certification is sometimes institutional. German companies operating abroad may prefer DGNB, whereas US companies would rather choose LEED. Nevertheless, competitive position of all three certification was presented on a ternary plot (Figure 9.7).

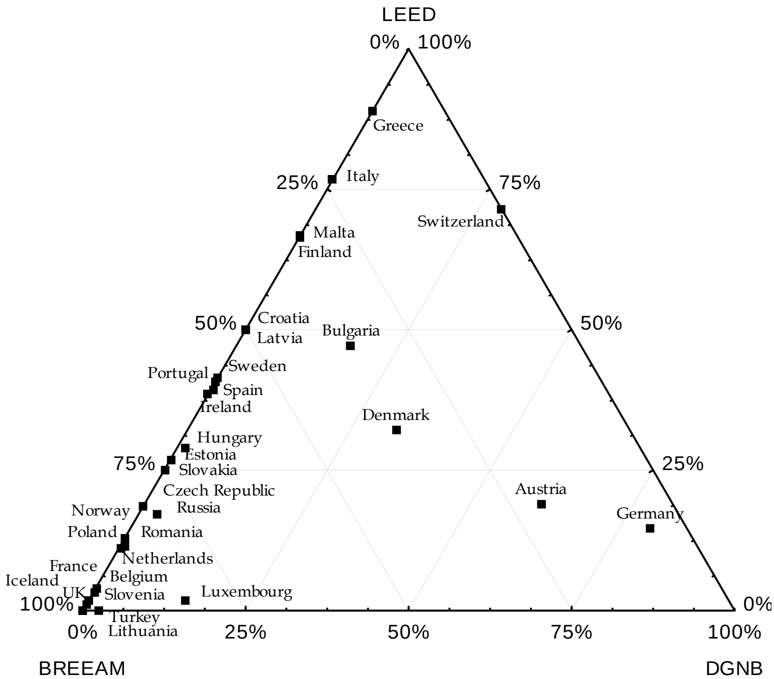

Figure 9.7. Competitive position of DGNB, BREEAM and LEED in European Countries
Source: own based on DGNB Pre-certified and Certified Projects; BREEAM Certified Assessments; LEED Projects Directory.

As it can be seen from the ternary plot (Figure 9.7), BREEAM green certification boasts dominant competitive position in Europe (as most of countries are located close to bottom-left vertex). The countries with dominant BREEAM position include United Kingdom, Lithuania, Turkey, Slovenia, France, Belgium, Netherlands and Poland. DGNB certification is popular in Germany and Austria, where it has a dominant competitive position. LEED has strong competitive position in Greece, Italy, Switzerland, Malta and Finland. A peculiar case is Denmark, where popularity of each of three major green building certification systems is comparable.

9.6. CONCLUSIONS

In the chapter we discussed institutional framework behind green building certification systems. We provided theoretical arguments behind internationalization of real estate practices, products and services. Empirical research indicate that competitive position of major certification systems in Europe is not equal. We found out that BREEM certification is the most popular (being the King), whereas LEED and DGNB are less common.

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10

Europeanization of the Energy Policy within the European Union's System of Governance

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Summary:

The aim of the chapter is to answer the question about the scope and consequences of the process of Europeanization of the EU energy policy. The phenomenon is caused not only by the pressure from Brussels, but, most of all, by challenges and threats from outside the European system. The point of reference adopted for this article is the European Union (EU) itself, seen both as a source and result of the Europeanization process. The chapter begins with an overview of the body of work on Europeanization and the impact of European integration on energy policies of EU Member States. It then proceeds to adapting theoretical assumptions established in the existing literature for the purpose of analysing the Europeanization of the EU energy policy. Based on the proposals from M. Smith and R. Ladrech, the author identifies changes that have occurred due to the process of Europeanization and illustrates them with examples. In addition, the main part of this paper presents various dimensions of the process that are relevant to the energy sector. Among other matters, it considers the issue of links between the energy policy and other policies subjected to Europeanization – primarily, the economic and environmental policies.

Keywords: Energy policy; European Union; Europeanization
JEL classification: F02, F15, D02, D79

10.1. INTRODUCTORY REMARKS

The European Union may be defined as an integration grouping. Over past decades, the EU developed several mechanisms and institutions, the purpose of which is to coordinate and optimise cooperation between main actors of the European integration. As from the very beginning the economy has been the crux of the integration process, the issue of energy has always been on the table. Thus, the aim of this paper is to analyse conditions, scope and consequences of the Europeanization of the energy policy. Moreover, the chapter aims at answering the question about the current stage of supranationalization of said policy in the EU. Therefore, it will examine the role and impact of particular actors in the EU system of governance.

The beginnings of cooperation on energy policy can of course be traced back to the 1950s and the establishment of the European Coal and Steel Community (ECSC) and the European Atomic Energy Community (Euratom). However, the analysis presented here encompasses only the last 8 years of integration within the EU. Its time frame begins in 2007, when the Lisbon Treaty (LT) introduced a separate chapter on energy into the EU primary law for the first time. This step not only turned the EU energy policy into an autonomous, supranational phenomenon, but also spurred its further, even more dynamic Europeanization. The analysis ends at 2014, when the Russian-Ukrainian conflict cast fresh doubts on whether having EU's fossil fuels supplied by Russia is secure. Additionally, in October that year the European Council adopted new, ambitious goals for combating climate change. Simultaneously, the European Commission was preparing a new outline of the energy policy – the European Energy Union.

Supranational European energy policy analysed in this chapter has its specific horizontal character. On the one hand, it cuts across the agenda of the environmental policy and climate policy. On the other hand, it is strongly linked to European economy (including industry development, transport and housing). One should also remember that today's energy policy has two distinct dimensions – external and internal – which vary in dynamics and emphasis on specific goals and relevant problems. Moreover, it seems there are two main issues that frame and shape the discourse on the energy policy in the EU. The first one is energy security[1], frequently understood strictly as security of supply. The second one is related to Europe's fight against climate change. Interestingly, the internal dimension is increasingly interrelated with the goals of the environmental policy, while the external dimension is dominated by the issue of supply security.

10.2. LITERATURE REVIEW

The Europeanization as a theoretical concept has been widely described in the academic literature (Wach, 2010). One can find specific suggestions about where and how the Europeanization appears, and the mechanisms of the process (Börzel 2002; Bulmer & Radaelli 2004; Gawrich, Melnykovska & Schweickert 2010; Howell 2004, Ladrech 2010; Major & Pomorska 2005; Schimmelfennig 2007; Smith 2001; Wach, 2014). Recent years have seen a number of research projects utilising the Europeanization concept to investigate the dynamics and character of

[1] The concept of energy security, as used in this chapter, will be defined in terms of a process, taking account of economic and political determinants for achieving and preserving an optimal level of security. Such level can be assessed by analysing various indicators, such as the share of imported sources in the energy balance, stability of supply, the price of energy, fuel reserves, energy efficiency and consumption, etc. (for more, see: Riedel, 2010, pp. 24-25).

the energy policy in Europe. One of the works worth mentioning is a book edited by F. Morata and I. Solorio Sandoval, entitled 'European *Energy Policy. An Environmental Approach*' (2012). Determinants of the European energy policy have been extensively described in M. Rewizorski, R. Rosicki and W. Ostant's book '*Wybrane aspekty bezpieczeństwa energetycznego Unii Europejskiej*' (2013). Another important work is a volume edited by V. L. Birchfield and J. S. Duffield, '*Toward a Common European Union Energy Policy: Problems, Progress and Prospects*' (2011). The authors deal with the institutionalisation of the European energy policy and characterisation of the internal market's development. They analyse the external dimension of the policy and present national (French, British and German) perspectives on its Europeanization.

Furthermore, academic journals contain numerous articles that examine the energy policy in the context of European integration (Rowley, 2009; Francés, 2011; Padget, 2011; Verhoeff & Niemann, 2011; Gawlikowska-Fyk, 2012; Nowak, 2014). Their focus is on both internal and external EU energy policy. Researchers have also been interested in the approach of particular Member States to the Europeanization of the energy policy. The subject is also touched on in edited volumes covering a broad range of issues (Młynarski, 2013).

Another portion of materials worth considering comes in the shape of analyses prepared by various think tanks. However, one should be particularly meticulous in a critical assessment of data, sources and conclusions presented in such documents (Bolton, 2013) since they are often created for specific interest groups that wish to influence the discourse on the energy policy at the European level.

Finally, when examining changes in the European energy market, one needs to reach for easily accessible source materials, including legal acts and statistical data published by European institutions and public bodies of each Member State. All in all, recent years have seen a substantial interest in the subject of energy policy and security. One other noteworthy point is that, especially in English-language literature, the issue of energy security (understood as access to natural resources) is being side-lined by research on the relation between energy policy and environment protection, particularly the policy on preventing climate change.

10.3. THEORETICAL AND METHODOLOGICAL FRAMEWORK

The analysis presented in this paper is based on the assumption that the energy policy is just one realm within a heavily interconnected EU system of governance. This system consists of at least three types of elements/actors. The first group contains EU Member States (MS) (represented primarily by governments themselves, but also by other public institutions at the national level). The second type of actors are EU supranational institutions (especially the European Commission). The third group is composed of so-called market players interested and involved in energy issues (e.g. corporations and companies). Recently, the system has become more and more structured due to EU legislation, progressing institutionalisation and increasing awareness of common interests. At the same time, it functions in a complex and dynamic environment. The relations between the system and its surroundings are an important source of internal systemic changes. The scope, aims and operationalisation of the EU energy policy are a result of interactions between the relevant actors within the system, as well as relations between the EU system and its environment. In addition, since the whole volume is based on the mesoeconomic perspective, the analysis of Europeanization of the energy policy will '*involve aspects of culture and tradition together with policies, rules and regulations*' (Andersson, 2003, pp. 54-56). In light of the above, highlighting the systemic approach is even more justified.

To fulfil analytic tasks mentioned in the introductory part of the chapter, the article utilises the concept of Europeanization. In the literature on European studies, one can find a number of definitions of the term. For the purpose of this analysis, I have adopted the conceptualization provided by C. M. Radaelli and S. J. Bulmer. According to these authors, '*Europeanization is a processes of a) construction, b) diffusion and c) institutionalisation of formal and informal rules, procedures, policy paradigms, styles, 'ways of doing things' and shared beliefs and norms which are first defined and consolidated in the EU policy process and then incorporated in the logic of domestic (national and subnational) discourse, political structures and public policies*' (Bulmer & Radaelli, 2004, pp. 3-4). One reservation that must be made here is that the Europeanization will not be treated as limited to adaptation and incorporation of formal rules, but also as transformation and internalisation of common beliefs and values.

The Europeanization itself – understood both as a phenomenon and a process – depends on the internal dynamics of a system. Equally important are information, pressure and influences external to the investigated system. Once we acknowledge the Europeanization as a complex phenomenon which can '*derive from different stages and forms of the policy process*' (Ibid, p.3), we need to devote special attention to its different dimensions and the processes occurring in other realms of integration (environment, trade, transport, competition). Scholars who theorise about the impact of European integration on MS' public policies point out at least four dimensions of Europeanization. The first two, which T. Börzel terms as processes of downloading and uploading (2002, pp.195-196), are about the vertical interaction between the MS (acting at the national level) and the EU and its institutions (acting at the supranational level). When investigating the European energy policy, one can also name another dimension of the Europeanization – specifically, the so-called crossloading Europeanization that takes place as a result of horizontal interactions between the EU MS (Howell 2004) or '*other entities for which the EU sets the scene*' (Major & Pomorska 2005, p. 1). Finally, some authors distinguish a fourth possible dimension of Europeanization, which describes the influence of the EU on its neighbouring areas. F. Schimmelfennig (2007) calls it '*Europeanization beyond Europe*'. This way of spreading the EU's norms, rules, values and ways of doing things has also been known as 'neighbourhood Europeanization' (Gawrich, Melnykovska & Schweickert 2010). Therefore, as noted by T. Młynarski, '*as elements of a broader system, policies of states and*

EU institutions are not linear and one-directional (...) they are mutually interrelated and undergo various adaptation processes' (2013, p. 429).

Having in mind the aim of this chapter, it is important to conceptualise an analytic model for measuring changes based on their indicators. The existing literature contains interesting proposals on how to measure the extent, scope and depth of Europeanization. For instance, Michael E. Smith has conceptualised the process of domestic adaptation to political cooperation in Europe. The authors points our four indicators of adaptation: socialisation of elites, bureaucratic reorganization, constitutional change and, finally, the increase in public support for political cooperation within the EU (2000, p. 617). A somewhat different view on identifying the areas of change is presented by R. Ladrech, who, referring to Smith's concept, proposes to focus the analysis of Europeanization on domestic institutional change, the change of domestic policy content, as well as identity change involving the elites and, possibly, public opinion (Ladrech 2010, pp. 195-204).

Considering the existing methodologies, I have slightly altered Smith's and Ladrech's proposals. Hence, the analysis presented in the next part of the chapter will encompass:

1. Socialisation of elites in the spirit of principles of the common energy policy:
   a. national policy content;
   b. the policy-making process at the EU level.
2. Operationalisation of the common energy policy and bureaucratic adaptation:
   a. transposition of EU's legal stipulations into national legal systems;
   b. institutionalisation of cooperation within the EU in the field of energy;
   c. involvement in the operationalisation of EU energy policy goals.

Although both Smith and Ladrech suggest considering changes that occur in the public opinion, this study will not contain any such attempt. There are several reasons for that. First of all, since the Europeanization of energy policy is still a relatively new phenomenon, it is too early to formulate a credible assessment of the impact the integration has on the opinions held by EU citizens. Secondly, any such analysis would require extensive qualitative and quantitative research conducted in all 28 MS. Thus, it warrants further, separate efforts that, if undertaken, would unquestionably enrich our knowledge about the energy policy at the European level.

10.4. ANALYSIS AND DISCUSSION

The evolution and gradual development of the EU energy policy will be assessed with the use of the above-described model. The focal point will be the supranational energy policy that has been created and shaped as Member States' response to increasing interdependence of their economies, external factors (including a progressing dependence on import), as well as environmental challenges. Europeanization of the energy policy is a process that occurs according to the logic of functional integration and takes account of the subsidiarity principle. Supranational cooperation occurs, because decision-making elites of EU MS are increasingly convinced that it is the only way to cope with the above-mentioned problems. The EU energy policy can be considered as being *in statu nascendi* – its intergovernmental component is still clearly present. However, the time period discussed here has seen the onset of balancing of the two basic dimensions (downloading and uploading), while previously the field of energy was dominated by downloading.

The analysis presented here is divided into two stages. Firstly, the author shall examine why and how the elites undergo socialisation in the spirit of the principles of the common energy policy. Secondly, the author considers the operationalisation of common energy policy and bureaucratic adaptation to EU standards which involves implementation of the conceptual principles within specific undertakings.

Socialisation of the Elites in the Spirit of the Principles of the Common Energy policy

One determinant of energy policies adopted by MS lies in a high extent of interdependence. It is reflected both in relations between the actors of the European system and relations between the system and its environment. In the case of the energy policy, subjective interdependence encompasses suppliers of natural resources, owners of the transmission infrastructure, suppliers of energy, as well as consumers. Objective interdependence refers to strong correlations between the energy policy and economic, environmental, climate or even foreign policies. While the link between energy policy and, for instance, climate policy is fairly obvious, one might also take a careful look at connections between energy, foreign and trade policies which stem from increasing dependence of MS on natural resources imported from outside the EU.

At the national level, energy policies of MS reflect a certain collection of needs, expectations and demands expressed by relevant actors. When creating their identity (referred to as *raison d'état*), national actors that operate at the EU level (i.e. governmental representations from MS) have to continuously accommodate and balance the interests of entities from the national level. As they shape the vision and detailed goals of the policy, they are often forced to take account of the interests pursued by transnational players, such as large corporations operating in the European market. One can assume that such high extent of interdependence in a very complex (both subjectively and objectively) system must result in an imperative to cooperate. Indeed, the internal dimension of the European energy policy is dominated by cooperative tendencies. Policies adopted by many MS are based on premises that include a strong European component. As they undergo Europeanization, these policies often provide for developing a common position (and, if necessary, reaching a compromise). Such trend is confirmed by the fact that the European Council summits and the monthly EU Council meetings repeatedly follow the same scenario (for more, see: Heisenberg, 2005). Governments unwilling to agree on a compromise are ostracised and accused of misunderstanding the sense of the EU decision-making process. Conversely, those ready to make concessions and keen on reaching an agreement are praised (EuroActiv 2012). This, of course, is a prime example of Europeanization mechanisms – socialisation, learning and adaptation – at work. Poland experienced such pressure in 2012, when it vetoed the adoption of conclusions from the '2050 Roadmap' document.

Another important feature of the energy policy and its Europeanization is the divergence among EU Member States as to the preferred direction of its development. Differences emerge in two key aspects: the attitude toward building a truly unified EU energy market, and the position on liberalising it. One example of this is a strictly pro-market strategy adopted by Great Britain and an exactly opposite approach espoused by France. As early as the 1970s, British government undertook a broad privatisation of the energy sector, while in France it still remains largely under state control (for more, see: Birchfield & Duffield, 2011). A somewhat ambivalent position on building a common energy market is represented by Germany. One the one hand, German authorities typically act as advocates of European integration. On the other hand, however, they have '*usually opposed pro-competition proposals brought forth by the EC* [the European Commission – J.D.], *protecting their companies against reforms*' (Gawlikowska-Fyk, 2012, p. 30). Moreover, they have used their strong position in the Union to exempt their important projects from EU regulations – for instance, the OPAL pipeline (which connects continental pipeline grid with the Nord Stream[2]) has been granted exemption from the Third Party Access principle. Meanwhile, most countries of Central and Eastern Europe support the idea of building a single market for energy, since they equate energy security with the notion of European solidarity and securing the supply of energy sources (Gawlikowska-Fyk, 2012, p. 32).

One should also take note of a significant and, seemingly, genuinely objective problem. As S. Padgett noticed, '*market liberalisation poses a direct challenge to long-term contracting, because it entails the break-up of oligopoly relations between the producers and suppliers, and prohibits agreements that foreclose market*' (Padgett, 2011, p. 1071). Infrastructural projects in the field of energy are extremely expensive and time-consuming. Therefore, creating an environment of entirely free competition could *de facto* paralyse the market by discouraging potential investors from taking high risks with no certainty of future profits.

[2] Nord Stream AG, based in Zug, Switzerland, is an international consortium established in 2005 for the purpose of planning, construction and subsequent operation of two natural gas pipelines through the Baltic Sea. The five shareholders of the Nord Stream consortium are OAO Gazprom (holds 51% stake of the pipeline project), German companies Wintershall Holding GmbH (BASF) and E.ON (15.5%) and, finally, Dutch N. V. Nederlandse Gasunie and French GDF SUEZ that hold 9% each. In addition, Mr. Gerhard Schröder, former Chancellor of the Federal Republic of Germany, is the Chairman of the Shareholders' Committee (Nord Stream, 2015).

Still, although this consideration is important, it is not decisive, as will be explained further in this chapter.

Moreover, when one analyses statistical data (from the period considered here, 2007-2014) that reflects long-term tendencies, one notices that the structure of the so-called energy mix and dependence on import varies greatly across the 28 EU MS. Approximately 54 per cent of energy consumed by the EU-28 is generated from imported natural resources (European Commission 2013a, p. 11). Estimates prepared by the Commission for 2030 put this share at 55 per cent, and by 2050 it is likely to approach 57 per cent (European Commission 2014b, p. 49). However, upon a closer look at particular MS, the picture turns out to be slightly more complex. There are several countries that are entirely dependent on import (Lithuania, Cyprus, Malta). For instance, Lithuania's energy mix has changed dramatically after the nuclear power plant in Ignalina was decommissioned in 2009 – nuclear power has been replaced primarily by gas imported from Russia and Belarus, which now amounts to 55 per cent of the mix (European Commission 2014b, pp. 169-171). Other states – namely, Italy, Portugal, Spain and Ireland – import between 80 and 90 per cent of energy sources. There is also a group of countries whose dependence on import is fairly limited (Poland, Romania, Czech Republic), although the fact that they meet their demand for energy by using coal is detrimental to achieving long-term objectives of the EU climate policy. Finally, there are MS such as Denmark, whose energy production exceeds its domestic demand by 24 per cent (European Commission 2013, p. 11). France needs to be considered separately from all other MS, since 75 per cent of its production is from nuclear power plants. Great Britain also pursues a unique vision of energy policy, based on its own deposits of oil and gas located in the North Sea which cover approximately 70 per cent of domestic demand. The remaining 30 per cent comes in the form of gas imported from Norway or (in liquid form) Qatar. Britain's energy mix is highly diversified, both in terms of types of natural resources used and countries from which they are purchased (Bolton, 2013, pp. 6-7). A similar intentional diversification (which has to be viewed as a positive trait) can be observed in the case of Germany, whose economy is characterised by high energy consumption (Auer, 2014). The situation reflected in the data presented above causes not only divergence in states' perceptions of their particular interests and goals, but also varying levels of involvement and determination in developing the common energy policy.

One other aspect is that the energy policy is, at its core, strictly connected to Member States' internal security. Complete commercialisation of the market and releasing it from state oversight is therefore unlikely. The issue of energy is one of the most politicised areas of the market and, as mentioned above, European countries vary greatly in their perceptions of desirable directions for the development of the common policy. In summary, one can state that the process of defining national interests (or, strictly speaking, energy security) is complex and results from a number of factors, key among which are: geographical location, access to natural resources, political and economic relations between exporters and importers, attitude toward liberalisation of the energy market, and the available infrastructure for transferring and storing energy (see: Nowak 2014, p. 42).

The above hypothesis seems to find confirmation in empirical research. One example is provided by Verhoeff and Niemann (2011), who analyse how Germany's national preferences with regard to the energy policy were being shaped during the country's EU Presidency. Their work is particularly relevant to the subject of this chapter, since it clearly illustrates the impact of the European context on a policy that has been systemically developed and consistently implemented by a state well-aware of its interests, challenges and limitations. The authors emphasise that, for several reasons, the energy policy is of particular interest to the federal government. First of all, Germany shapes its international-political identity through the strength of its economy which is based on energy-intensive industries (motorisation, shipbuilding, chemicals). As indicated by the data released by the European Commission, between 2003 and 2012 as much as 60 per cent (with year-to-year differences no bigger than 2 per cent) of Germany's demand for energy sources was covered by import (European Commission, 2014a, p. 72). One consequence that stems from the correlation of these factors is that the German energy industry has strong links with the country's political elites. Another is a careful attention devoted by the government to relations with states importing natural resources. This is why when Germany was acting as a moderator of the European policy during its EU Presidency in the first half of 2007, entities interested in the energy policy became particularly active. The prioritised issue was the strengthening of already close German-Russian cooperation in the field of energy. German companies (E. ON Rurhgas, BASF/Wintershall, Metro, Knauf) pressed for completing the work on a new framework agreement between the EU and Russia that would replace the 1994 Partnership and Cooperation Agreement. Russian authorities hoped for the confirmation of Russia's status as the EU's strategic partner. Finally, Brussels expected that the government in Berlin would run its Presidency in an exemplary fashion, putting the interest of the entire Community above its own. At the same time, a group of new Member States (most of all Poland, Czech Republic and Lithuania) tried to turn Brussels' attention to their own problems in relations with Moscow. Unable to resolve their disputes with Russia through bilateral dialogue, Poland[3] and Lithuania[4] sought to involve EU institutions. In 2007, first Poland and then Lithuania blocked negotiations between the Commission and Russia on the new framework agreement. In the end, mediation efforts on the part of Berlin and Brussels that culminated at the Samar summit led to a compromise which satisfied the Polish government. Verhoeff and Niemann's research confirmed that '*throughout its Presidency, other concerns and influences had entered the German interests formation process* (...) *The German*

[3] In the case of Poland, the conflict broke out over the embargo that Russia imposed in 2005 in Polish food products (primarily, meat).

[4] In the case of Lithuania, the controversy arose in 2005, when Russia interrupted petroleum supplies to the Mažeikiai refinery. The decision to do so was made after the majority share in the facility had been purchased from the Lithuanian government by the Polish petroleum concern, PKN ORLEN.

government thus "reprioritised" its objective' (2011, pp. 1288-1289). It should be noted, however, that in this case the process of socialisation and adaptation encompassed not only the elites of Germany, but also those of the new Member States. Illustrated with specific events, the process of shaping preferences, formulating interests, defining and redefining identities of all involved actors in the realities of intertwined planes of politics and economy provides an example of Europeanization in all dimensions mentioned in the introduction. Crossloading was plainly visible in Polish-German and Polish-Lithuanian relations. The so-called 'neighbourhood Europeanization' occurred in Polish-Russian relations, especially after Brussels made it clear that due to Poland's membership in the EU, trade problems between the two countries are not only a bilateral issue, but one between Russia and the entire Union. Downloading could be observed between Poland and the EU, while uploading between the EU and Germany. The case described here proves that the policy-making process was actually transferred from the national to the EU level. Based on this example, one can state that the process at the supranational level begins with consultations and negotiations, as the EU MS seek a compromise and try to develop a common position on a given issue. It requires consensual attitude and political will to conceptualise strategic interests of the entire Union with regard to the problem at hand. Still, political will alone is not enough to allow the EU to conduct an effective public policy. This is only possible after an appropriate conceptual and legal framework has been designed and put in place to support the process.

This is why the crucial breakthrough in the development of supranational energy policy occurred in 2007, when at its winter summit in Lisbon, the European Council adopted a major treaty that reformed the Union – the Lisbon Treaty (LT). The work and negotiations on the document began after France and the Netherlands rejected the ratification of the so-called Constitutional Treaty in national referenda held in 2005. One of few notable differences between the two treaties was that the LT provided for complementing the EU primary law with a separate part on the common energy policy. These stipulations were added to the Treaty on the Functioning of the European Union (TFEU) as Title XXI entitled 'Energy'. As a result, TFEU specifies key objectives of the EU energy policy by stating it is meant to: '*(a) ensure the functioning of the energy market; (b) ensure the security of energy supply in the Union; (c) promote energy efficiency and energy saving and the development of new and renewable forms of energy and (d) promote the interconnection of energy networks*' (TFEU 2007, Art. 194). Said goals are to be pursued in the context of the establishment and functioning of the internal market, while having in mind the need to preserve and improve the condition of the natural environment. Moreover, the Treaty underlines that these aims should be fulfilled '*in a spirit of solidarity between Member States*' (Ibid.). The initiative to specifically express the principle of solidarity in the document came from the Polish government and was supported by other members of the Visegrad Group. At first, the idea met with a rather cold reaction from the 'old' EU countries (primarily France, Germany and Great Britain). Ultimately, however, Poland convinced its Western European partners to accept its proposal by offsetting its insistence on the issue with willingness to reach a compromise on other debatable matters (for instance the institutional reform of the Union).

Stipulations referring to energy can also be found in other parts of the TFEU. Title VIII (Economic and monetary policy), Chapter 1, Art. 122 states that '(...) *the Council, on a proposal from the Commission, may decide* (...) *upon measures appropriate to the economic situation, in particular if severe difficulties arise in the supply of certain products, notably in the area of energy*' (TFEU 2007, Art. 122). Title XVI ('Trans-European networks') contains provisions that oblige the Union to '*contribute to the establishment and development of trans-European networks in the areas of transport, telecommunications and energy infrastructures*' (TFEU, Art. 170). This, of course, confirms that the energy policy is horizontal in character, and its implementation forces EU bodies to take account of objectives and strategies adopted for other common policies.

Incorporating stipulations on the energy policy into EU primary law is an important reference point in the process of the policy's Europeanization. From that point on, all legal acts adopted at lower levels need to be interpreted in the spirit of the Treaty. Nonetheless, one should remember that as the 2007 reform distinguished the energy policy as a separate entity, it instantly placed it in the area of competences shared between the supranational and national institutions. This means that the scope and extent of the policy's Europeanization is limited by the competences left to the MS.

To fully understand why the energy policy was included in the LT, one needs to consider a number of events that occurred in international politics in the period directly before the adoption of the Treaty and throughout the 2-year long process of its ratification. Firstly, the 2004 and 2007 enlargements changed the EU's geopolitical and geoeconomic position. Former Soviet bloc countries that acceded to the Union had high-emission economies and outdated, inefficient energy infrastructures.[5] At the same time, the 'old' EU countries began to emphasise the negative environmental impact of energy policies conducted by the new MS. This trend meant that Central and Eastern European states would have to adapt to the changing realities, not only by modernising their grids, but also by making far-reaching changes to the composition of their energy mixes and replacing traditional fossil fuels (such as coal) with low-emission gas or renewable sources. All these energy-related goals were subjects of social and political discourse across Europe, also in the context of ratification of the so-called Kyoto Protocol formulated in 1997. Already in the 1990s, the EU and its MS declared readiness to become the world leader in preventing and combating climate change (for more, see: Wolska, 2010). Ultimately, guidelines for an EU policy on this matter were

[5] The case of the Ingalina nuclear power plant - one of the conditions for Lithuania's accession to the EU was the decommissioning of the facility which at that time produced approximately 90 per cent of electricity consumed by this country.

specified in the climate and energy package[6] which introduced the '20-20-20' targets as key objectives to be achieved until 2020.[7] The package, prepared by the Commission in the form of specific legal acts (directives and decisions[8]), was adopted at the EU level in 2009.

Secondly, as was already mentioned, demand for energy sources was steadily rising in most EU MS. Thus, security of supply turned into a vital condition of economic development, particularly given the fact that both old and new MS were becoming increasingly dependent on import. Major suppliers of energy sources included Norway, Russia, Libya, Algeria, Columbia and the Middle East countries (primarily Saudi Arabia and Qatar) (European Commission 2014a, p. 69). Of all these states, only Norway is considered a stable democracy with a free market economy, with additional benefit of being strongly integrated with the rest of the EU through the European Economic Area. All other major exporters presented a historically justified risk (vide 1973 and 1979 oil crises) that natural resources, instead of being a market commodity, might be turned into an instrument of political pressure. One of the most important tools developed at the EU level to tackle the supply security issue was a strategy of building a '*fully integrated and competitive internal market*' (Padgett 2011, pp. 1065-1066) proposed by the European Commission. It is worth remembering that supranationalisation of the energy

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[6] DIRECTIVE 2010/31/ of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings; DIRECTIVE 2005/32/EC of the European Parliament and of the Council of 6 July 2005 establishing a framework for the setting of ecodesign requirements for energy-using products and amending Council Directive 92/42/EEC and Directives 96/57/EC and 2000/55/EC of the European Parliament and of the Council; DIRECTIVE 2006/32/EC of the European Parliament and of the Council of 5 April 2006 on energy end-use efficiency and energy services and repealing Council Directive 93/76/EEC; DIRECTIVE 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC; DIRECTIVE 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community; DIRECTIVE 2010/30/EU of the European Parliament and of the Council of 19 May 2010 on the indication by labelling and standard product information of the consumption of energy and other resources by energy-related products, The Directive on Minimum Stocks of Oil and Petroleum products (2009/119/EC), Official Journal of the European Union L 265/9; European Parliament legislative resolution of 18 June 2008 on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EC) No 1228/2003 on conditions for access to the network for cross-border exchanges in electricity (COM(2007)0531 — C6-0320/2007 — 2007/0198(COD)); THE REGULATION of the European Parliament and of the Council (EC) No 715/2009 of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005; THE REGULATION of the European Parliament and of the Council, concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC Text with EEA relevance, No 994/2010; 20.10.2010, Official Journal L 295, 12/11/2010 P. 0001 – 0022;

[7] A 20% reduction in EU greenhouse gas emissions from 1990 levels; Raising the share of EU energy consumption produced from renewable resources to 20%; a 20% improvement in the EU's energy efficiency.

[8] DECISION No 406/2009/EC of the European Parliament and of the Council of 23 April 2009 on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020**;** DIRECTIVE 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC; DIRECTIVE 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community; DIRECTIVE 2009/31/EC of the European Parliament and of the Council of 23 April 2009 on the geological storage of carbon dioxide and amending Council Directive 85/337/EEC, European Parliament and Council Directives 2000/60/EC, 2001/80/EC, 2004/35/EC, 2006/12/EC, 2008/1/EC and Regulation (EC) No 1013/2006.

policy through the establishment of a common, competitive market, as supported by Brussels and some MS, does not automatically translate into full commercialisation and liberalisation of the sector.[9]

Communitisation of the internal energy market leads to reflection on the functioning of the single European market overall. Free movement of people, services, goods and capital declared in the EU primary law is certainly one vital prerequisite for its existence. However, without an efficient, communitised energy market, conditions of competition on the single European market are blatantly uneven. The health and competitiveness of national economies, as they function in an almost completely open environment, is affected by differences in prices of imported energy sources, significant disproportions in energy efficiency, or varying availability of opportunities for utilising renewable sources (Sun, wind, water). This is why communitisation should be viewed as the next crucial step in the evolution of the common market.

An important milestone in the creation of internal European energy market came in 2009 with the adoption of the Third Energy Package[10] which included two directives and three regulations. The directives concerned the shape of the common market for gas and electricity. Two of the three regulations referred to transmission of natural resources, while the third one established the Agency for the Cooperation of Energy Regulators. These legal acts are focused on providing European consumers with undisturbed supply of energy at fair market prices and in accordance with appropriate ecological standards. The Package introduced one instrument particularly important for specifying the mechanics of the energy market – the so-called Third Party Access (TPA) principle[11] designed to spur competition.

The climate and energy package or the Third Energy Package are only two of a steadily growing number of legal acts that institutionalise and determine details of the EU energy policy. If one considers binding legal acts (decisions, decisions without address, regulations, directives, resolutions), in the time period con-

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[9] Considering strong links between the energy policy and energy security, a complete liberalisation of this sector could lead to public institutions (including, most of all, governments) losing some or all control over the shape of internal and external security policies. Furthermore, many energy companies are privately owned, public institutions would become somewhat dependent on private actors, whose interests are not always convergent with those of the rest of citizenry. However, if states remain dominant owners of energy sector entities, it may lead to politicisation of this area and, possibly, decreasing the sector's economic efficiency.

[10] The Third Energy Package comprises: DIRECTIVE 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing 2003/54/EC, OJ L 211, 14.08.2009, p. 55; DIRECTIVE 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC, OJ L 211, 14.08.2009, p. 94; REGULATION (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for crossborder exchanges in electricity and repealing Regulation (EC) No 1228/2003, OJ L 211, 14.08.2009, p. 15; REGULATION (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005, OJ L 211, 14.08.2009, p. 36; REGULATION (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators, OJ L 211, 14.08.2009, p. 1.

[11] The TPA principle means that the operators of transmission networks must allow any electricity or gas supplier non-discriminatory access to the transmission network.

cerned here the legislative activity of the EU was moderate (compared to other policies).

Between 2007 and 2014, the Union adopted 126 such normative documents (EUR-LEX 2015). While the total number of secondary legislation acts that fall under the competence of DG ENER and are currently in force is estimated at around 230, most of them are dedicated to issues of nuclear energy (European Union 2014). In October 2014, the European Council adopted new objectives of the climate policy (for more, see: Dudek 2014; European Council 2014), while in March 2015 the Commission presented the proposal for the Energy Union (European Commission 2015c). Having in mind these new developments, it is very likely that another batch of regulations will be developed in the near future.

Finally, an important factor affecting the European debate on the energy policy came in the shape of **international political situation**. The work on further communitisation of cooperation in the area of energy security has been intensified in times of conflicts and crises affecting countries that export energy sources or operate transition routes. Of particular importance were disputes between Ukraine and Russia in 2006 and 2009. Brussels responded to these situations by preparing a broad range of initiatives aimed at diversifying the supply sources. It was in these circumstances that the idea for the Nabucco pipeline (discussed later in this chapter) was born.

Operationalisation of the Common Energy Policy and Bureaucratic Adaptation

The above-described conceptual framework for the European energy policy constitutes one aspect of the problem. The other one is putting the concept into practice through the implementation of legal regulations, strategies, plans and projects. During such activities one can observe all the basic mechanism of Europeanization: adaptation to EU standards, socialisation in the context of supranationally defined values and norms, learning to optimise the implementation of supranational undertakings.

Adaptation of national management systems to standards developed at the European level occurs through transposition of EU law into a given country's legal order. In general, EU regulations specify the objectives and results that Member States are obliged to achieve. National authorities can choose the exact forms and methods for doing so. Each directive contains a deadline by which all MS have to adopt national transposition measures that allow them to include its stipulations into national law. Data on the course and effects of transposing all relevant regulations adopted within the time scope of this study is far too extensive to be presented in detail here. Therefore, the progress of Europeanization will be illustrated on selected examples. In the case of the Third Energy Package, Member States had 18 months (until 3rd of March, 2011) to transpose the two Directives into national law. However, many MS failed to meet the deadline, prompting the European Commission to refer such cases (15 of them, in all) to the

European Court of Justice (ECJ). Several countries (Poland, Slovenia, Finland, Bulgaria, Estonia, UK and Romania) faced disciplinary procedures for failing to transpose both the Gas and the Electricity Directives, while Ireland's case was referred only in regard to the Electricity Directive. In 12 of these cases, MS reacted by taking necessary steps to put the legislation in place and thus managed to avoid consequences (European Commission 2014d). Since the adoption of the Lisbon Treaty, the Commission may ask the ECJ to impose financial sanctions if a Member State fails to transpose Directives before the specified deadline.

A similar situation developed in the case of the Climate and Energy Package which had to be transposed until 5th of December, 2010. Poland was once again among countries that did not meet the deadline. As a result, it was handed a Formal Letter of Notice in January 2011 and, subsequently, a Reasoned Opinion in March 2012. In March 2013, the Commission referred the case to the ECJ, pointing to a incomplete transposition of the Directive on the promotion of the use of energy from renewable sources (European Commission 2015d). As indicated by statistical data, despite a threat of sanctions from the ECJ, delays in transposing EU legal acts are a common occurrence (for more, see: European Commission 2015e).

From the political perspective, such tardiness is quite incomprehensible, particularly on the part of states that otherwise support the supranationalisation of the energy policy (such as Poland or Lithuania). However, it can be explained by certain shortcomings in other areas – for instance, by low efficiency of national bureaucracies or flawed management systems (also with regard to mechanisms for balancing the interests of various groups). It can also result from incoherence or incompleteness of systemic (lack of legal instruments – in Poland, the work on the act on renewable energy sources took several years to complete) and infrastructural (poor infrastructure and outdated technology increases the cost of implementing of EU regulations) solutions.

Another equally important factor is the process of institutionalising cooperation on the establishment and implementation of the common energy policy. It is a phenomenon that typically accompanies functional integration. The meaning of the term is not limited to creating new common institutions (although this aspect is also relevant). Instead, institutionalisation is defined in the context of Europeanization – it is the process of creating formal and informal rules, procedures and norms which are first established and consolidated in the EU policy process, and then incorporated into the logic of domestic (i.e. national and sub-national) discourse, political structures and public policies.

The task of supranationalising European cooperation is assigned primarily to the European Commission. Its role is to develop detailed strategies and plans within the framework of a compromise reached by decision-makers from the MS. In the time period considered here, the EC acted most of all through the Commissioner for Energy and the Directorate-General for Energy (DG ENER) which is in operation since 2010. Europeanization of the energy policy is somewhat slowed down due to Commission's limited mandate for creating and implementing said policy. The EC may offset this weakness by utilising its competences in other areas, e.g. competition and trade policies. Such mechanism was illustrated by the Commission's intervention in Polish-Russian negotiations of a new long-term gas supply contract. In 2010, the Union demanded that both parties respect liberal principles with regard to the so-called 'unbundling' of production from transmission and distribution. The Commission may also be effectively involved in the functioning of the energy sector (understood as a part of economy rather than a field of policy) by using pro-competition and pro-consumer instruments at its disposal (Młynarski 2013, pp. 438-439).

Another example of the energy policy's institutionalisation at the European level is the creation of the Agency for the Cooperation of Energy Regulators (ACER), based on the stipulations of the Third Energy Package.[12] The body, with its headquarters in Ljubljana (Slovenia), commenced work in 2011, but the institutional consolidation in this field had begun much earlier. 2000 saw the establishment of the Council of European Energy Regulators (CEER) [13]. The Council quickly became a partner in consultations conducted by the EC. In 2003, the Commission set up the Energy Regulators Group for Electricity and Gas (ERGEG) as its own advisory body (EGREG's members were the heads of national energy regulatory authorities in the 28 EU MS). The Group was dissolved after the ACER had become fully operational. ACER's main responsibilities include facilitating the integration of gas and electricity markets – a task fulfilled through coordinating and complementing at the EU level the work of national energy regulators. According to the intentions of its creators, ACER '*plays a central role in the development of EU-wide network and market rules with a view to enhance competition*' (ACER 2015). It coordinates regional and cross-regional initiatives which promote market integration. Another task assigned to ACER is the monitoring of work done by European networks of transmission system operators (ENTSOs) – most notably, their EU-wide network development plans. Since the Agency has only operated for a relatively short period of time, comprehensive and conclusive evaluation of its work is practically impossible. On the one hand, one can plausibly claim that establishing a body without providing it with competences to make decisions that would be binding for national energy regulators has not contributed to the Europeanization process. On the other hand, the work of a supranational institution, entitled to issue opinions and recommendations to actors at both EU and national level, certainly facilitates the coordination of national energy policies. Having in mind the ongoing discussion on further development of the Agency, it can be argued that the cooperation between the ACER and the CEER should be strengthened, particularly with regard to promoting efficient and transparent regulations, be it at the European or national level. Moreover, ACER

[12] REGULATION (EC) No 713/2009.

[13] The Council of European Energy Regulators (CEER) established in 2000 for the cooperation of the independent energy regulators of Europe (e.g. Poland is represented by Urząd Regulacji Energetyki / The Energy Regulatory Office of Poland (URE / ERO).

should extend its monitoring function to encompass regional cooperation between transmission system operators (TSOs).

Broadly understood institutionalisation of the energy policy is also expressed through the development and implementation of projects and programmes that channel further cooperation. For this purpose, the European Commission has drawn up a list of 'projects of common interest', which are eligible for support from the Connecting Europe Facility (CEF) programme. Launched for the 2014-2020 financial perspective with a total budget of €26.4 billion, the initiative is a follow-up to the Trans-European Networks (TEN) strategy implemented throughout the 2007-2013 period. CEF provides funding for projects in three sectors: energy, transport and digital services infrastructure. So far, most of the supported projects have involved electricity and gas transmission lines, but the list of activities eligible for funding features electricity storage projects, underground gas storage projects, LNG terminals and smart grid projects.

Another EU initiative worth mentioning is the Programme for European Critical Infrastructure in the fields of energy, transport and finances. The Programme focuses on four main areas: 1) creation of a procedure to identify and assess Europe's critical infrastructure and learn how to better protect it; 2) measures to aid the protection, including expert groups at the EU level and the creation of the Critical Infrastructure Warning Information Network (CIWIN – an Internet-based communication system for exchanging information, studies and best practices); 3) funding for over 100 critical infrastructure protection projects; 4) international cooperation with the EEA and the European Free Trade Area (EFTA) countries, as well as expert meetings between the EU, USA and Canada (European Commission, 2015a).

Finally, 'secure, clean and efficient energy' constitutes one of the priorities for the EU research and development policy. Innovations in energy efficiency and an ever broader use of renewable energy sources are among the objectives of the Horizon 2020 Programme for the years 2014-2020.

Since several Member States possess substantial deposits of coal, the supply of this resource on the European market is consistently high. As a consequence, representatives of the mining industry and governments of countries exporting coal call for supporting activities that promote the use of low-emission technologies of burning coal (powder combustion, coal washing, gasification, CCS) or contribute to the development of other new clean-coal technologies.

All in all, activities aimed at increasing energy efficiency and improving pro-ecological standards, initiated or inspired by politicians at the EU level, can in mid- and long-term perspective lead to technological changes, particularly in energy-intensive, high-emission sectors of industry (Rewizorski, Osicki & Ostant 2013, pp. 148-149). Such evolution will constitute a tangible result of the Europeanization process. The fact of achieving desired outcomes by operationalising common priorities and objectives will also prove that Europeanization does indeed have certain functional merit.

With the above considerations in mind, let us examine the issue of operationalising EU energy policy goals. Strengthening the energy security of individual Member States and the entire Union requires gradual overcoming of obstacles that hinder the approximation of national energy policies. This is particularly important, since security of the European system is a *sine qua non* condition for developing and maintaining stability of the common market. The market's strength and competitiveness compared to other economies around the world is strictly related to the Union's (and its MS') international position. While the processes described in earlier parts of this chapter are unquestionably crucial to the creation of a functional EU energy policy, a truly systemic approach calls also for careful strategic planning and execution of specific activities. In this aspect, prime importance should be attributed to the construction and development of transmission networks that connect countries exporting energy sources with their recipients in the EU (without forgetting about diversification).

Several crises in the relations between the EU and Russia (2005/2006 after the 'Orange Revolution', 2008 after the Russian-Georgian war) showed that dependence on a single supply source (in the case of Central and Southern European countries – Russia) is an acute problem that requires an urgent reaction. An emerging gas cartel, with Gazprom at its core and European energy companies around it, came under increasing criticism from Brussels and some of the Member States. The reaction of EU elites was particularly strong in 2009, after the Russian concern suspended supplies heading to and through Ukraine. The then-President of the European Commission, J. M. Barroso, stated publicly: '*Gas coming from Russia is not secure. Gas coming through Ukraine is not secure. This is an objective fact*' (Runner 2009). While previously the Union focused on concepts such as legal packages described above, the 2009 situation spurred it to seriously consider pan-European investments in energy infrastructure.

One of UE-supported flagship initiatives was the Nabucco gas pipeline. It was designed to connect the Union with gas-rich states around the Caspian Sea (Azerbaijan, Turkmenistan, Kazakhstan and Georgia as a transit route) and, in a longer perspective, with the Middle East. For the European end of the pipeline, engineers chose Baumgarten – an Austrian city with the largest gas storage facility on the continent. The proposed route covered Bulgaria, Romania and Hungary. Other Central European countries (inter alia: Slovakia) were also interested in receiving gas through Nabucco (Rowley, 2009). The work on the project, which began in 2002, progressed at a very leisurely pace. First binding declarations on the part of potential suppliers were not made before 2009. In 2012, the Commission included the pipeline into the Trans-European Energy Network (TEN-E) strategic programme. However, the next year, operators of Azerbaijan's biggest natural gas field (Shah Deniz), from which Nabucco was supposed to be supplied, decided that although their gas would indeed be sold to Europe, it would flow through the Trans Adriatic Pipeline. Such 'change of heart' happened partly due to competitive pressure from Russia, as Moscow tried to convince other countries of Central Asia to participate in its plans for building the Trans Caspian and South

Stream pipelines. Not without importance was also a rather ambivalent position taken by European actors (primarily, several governments and energy sector companies) who, when faced with competing alternatives of Nabucco and South Stream, leaned toward strengthening their ties with Gazprom. All this meant that the ambitious goal of diversifying supply sources would not be achieved. Nor would the problem be solved by the proposed Trans Adriatic Pipeline (TAP) – the project developed jointly by the Norwegian Statoil and Swiss energy supplier EGL Group (also included in TEN-E) was also designed to deliver gas from Azerbaijan to Europe, but its destination countries were completely different from those in the Nabucco proposal. Instead of reaching Central Europe, it would go through Greece and Albania, cross the Adriatic Sea and end its run in Italy. If, instead of going to Austria (which has ample storage facilities), gas was delivered to Italy, it could not be easily distributed do Central European states. Hence, in terms of security of supply, the TAP could not be realistically treated as a viable alternative to Nabucco. Abandoning the latter project in favour of the former would represent a certain dysfunction of Europeanization.

When speaking of failures of the energy policy Europeanization, one should mention the Nord Stream and South Stream pipelines.[14] Both are huge infrastructural projects led by Gazprom – a company controlled by the Russian government. Both involve major players from the European energy market. Moreover, many of these companies have personal links to governments of EU Member States. Nord Stream was designed to directly connect Russia with Germany and circumvent the transit countries, while its Southern counterpart aimed at connecting Russia with Italy. Both projects clearly contradict the diversification objective. Furthermore, they threaten energy security of states such as Slovakia or Romania (particularly the former) by depriving them of the transit country status, while still keeping them dependent on gas imported from Russia through Ukraine.

The above-mentioned events and processes point to:

- lack of resolve and determination on the part of European decision-makers (both at the national and supranational level) with regard to pursuing strategic, long-term projects that are needed to ensure energy security for the entire Union;
- inefficient efforts at diversifying supply sources and decreasing Central and Eastern European states' dependence on Russian gas;

[14] The South Stream Offshore Pipeline through the Black Sea is an infrastructure Project aimed at connecting Central and South-Eastern Europe with Russia as a supplier. The project was announced in June 2007. In 2008, Gazprom and ENI (international gas/petrochemical corporation with 30 per cent of its shares held by the Italian government) set up the South Stream AG joint company in Switzerland. Several other companies joined the project, and permissions for the construction of the pipeline were granted by Bulgaria, Serbia, Greece and Hungary. Other businesses were established for the purpose of managing, transporting and storing gas – always with the consent and involvement of governments and companies from the energy sector. In 2009, Russia and Turkey reached an agreement on the route of the pipeline through Turkish territorial waters. The same year, Slovenia joined the project, followed in 2010 by Croatia. In December 2014, Russian authorities announced they were withdrawing from the initiative. Thus, a very advanced project was effectively frozen.

– Russia's effective use of the so-called energy chessboard strategy toward countries of Central, Eastern and Southern Europe;
– relatively low level of solidarity between the Member States (despite declarations contained in the LT); this may indicate that the common identity (as measured by the extent of communitisation of interests and goals) in the energy policy is a prospect for the future rather than today's reality

An issue complementary to the development of transmission networks between the EU and the exporting countries is the creation of a common, internal EU market. It calls for systematic improvement of infrastructure that links the existing transmission routes between Member States (European Commission 2014c, p. 9). This, in turn, requires the use of interconnectors (facilities that enable linking energy or gas transmission networks) and installations allowing reverse flow of a given resource through the same network.

As for the existing connections, Western Europe has the 'North Sea Interconnector' which links the UK with continental Europe (Belgium) and the 'East-West Interconnector' between the UK and Ireland. At present, the step most important to the security of the emerging integrated EU gas and energy market is the implementation of the so-called 'projects of common interest'. In Central and Eastern Europe these projects include the Poland-Slovakia Interconnector, Poland-Lithuania Interconnector, Poland-Czech Republic Interconnector, as well as enhancement of the Estonia-Latvia Interconnector, Bidirectional Austrian-Czech Interconnector and the Slovakia-Hungary Interconnector. As for the electricity market, facilities under construction include interconnections between Poland and Lithuania, as well as between Hungary and Slovenia. Only few of the projects to be completed by 2016 are located in Southern or Western Europe: Portugal-Spain electricity interconnection and the 3rd gas interconnection between these two countries (European Commission 2015b). However, it is recognised that '*interconnection of natural gas networks between Spain and France would reduce Spain's vulnerability to interruptions to North African supplies*' (Francés 2011, p. 41). Without a well-developed, interconnected networks of energy infrastructure, the execution of the 'solidarity clause' introduced by the Lisbon Treaty will not be fully possible. One should also remember that the list of projects approved for realisation by 2017 (and, in some cases, by 2020) is only a drop in the ocean of all undertakings that should be completed if the common energy market is to be secure.

In the context of implementing and operationalising the objectives of the European energy policy, increasing importance is attributed to the possibility of storing natural resources, particularly petroleum and gas. The EU Member States are obliged to collect and maintain certain minimal reserves[15] in order to limit the risk resulting from potential interruptions in supply. In case of gas, this requires con-

[15] Directive 2009/119/EC of 14 September 2009 imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products; Regulation (EU) No 994/2010 of the European Parliament and of the Council of 20 October 2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC.

structing or enlarging storage facilities. Among all EU countries, Germany possesses the largest storage capacity – 19.87 bln m^3 in total. However, in states most dependent on import (e.g. Bulgaria, Slovakia or Hungary), the situation is far from satisfactory. Austria, with 4.4 bln m^3 of available space (Malinowski, 2014) seems relatively secure. Poland has seven storage facilities with a combined capacity of 2,5 bln m^3, but analyses indicate this infrastructure is insufficient and should be enhanced (Ministerstwo Skarbu Państwa, 2015). Member States have hitherto made such investments with a substantial help from EU funds, including the European Regional Development Fund. Partial data gathered for the purpose of this study suggest that the energy sector (along with the transport sector, particularly with regard to infrastructure) will require the application of the Cohesion Policy mechanisms.

Finally, owing to the adaptation pressure from Brussels, Member States will be increasingly interested in developing the sector of renewable energy sources (RES). UE decision-makers need to keep in mind that European countries vary greatly in terms of conditions for developing particular types of RES technologies. Furthermore, energy and cost efficiencies of these solutions, and even their environmental impact, are still being disputed.

The fact that the EU energy policy has progressed from deliberations and concepts to regulations and operationalisation signals that its Europeanization is not merely in initial stages – in fact, it seems to be fairly advanced. This, however, does not mean that it is irreversible and that counter-Europeanization is not possible (for more, see: Jańczak, 2010, pp. 93-105). As proven by some examples (such as the above-mentioned Nabucco project), future development of the policy is by no means certain.

10.5. CONCLUSIONS

Europeanization of the energy policy within the EU is a process of consolidation. It occurs not through simple adding of national interests and needs, but through a tedious work on reaching a compromise, which is first conceptualised in the form of political visions, and then translated into legally binding decisions and strategic initiatives. It is therefore a multi-stage, processual phenomenon. One should also remember that it is conditional – this means that progressing to the next phase (from political conceptualisation to implementation of specific infrastructural projects) is only possible, if the previous one ended with a tangible, measurable positive result (e.g. effective transposition of EU law into national systems or prompt execution of infrastructural projects).

At this point in time, the EU energy policy (in its internal and external dimension) is not a completed undertaking – be it in terms of legal solutions or operationalisation. There is no fully integrated energy market. Supranational EU institutions (primarily, the EC) are not equipped with strong, stable instruments for programming and implementing a solid, systemically organised energy policy. The external energy policy is even further from being entirely Europeanized. This dimension is still largely the domain of the Member States that conduct independent activities. With regard to the internal dimension, linked strongly to the objectives of the environmental policy, one can argue that it is managed increasingly through the community method. The extent of supranationalisation is clearly broadening, as EU institutions truly gain ever more competences. Meanwhile, the external dimension is dominated by the issue of supply security and remains under the control of individual Member States, with the intergovernmental method being the preferred way of making decisions (like in the case of the foreign policy).

Generally, the level of supranationalisation of the energy policy is fairly low. At the same time, however, energy is one of the areas that attract most attention of policy-makers, market players, researchers and the public opinion. This is so because effective coordination of the EU MS' national policies constitutes a condition for further political and, to an even greater extent, economic development of the Union in the context of globalisation. Furthermore, is seems that the problem of threats to European energy security – a theme constantly present in the discourse on Europeanization – will remain relevant for the foreseeable future. Finally, Europe is increasingly concerned with climate change, and there can be no effective climate policy without a transformed energy policy. Thus, one can expect that Europeanization of the energy policy will progress.

Still, tangible, measurable results of the policy's Europeanization are already visible today, especially in the internal dimension. The same cannot be said of the external dimension of national energy policies of the Member States. Large, influential countries (such as France or Germany) are particularly keen to protect their competences with regard to shaping their economic relations with partners who supply energy sources. One can therefore argue that as long as the Union is dependent on imported resources and is not ready to take the ultimate step in consolidating the energy policy (i.e., to federalise it and thus genuinely strip its Member States of sovereignty), the process of Europeanization will not be concluded.

One important task that has to be fulfilled if the EU wants to meet its goal of building a competitive internal energy market, is putting a stop to certain practices used by the Member States in their relations with exporters of energy sources (e.g. so-called 'destination clauses' that prevent the re-export of purchased resource on the EU's internal market). A potential solution could be the introduction of obligatory common purchases – an instrument included in Donald Tusk's proposal for the Energy Union. As it turned out, the Member States are not yet prepared for such a move.

In summary, it is worth noting that energy policies of the Member States are Europeanized to very varying extents. There are several reasons for that. Firstly, this relatively new EU policy has barely any unique, long-term objectives. The challenge of finding a stable compromise on the shape of the EU energy policy (in its internal and external dimension) is made difficult by divergent interests and preferences expressed by the MS with respect to their preferred energy mixes or climate-related solutions. The analysis presented here indicates that, for instance, countries of Central and Eastern Europe are very interested in developing a supranational external policy based on the principle of solidarity. Meanwhile, the so-called 'old' EU (most of all, Germany, Denmark and the Netherlands) press for linking the objectives of the energy policy with environment protection and climate policy goals.

So far, Europeanization of national energy policies implemented by the Member States occurred through processes in all dimensions that were specified in the theoretical section of this chapter (bottom-up, top-down, cross-loading and beyond Europe). Initially, when the energy policy was being created, the dominant types of Europeanization were bottom-up and cross-loading. One point worth noting is that not all Member States influenced EU institutions or other governments with equal vigour. Later, after the adoption of the Third Energy Package and the Climate-energy package, top-down processes came to the forefront, with Europeanization beyond Europe occurring with limited intensity.

Finally, it can be said that the involvement and importance of all European actors (the Member States, supranational institutions, corporations and citizens) is fairly varied. The role of MS and supranational bodies was described above. In turn, citizens are not particularly active in the discourse on the energy policy. International corporations and energy sector companies remain highly relevant to the policy-making process.

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11

Common Agricultural Policy as the Result and Instrument of Europeanization Processes

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Summary:

The purpose of this chapter is to analyse the Europeanization of the Common Agricultural Policy (CAP) – a policy created through a bottom-up process of negotiating and finding consensus that has occurred in the context of the play of interests among the member states of the European Economic Community and, later, the European Union. The analysis presented here refers to how CAP goals, priorities and instruments have been shaped, as well as to how they have changed under the pressure of various (also non-state) actors determined to influence their form and implementation. The paper presents the CAP model employed by the EU, with its two-pillar structure encompassing agricultural market policy and rural development. The chapter verifies the thesis referring to a multi-dimensional nature of CAP's Europeanization, which states that the Policy results from the pressure of states, interest groups or even international organisations that wish to determine acceptable scope and forms of state aid, but also is, in itself, an instrument for Europeanizing national rural and agricultural policies of the member states. In terms of methodology, the author utilised the framework provided by the theory of political economy, the concept of Europeanization and the following research methods: critical analysis of primary sources and relevant literature, as well as institutional, historical and formal-legal analysis.

Keywords: Common Agricultural Policy (CAP); Europeanization; European Union (EU); interest groups; economic policy
JEL classification: F02, F15, D02, D79

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11.1. INTRODUCTORY REMARKS

Public opinion's interest and controversy that surrounds the creation and reforms of the CAP stems not only from the amount of money the EEC/EU has spent in this field (Michalewska-Pawlak, 2012, p. 18)[1], but also from the analysis of the Policy's results. The doubts focus around the specific model of rural and agricultural development that is being implemented – or, more specifically, around benefits (or lack thereof) from pursuing such a costly and, in many instances, economically irrational policy. That is why this article aims at analysing the process of creating and shaping the CAP in the context of influence exerted by various public actors on the national, European and international level. Among entities that are key to this process, scholars include EU member states, supranational EU institutions (the European Commission and, since the Treaty of Lisbon, the European Parliament), organisations that bring together European farmers (primarily, the Committee of Professional Agricultural Organisation, COPA, and the General Committee for Agricultural Cooperation in the European Union, COGECA), as well as the World Trade Organisation (WTO). The impact of these bodies and institutions on the CAP will be analysed with regard to its most significant reforms introduced since 1994: the MacSharry reform, the *Agenda 2000* and the current financial framework. Understanding of the conditions and political context in which the CAP has been shaped is necessary if one wants to explain its present (still controversial, despite numerous changes) model.

The second part of the paper characterises the current two-pillar CAP model that emerged from the Europeanizing pressure of member states and interest groups, and has been shaped by the WTO-led liberalisation of global trade. In the European Commission's rhetoric, the CAP functions as an instrument for supporting sustainable, multi-function rural and agricultural development model. However, the reality and the structure of the CAP's budget suggest that the Policy is still aimed primarily at protecting the interests of the agricultural sector, with an increasing emphasis on environmental and climate-related functions assigned to European agriculture.

Drawing from the description of the CAP, the article proceeds to analysing its legal, financial and organisational instruments envisioned for the 2014-2020 financial framework as tools for Europeanizing national rural and agricultural policies. This part is focused on the direct payments system and rural development programmes available within the II pillar of the CAP. The scope and outcomes of Europeanization of national policies vary, depending on many factors, including the importance of the agricultural sector in a given state's economy, national political culture, institutional system for managing rural development and national priorities with regard to agriculture.

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[1] In the 1970s, CAP took up as much as 70% of the entire EEC budget. Since the 1990s, due to several reforms, the proportion has gradually declined. At present, it stands at approximately 34%.

Methodology of the article is based on the principles of the theory of political economy which points to the political context of state interventionism in economy. According to the theory, economic policy results from the influence of various interest groups that can effectively press decision-makers for the realisation of their own agenda. Interest groups get involved if they can participate in the decision-making process and thus steer it toward economic changes they find desirable (Przesławska, 2006, p. 37). Theory of political economy provides a useful framework for explaining changes the CAP has undergone since its creation up to the present day. Combined with the concept of Europeanization, it is capable of pointing out the sources of this evolution and its consequences for national systems adopted by the EU member states with the goal of supporting their agriculture and rural areas.

The article purposefully omits a discussion on different visions of Europeanization that are broadly described in the academic literature – both with respect to their conceptual and operational layer (Bache, 2008; Börzel, 2002; Ladrech, 2010; Wach, 2010). It utilises Claudio Radaelli's concept that accentuates multi-dimensional, multi-directional and multi-level nature of Europeanization (Radaelli, 2004; Wach, 2014). The bottom-up dimension of the process seems useful for explaining the birth and evolution of the CAP. The top-down dimension, in turn, refers to the impact the Policy's instruments have had on national agricultural and rural policies. The main instruments for Europeanization of national policies considered in this paper include legal, financial and organisational solutions adopted within the CAP, together with concepts and paradigms of agricultural and rural policy present in the public debate across Europe.

For the purpose of this article, the authors undertook a critical analysis of primary sources and relevant academic literature. They also referred to results drawn from research on Europeanization of selected national elements of support systems for rural areas and agriculture (Chevalier & Maurel, 2013; Augustyn & Nemes 2014). The historical approach is used mostly in the first part of the paper, in the discussion of the CAP's evolution (taking account of the temporal and chronological context). The institutional analysis encompasses actors engaged in establishing and shaping the CAP, as well as structures involved in its implementation. The formal-legal aspect is focused on legal regulations, agendas and strategic documents of the CAP.

11.2. METHODOLOGICAL ASSUMPTIONS OF THE STUDY

Theoretical framework for the analysis of the CAP's introduction and evolution is provided by the theory of political economy (TPE), otherwise known as the public choice theory. This concept explains political decision-making mechanisms and their impact on the economic processes. The CAP was established based on a public choice, as a remedy for the imperfections of the free market economy which back in the 1950s guaranteed neither Europe's self-sufficiency with regard to food, nor adequate income for people employed in agriculture. As Jerzy Wilkin pointed out, in the context of the TPE, introduction of a sectoral policy (such as an agricultural policy) is brought about as a result of effective pressure from interest groups that are powerful enough to force through changes they deem desirable. It can also occur due to other, objective social, economic or political factors that provide sufficient grounds for state interventionism (Wilkin, 2009, p. 3).

In the case of the CAP, the scope of public intervention at the EU level can be described as substantial, both because of how much funds are funnelled into rural and agricultural development and to what extent agricultural activities are regulated by legislation. The reasons for such a state can be traced down to two elements identified by Wilkin. Firstly, the existence of certain entities that push for a specific model of the CAP which they find most beneficial, and secondly, non-political causes for intervention, such as food safety, food security and environmental concerns.

The TPE provides a theoretical framework for examining interest groups at work during the introduction and subsequent reforms of the CAP. Pressure from these groups results in the implementation of a specific model of the policy (characterised later in this paper) that is based on unequal distribution of profits, in both the political and socio-economic dimension. For the purpose of this article, the author has assumed that the CAP is subjected to the influence of various interest groups situated on two levels of political organisation: supranational and national. Some of these groups are of a governmental character (EU member states or WTO), while others are non-governmental (Europe-wide NGOs for the entities of the agricultural sector). Still, they share one common trait – they perceive the CAP as a tool that enables effective pursuit of their own interests. These interests are, of course, widely varied, depending on the exact nature of each involved entity. When considering member states, one can claim that their *raison d'état* is invariably defined by the common interest of all citizens – that is, broadly perceived security (including food and environmental security) and development. However, the detailed content of these goals and ways of pursuing them can, and often do, differ from one state to another.

One question that remains outside the scope of this article but is certainly worth considering is: whose interests are represented by the contemporary state? In the concept of the New Political Economy, a democratic state is governed by politicians preoccupied with the pursuit of their own personal benefits or interests of some selected groups, rather than the common good (Przesławska, 2006, p. 35).[2]

It can be said that, as participants of the political process of shaping the CAP, states form coalitions, force their interests and lobby for certain solutions (with varying degrees of success) on the forum of EU institutions. While they themselves are also subjected to lobbying efforts of social groups, organisations

[2] With regard to the CAP, this hypothesis is confirmed by, for instance, a case described in *The Guardian*. The British newspaper reported that in 2005, Dutch minister of agriculture, Cees Verman, who obtained around 190 000 euros a year from the direct payments system, convinced the then-prime minister Jan Peter Balkenede to change his position on a proposed CAP reform. (Baldwin & Wyplosz, 2009, p. 376).

or corporations, their activity in the area of the CAP is largely similar to that of typical interest groups. As Diana Panke rightly pointed out: 'States are commonly the object of lobbying efforts of sub-state and transnational profit and non-profit actors, but they can also actively engage in lobbying (…). In the EU, states can use lobbying in addition to formal means of influence, especially since they have no formal decision-making competencies in the consultative stage of the European Commission, in the European Parliament, and in trilogue meetings between the Commission, the Council Presidency and the EP' (2012, p. 130).

The interests of the European agricultural lobby are a different matter: these are strictly sectoral in nature. As a well-organised and efficiently operating group, European farmers engage in lobbying also on the national level, but their main effort is directed toward using the CAP as means to increase their income (Wilkin, 2009, p.2). As will be shown later in this paper, the two major organisations – COPA and COGECA – contribute substantially to solidifying the CAP's character as a sectoral instrument of protectionism and social welfare. Activities of these bodies are also a significant source of the Europeanization of this Policy.

The analysis of interest groups involved in shaping the CAP will also encompass efforts undertaken by WTO with the aim of liberalising global trade in agricultural commodities. It will therefore refer to how trade negotiations translate into changes of CAP instruments classified within amber, blue and green boxes (Potter & Burney 2002, p. 35). The CAP is the most protectionist model of agricultural policy found anywhere in the world. Since the EU is one of the biggest producers of agricultural commodities, its policy substantially affects trade across global food markets. WTO's impact can be described as Europeanization through globalisation: certain elements of the CAP's protectionism (such as duties or export subsidies) are weakened as a result of negotiations conducted within the WTO framework.

The theoretical approach adopted here allows us to explain the formulation of the CAP as a multi-stage, multi-subject, multi-threaded process that on the one hand results in Europeanization of this policy at the EU level, and on the other hand makes the policy a tool for Europeanizing national rural and agricultural policies of EU member states. The research concept of Europeanization, as known in European studies, is based on a voluminous body of literature (from authors such as Bache, (2008); Börzel, (2002); Ladrech (2010) and many others). The author of this article has skipped over characterising the current state of debate on the definition, scope, dimensions and instruments of Europeanization. **For the purpose of explaining the Europeanization of the CAP, the concept adopted here is the one proposed by Claudio Radaelli**. Radaelli described it as: “construction, diffusion and institutionalisation of formal and informal rules, procedures, policy paradigms, styles, ‘ways of doing things’ and shared beliefs and norms which can be first defined and consolidated in the EU policy process and then incorporated in the logic of domestic (national and subnational) discourse, political structures and public policies” (Radaelli, 2004, p. 3).

Radaelli's concept presents Europeanization as a two-stage process that results in the formulation of a specific policy and, subsequently, its incorporation into national policies and governance structures. Its utility stems also from the fact that it does not limit the catalogue of entities involved in shaping a policy to the EU member states. Undoubtedly, countries and their interests largely determine the course and outcome of Europeanization as it refers to EU policies. Nonetheless, in the case of the CAP, one also needs to take account of other abovementioned actors. Some countries lobby for their particular preferences effectively enough to turn them into the final, Europeanized model that the EU imposes upon all its member states. This, of course, results from their ability to convince other participants of the decision-making process (including EU institutions and the public opinion) that the solutions they put forth are the best way of dealing with a given problem (Meny et al., 1996, p. 5). Empirical research shows that states' ability to force through their preferred solutions varies greatly, depending on their financial and administrative capacities, as well as on the costs of implementing a specific strategy, particularly if the issue at hand is highly politicized (Panke, 2012, p. 130).

Europeanization of particular policies can be of direct or indirect. At the EU level, where the CAP is shaped and managed through negotiations, it is indirect. At the national level, where it is implemented through a hierarchical management model, it directly affects national, regional and local management structures. Europeanization of national rural and agricultural policies adopted by EU member states causes varying extent of adaptation of national management systems to the solutions introduced within the CAP. The literature devoted to methodology of research on Europeanization contains a typology of changes that occur due to Europeanization of domestic policies. It categorises these reactions as inertia, retrenchment, absorption, accommodation or transformation (Bache & Jordan, 2009, p. 18). To specify the exact extent of these changes, one would need to undertake in-depth qualitative research – an endeavour that clearly exceeds the scope of this study.

11.3. ANALYSIS AND DISCUSSION

The Impact of Institutional Actors on the Creation and Evolution of CAP

The CAP was one of the first policies established by the EEC and implemented on the supranational level. Its objectives were specified in the Treaty of Rome. France and Germany became principal agents of the CAP's Europeanization, each for its own reasons. For the French, elevating agricultural policy to the European level was supposed to protect jobs of those employed in this sector and ensure they would be able to sell their products abroad. In return for supporting France's position, Germany negotiated the opening of the French market to the products of the German industry (Szałek, 2012, p. 30). For the six founding member states of the EEC, accepting the notion that agriculture was a strategic sector of national economies (and, hence, warranted a wide scope of state interventionism) was fairly easy. Challenges encountered by agricultural sectors in all these countries were similar. Therefore, the initial vision of the Policy was free of any major controversies and the unanimity then required in the decision-making process on this matter could be quickly reached.

Largely due to the French lobbying, the CAP gained its interventionist and protectionist character. As the Policy underwent Europeanization throughout the 1960s, it encompassed elements such as common organisation of markets for most agricultural commodities, unified rates of import tariff on products from outside the EEC, and a centralised system of price fixing (Wilkin, 2009, p. 6). Creating these common, supranational regulations and intervention mechanisms provided the basis for further development of the Policy.

In the 1950s, the agricultural policy was aimed at supporting productivity of agriculture in the EEC member states, so as to ensure reasonable food security. At the beginning of the 1970s, however, mechanisms such as fixed prices, intervention storage and high import tariffs levied on commodities from outside the EEC led to oversupply of food and an uncontrolled expansion of the CAP's budget. In 1966, the long-serving commissioner for agriculture and rural development, Sicco Mansholt, proposed structural reforms to the sector and changes to CAP instruments. Due to a vocal opposition from the farming lobby, the reforms never materialised in the way Mansholt intended them to, and the Policy remained primarily a social welfare tool.

Another opportunity for reforming the CAP emerged with Great Britain's decision to accede to the EEC. Since British agriculture differed substantially from that in continental Europe, Britain's interests in this area were different from those pursued by all other Community members. Upon joining the EEC, the British were forced to incur the cost of high tariffs on agricultural commodities they imported in large quantities from other Commonwealth countries. However, the problem was circumvented without making any significant change to the CAP – Britain was compensated with generous allocations from the newly created European Regional Development Fund (Pietrzyk, 2000, p. 78).

The first major reform to alter the character of the CAP occurred in 1992. The so-called MacSharry reform replaced price fixing with a direct payment system, in which financial support was 'decoupled' from the level of production. Direct payments stabilised farmers' income and contributed to lessening agriculture's negative impact on the environment. Initially, the system applied to grains, oilseeds and beef, and was later broadened to encompass other products as well. This not only limited the excess production, but also paved the way for reaching the GATT/WTO agreement on the liberalisation of global trade in agricultural commodities (Lowe, Buller & Ward, 2002, p. 2).

As is clear from the analysis above, the changes to the instruments and implementation of the CAP resulted from two factors: a decision of states facing a crisis of oversupply and budgetary constraints on the one hand, and pressures emanating from the GATT negotiations on the other hand. The latter process saw a certain divergence in the interests voiced by the Community member states.

Great Britain, Denmark and the Netherlands accepted the lowering of guaranteed prices and introduction of direct payments, while countries with more fragmented agricultural sectors (e.g. Spain, Greece or Italy) demanded that dedicated protective instruments be introduced for small land-owners. Defending the existing CAP model centred around protecting the EEC's agriculture, France stuck to the notion of stabilising income through price fixing and rejected all moves toward an internationally-acceptable compromise (Coleman & Tangermann, 1999, p. 399).

The main argument for reforming the CAP raised during the GATT negotiations referred to its negative impact on the global trade in agricultural commodities. Instruments considered as 'spoiling' the market included price fixing, export subsidies and high import tariffs that protected the European market against cheaper production from other regions of the world. Put into the 'amber box', these tools were thought to be most harmful to the principle of free and fair trade, but were also recognised as solutions crucial and unique to the CAP, developed over the course of its existence.

As a result of the GATT/WTO agreement, the instruments of the CAP have been somewhat liberalised. Therefore, one can assume that the internationalisation has had an impact on the shape of the CAP and led to limiting the scope of acceptable support measures that could be addressed at EU's agriculture. It has replaced (or constrained) direct intervention tools with the payments system, while maintaining the overall objective of the policy – i.e., protecting the income of people employed in agriculture. As an instrument unrelated to production levels, direct payments were put in the 'green box' and termed non-trade distorting measures (Kröger, 2009, p. 11). In general, despite substantial reduction of tariffs and an altered balance between various instruments, the CAP remains protectionist, preserving the character it gained over the course of its Europeanization. Nonetheless, cooperation with WTO spurred the EU to seek new support measures for agriculture that would adhere to the conditions of the GATT agreement. Thus, it indirectly contributed to the development of a whole range of the CAP's tools and instruments.

Based on the stipulations of the *Agenda 2000* document, the issues of rural development were excluded from the scope of intervention envisioned in the regional policy and structural funds. Instead, they have become a part of the EU Common Agricultural Policy. This way, the reform introduced a two-pillar structure of the Policy that now encompasses not only agriculture itself, but also an integrated, multi-functional growth of rural areas. Following the MacSharry reform's direction, *Agenda 2000* further reduced price fixing in favour of direct payments available through various market organisations.

Reforming the CAP has always been difficult, since it requires a reconciliation of contradicting interests and expectations expressed by various groups engaged in the decision-making process. Countries involved in the shaping of the Policy have no common vision of its model and implementation. The most far-reaching changes toward liberalisation are typically proposed by Great Britain and supported (at least partially) by the Netherlands and Denmark (Ibidem, p. 18).

British proposals revolve around gradual abolition of key support and protection instruments at the EU level, with the purpose of liberalising the agricultural sector and subjecting it to the conditions of free market competition. When one looks closely at these proposals, it appears that their implementation would amount to re-nationalising the CAP – i.e., to virtually dismantling it at the European level. British position reflects a marginal role that agriculture holds in this country's economy, and the resultant lack of pressure from the farming lobby.

A completely opposite standpoint on the CAP is represented by France and other states that support the current model of the Policy – Spain, Greece and Poland, among others. France is the EU's biggest producer and exporter of agricultural commodities. French farmers are the ones who benefit most from the implementation of the CAP at the European level. It is therefore hardly surprising that they push for continuing income support and maintaining protective mechanisms against the influx of cheaper food from outside the EU. Besides, a social contract between the farmers and the French society, Loi d'Orentation Agricole, agreed upon in 1998, obliges the government to actively protect the agricultural sector in the face of liberalisation pressure from WTO and the perspective of re-nationalising the CAP (Lowe, Buller & Ward, 2002, p. 7).

Although the states mentioned alongside France represent a roughly similar position, their visions of the CAP differ in certain aspects – e.g. the variations in levels of direct payments or proportions of funding to be allocated to both pillars of the Policy – from the one proposed by Paris. What they share is a common interest in preserving the current CAP model which prioritises the growth of the agricultural sector and its adaptation to contemporary developmental challenges.

The CAP objectives adopted for the 2014-2020 period reflect the prevalence of the French vision. They preserve the sectoral character of the Policy by concentrating expenditure on direct payments. The rural pillar also allocates most of its support to farmers, with the purpose of modernising agriculture, increasing its competitiveness, protecting it in areas deemed 'naturally disadvantaged', insuring crops and animals, as well as managing risk (European Parliament & Council 2013).

Since the end of the 1950s, Europe has seen the emergence of non-governmental actors – organisations representing the interests of both individual farmers and farming co-operatives. Together, COPA and COGECA gather approximately 100 associations and co-operatives from all EU member states. They actively engage in lobbying for the agricultural sector, and their professionalism and good organisation makes them highly effective in such endeavours (Kröger, 2009, p. 19). Moreover, they are not the only entities active in this area – there are also other organisations, such as the European Landowners Organisation (ELO), the European Feed Manufacturers' Federation (FEFAC) or transnational food and agro-technical concerns (e.g. Cargill, Syngenta) that lobby for certain legislative and financial solutions within the CAP (Zawojska, 2011, p. 66). All these entities share a common interest – the income they obtain from agriculture-related business activities depends on political decisions on the CAP, rather than solely on free market competition. Theoretical underpinning of this process is descrbied by the theory of rent-seeking which claims that an institution wishes to influence a public policy if it sees a possibility of reaping specific gains for the group(s) it represents. Such gains (or 'rent') are effectively distributed by political decision-makers in the course of public choices they make (Ibidem, p. 64). This is why representatives of the agricultural lobby sit on numerous consultation committees, where they can push for desirable changes to the CAP. Unquestionably, the biggest success of European agricultural organisations is the preservation of the sectoral character of the Policy, which is still oriented toward protecting the interests of EU's agricultural commodities' producers, even as the importance of agriculture to national economies of European countries continues to decline, and the CAP itself is under constant criticism due to its high costs and low effectiveness. Clearly, no significant change to the CAP can occur without the acceptance on the part of the entities representing European farmers (Bednaříková & Jílková, 2012, p. 31).

The lobbying on the part of interest groups related to agriculture can be considered an element of the CAP's Europeanization. The impact of such activity can be both negative and positive. The former takes the shape of a risk of political corruption, domination of particularism or inefficient use of public resources. The latter, as pointed out by Zawojska (2011, p. 66), manifests itself when lobbying provides politicians and public officials with useful, reliable knowledge that is necessary to make good law and pursuit a well-informed policy.

The Europeanization of the Common Agricultural Policy occurs in the conditions of conflict, negotiations and balance of interests. It results in varying range and extent of gains for the societies of the EU. Europeanization imbued the CAP with a distinct feature – the shape of the Policy is unrelated to the current economic situation of the agricultural sector and its competitiveness. Instead, it depends on political bargaining conducted at the EU level over the scope and character of public aid. Although the European Commission strives to turn the CAP into a clear, transparent, universally beneficial and accepted policy, judgements and expectations formulated by the society present numerous challenges regarding its future reforms to the decision-makers (European Commission, 2010).

It is also worth noting that the CAP's Europeanization, which occurred through the transfer of decision-making competences from the national to the EU level, has not entirely excluded the possibility of national support for agriculture and rural development. Such initiative requires consent from the European Commission, but most EU member states manage to obtain it and pursue their own active policy of supporting the agricultural sector. In case of Finland, national support is actually higher than the funding from the EU budget (Wilkin, 2009, p. 21). Nonetheless, rules and conditions for granting such aid are subject to communitisation and control from EU bodies.

When one examines the Europeanization of the CAP in the bottom-up dimension, as well as the input of member states and other actors, one should also take note of the active role played by the European Commission, which '(...) can reshape the preferences of Member States, creating the possibility of adopting policies devised by the Commission itself and never really considered by Member States' (Coleman & Tangermann, 1999, p. 389).

The Present Model of CAP as the Result of Europeanization Pressure

As the above analysis points out, the CAP model has been shaped in the course of rivalry between various actors. At present, its purpose is to implement a specific pathway to growth for agriculture and rural areas in the EU, referred to as integrated, multi-functional, sustainable development. However, while this concept appears commonly in rhetoric employed by member states, regions and local stakeholders, it is sometimes used and interpreted in differing contexts (Baldock et al., 2001, p. 2).

The basic principles of the CAP have been formed in response to economic, social, ecological and demographic challenges faced by rural areas and the agricultural sector in the EU. Although developmental issues vary in their extent and range across different types of rural areas, they all fall within the scope of interest of European institutions. This is so because if they were allowed to deepen, they would threaten social, economic and territorial cohesion of states and regions of the Union and, hence, be detrimental to one of the key goals of European integration.

Initially, the Common Agricultural Policy was imbued with a strictly sectoral character. Its shape was dictated by the perception of agriculture as a strategic branch of national economies. It was therefore directed toward achieving goals related to protection, development, modernisation and increased productivity of agriculture. This was reflected in the stipulations of the Treaty of Rome adopted in 1957. Despite several reforms to the CAP, its objectives specified in the Treaty remain unchanged (European Union 2012, pp. 62-63):

- to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;
- thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- to stabilize markets;
- to assure the availability of supplies;
- to ensure that supplies reach consumers at reasonable prices.

Until the end of the 1980s, the CAP, apart from being a sectoral policy, was shaped strictly as a social welfare tool aimed at guaranteeing sufficient income for people employed in agriculture. It was that period that saw the introduction of support for young farmers and people taking an early retirement, as well as compensation for farming in Less Favoured Areas (Michalewska-Pawlak, 2012, pp. 18-20).

Along introducing a *de facto* regional policy and reforms to structural funds, the Delors I package (1989-1993) also strengthened the guidance section in the European Agricultural Guidance and Guarantee Fund, orienting it toward the restructuring of agriculture and rural areas. The CAP model was complemented by a new objective (5B) of the regional policy. A part of funds from the European Regional Development Fund (ERDF) and European Social Fund (ESF) was allocated to the integrated development of rural areas. The scope of the CAP was broadened – from being focused solely on agriculture, the policy started encompassing elements related to development and diversification of economic structures in rural areas, promotion of entrepreneurship as a means for creating jobs, and modernisation of rural infrastructure (Baldock et al., 2001, p. 15). The entire process can be described as a shift from a productivity-oriented model of agricultural policy toward a multi-functional growth of rural areas. One aspect worth remembering is that at first, structural reforms to the rural economy were based on the principles of the regional policy, rather than the CAP itself.[3]

The outlines of the two-pillar CAP model (which is implemented also in the current 2014-2020 financial framework) began to emerge at the turn of the 1980s and 1990s. Among other changes, the MacSharry reform introduced intervention instruments designed to ensure stable income for farmers on the one hand, and provide solutions for environment protection and multi-functional growth of rural areas on the other hand. Starting from 1994, guaranteed prices were gradually replaced by direct payments that are now the mainstay of EU's support for its agriculture (Michalewska-Pawlak, 2012, p. 21). In the beginning, direct payments only encompassed certain products, but were later broadened to include most other products as well. Although the level of payments differs between member-states – a fact that spurs controversy and arguments among European countries about the scope and extent of interventionism – the payments have become a key instrument of today's Europeanized CAP model. The system that grants farmers in all member states (with no exception whatsoever) direct payments from the EU budget makes the CAP a globally unprecedented example of interventionism. Over the recent decade, the Policy has successfully broadened both its goals and intended group of beneficiaries.

The non-agricultural, territorial and environmental aspects of the CAP were further strengthened as a result of reforms agreed on in March 1999. Implemented as part of the Agenda 2000 package, these changes introduced the current two-pillar structure, whereby the first pillar encompasses policy on agriculture and agricultural products markets, while the second one focuses on multi-functional, integrated, sustainable growth of rural areas. One inherent feature of this model is a conflict of sorts that occurs between the sectoral (agricultural) and the territorial (rural) perspective. While the former is represented by the I pillar and its market

[3] The principles that in the time period discussed here distinguished the regional policy from the CAP include: subsidiarity, coordination, multi-level and multi-sector partnerships, programming goals and instruments, evaluation, and others (for more, see: Pietrzyk 2000, pp. 153-196).

Table 11.1. Comparison of the I and II pillar of the Common Agricultural Policy

Differences	I Pillar (Market)	II Pillar (Rural Development)
Objectives	– increasing the productivity of the agricultural sector; – increasing the individual earnings of people engaged in agriculture; – securing the supply of agricultural commodities; – stabilising markets of agricultural commodities; – ensuring reasonable food prices for consumers.	– multi-functional development of rural areas and agriculture; – sustainable and integrated growth of rural areas; – involving local communities in rural development; – managing natural resources in a rational manner; – promoting competitiveness of European agriculture on global markets; – preventing climate change.
Principles	– single prices; – Community preference; – financial solidarity.	– subsidiarity; – partnership; – sustainable development; – programming; – coordination; – additionality.
Instruments	– direct payments system; – production quotas; – fixed prices; – duties and export subsidies.	– programmes for the development of rural areas, containing a list of acceptable instruments (including: eco-farming, producer organisations, transfer of knowledge, informational activities, revitalisation of rural areas, LEADER).
Approach	– thematic; – sectoral.	– territorial; – integrated.
Level of management	– European; – national.	– European; – national; – regional; – local.
Beneficiaries	– producers of agricultural commodities in the EU.	– organisations of society or professionals; – territorial self-governments at various levels; – local communities; – businesses; – individual farmers; – producer organisations; – research, educational, training and consultative bodies.

Source: own presentation, based on the Consolidated version of the Treaty on the Functioning of the European Union and Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development.

intervention tools, the latter is centred around economic, social and environmental functions of rural areas. These two components differ in terms of objectives, the logic behind interventionism, methods of management and instruments of implementation (Table 11.1).

While the reforms amounted to a substantial shift in the model of CAP to be implemented, the official name of the Policy remained unchanged. Nonetheless, some scholars and experts refer to the post-Agenda 2000 EU agricultural policy as **the Common Agricultural and Rural Policy for Europe**, albeit they admit that the qualitative aspect of the change was not quite revolutionary (Michalewska-Pawlak, 2013, p. 292). This conclusion is prompted by a glance at the CAP's budget – although proportions are gradually being changed, it still allocates disproportionately large part of its total funds to the market pillar. When the rural component of the Policy was introduced in 2000, 90% of the budget was apportioned for the I pillar, while only 10% remained for the II pillar (Haas, 2012, p. 42). In the 2014-2020 financial perspective, the proportion stands at 74,4% for the I pillar vs. 22,8% for the II pillar, with the remaining 2,8% allocated for fishery and maritime economy. The current budget for direct payments is 17% lower than in the previous perspective, but spending on rural development is only 9% higher (Czyżewski & Stępień, 2013, p. 4).

Another important feature of today's CAP model is its strong orientation toward environmental issues, including landscaping, biological diversity and preventing climate change. The sustainable approach to rural growth has been gradually introduced since the MacSharry reform – initially, through the environmental management schemes and obligatory set-aside scheme. Over the years, the range of pro-environmental measures has been significantly broadened, in part due to the changing paradigm in agricultural development. The so-called new paradigm envisioned agriculture as not merely production, but also as a sector that provides public goods. Based on that premise, the EU bodies have developed a system of instruments (mostly within the II pillar of the CAP), including afforestation, establishment of agroforestry systems or forest-environment and climate services (European Parliament & Council, 2013). The same premise influenced changes to the CAP's market pillar that have been implemented since 2014, and which, for political reasons, have met with a much tougher opposition. Under this latest reform, direct payments are granted only to those farmers that adhere to the so-called greening scheme which obliges them to introduce certain practices beneficial to the environment and climate[4] (European Parliament & Council, 2013a, p. 613). Europeanization of the CAP has therefore put the EU on the pro-ecological track in pursuing the agricultural and rural development.

The above analysis clearly indicates that the complexity and multitude of objectives, or even certain contradictions in the current CAP model, results from the

[4] Art. 37 of the Regulation No. 1307/2013 of the European Parliament and of the Council defines practices considered beneficial to the environment and the climate as follows: diversification of crops, the maintenance of permanent grassland, including traditional orchards where fruit trees are grown in low density on grassland, and the establishment of ecological focus areas.

pressure numerous actors try to exert on the shape and implementation of this policy. Since the character of their respective rural areas and agricultural sectors varies, EU member states have different expectations toward the Policy. However, they are not the only stakeholders actively involved in the shaping of the CAP. One needs also to consider the above-mentioned interest groups and the overall process of globalisation. The model resulting from such a complex Europeanization process attempts to reconcile tensions that emerge in several dimensions and aspects: the need for competitive agriculture vs. persistent protectionism; intensive production vs. protecting natural resources of rural areas; agriculture as the key branch of rural economy vs. the vision of multi-functional rural areas. At the same time, the CAP itself constitutes an element of a top-down Europeanization of national agricultural and rural policies of EU member states.

CAP Instruments as Tools for the Europeanization of EU Member States' National Agricultural and Rural Policies

Europeanization of national agricultural and rural policies occurs through a number of legal, organisational and financial instruments developed within the current CAP model. These instruments can be termed 'hard' mechanisms of influence – they directly affect the shape of national policies, as they are obligatorily implemented at the national level in their entirety, without the need for any bilateral agreements between the EU and individual member states. In turn, ideas, concepts and paradigms of agricultural and rural growth debated by the European public are indirectly involved in the Europeanization process. They appear in the rhetoric used by EU institutions (European Commission, 2010), various organisations active in this field (Carnegie UK Trust, 2009), as well as policy makers, academics, researchers and other experts (EU Standing Committee on Agricultural Research, 2013; Roszkowska-Mądra, 2009). Although the impact of this discussion is 'soft' in its nature, the debate over objectives, priorities and directions in agricultural and rural development (including societies' expectations toward the CAP) is not without importance for the shape of the Policy.

In the legal dimension, the bases for the implementation of the CAP come from regulations adopted with each successive financial programming period. Their content is subject to the so-called Ordinary Legislative Procedure that involves both the Council and the European Parliament. Before the Lisbon Treaty, the Parliament's role in shaping the CAP was limited to acting as a consultative body. In terms of funding, the key position in the Europeanization process belongs to the European Agricultural Guarantee Fund (EAGF) which runs the direct payments scheme, as well as the European Agricultural Fund for Rural Development (EAFRD) (Michalewska-Pawlak, 2012, pp. 30, 38-39).

Europeanization of national agricultural and rural policies affects their goals, institutional frameworks and management systems. Although the transfer of regulations, instruments, ideas and development concepts from the EU to the national level occurs within both CAP pillars, there are differences in how solutions from each pillar are implemented on the national level and, hence, how exactly the CAP influences national policies.

The European Commission has developed a system of regulations and recommendations on the standard of managing national agricultural and rural policies with regard to administrative procedures, programming and allocating funds (Fałkowski, Grosse & Skwarczyńska, 2009, p. 138). Within the I pillar, these standards directly determine the implementation of the Policy and refer to issues of servicing the direct payments scheme or specific instruments typical for a given market (e.g. production quotas or administered prices). Similarly, conditions for exporting and importing agricultural commodities from or to the EU are regulated at the European level. The situation is different within the II pillar, where the impact of member states, regional authorities or even local entities on the formulation and implementation of national policies is far greater than in the entirely communitised, hierarchically managed I pillar.

The basic tools of Europeanization within the II pillar are rural development programmes, initiated in 2000. They contain sets of activities that can be undertaken to develop rural areas. Each state is allowed to specify its own set of preferred activities, so as to account for varying national or regional developmental priorities.

One initiative that warrants a separate description is the LEADER programme. Implemented since 1991, initially as a community initiative of the European Commission, and since 2007 as an element of the CAP's II pillar, it has brought about a substantial qualitative change in managing the growth of rural areas. LEADER is based on the bottom-up approach to rural development and provides for the involvement of local public and private sectors, as well as local communities. All these actors are meant to participate in shaping and implementing local development strategies through a set of carefully selected projects. Such vision is representative of the integrated, territorial approach in which local communities are put in a position to drive positive social, economic and environmental changes in their respective areas. In the 2007-2013 perspective, the EU-15 countries were obliged to spend no less than 5% of their national EAFRD allocations on the LEADER priority. For those member states that acceded to the EU in 2004, the minimum stood at 2,5% (Council of the European Union, 2005, p. 13). The actual level of spending on this priority varied, ranging from approximately 10% in Spain, the Netherlands, Ireland and Portugal down to 2,4% of the total EAFRD allocation in Bulgaria, Romania, Latvia and Cyprus (Ministry of Agriculture and Rural Development, 2010, p. 7). It should be noted that adopting such a system forces the member states to decentralise their rural policies and engage with local communities or businesses in the process of their implementation. The programme stipulates that representatives of the public sector should make up no more than 50% of any Local Action Group (LAGs are bodies created to manage local development strategies). This means LEADER cannot be implemented without substantial participation of civil society organisations and enterprises (Council of the European Union 2005, p. 26). The 2014-2020 financial perspective sees the continuation of the programme, with all member states (except for Croatia) obliged to assign at least 5% of their national EAFRD allocations to this initiative (European Parliament & Council, 2013, p. 527).

In this case, Europeanization of national rural policies through the LEADER programme leads to a partial decentralisation in managing rural development and to the establishment of multi-level structure for coordinating CAP activities. It also supports the principles of cooperation and partnership between public authorities of various levels. Furthermore, it spurs the involvement of private entities in the implementation of public policies. Europeanization through the CAP's II pillar results in a more territorial orientation of rural policies which are supposed to rely on local potential for driving development processes. Empirical research reveals that effects of implementing LEADER differ widely among member states. Its effectiveness depends on factors such as political culture, administrative procedures for managing the programme (established separately by each country), public trust or communication within sectoral partnerships (Chevalier & Maurel, 2013, p. 49). Europeanization is therefore limited to creating institutional framework for the participation of social and business stakeholders. Nonetheless, even such relatively narrow scope of influence is enough to cause a vital, qualitative change – particularly in countries with highly centralised system of implementing development policies for agriculture and rural areas.

The extent to which national agricultural policies of EU member states are Europeanized varies, depending largely on each country's prior traditions in this field. As pointed out by the authors of a report entitled *The Nature of Rural Development: Towards A Sustainable Integrated Rural Policy In Europe*, 'Countries divide between those with a strong national agenda and institutional pattern and those more influenced by the driving force of EU policy. Some have long traditions of their own in rural development policy (e.g. Austria, the UK and Sweden). Others (e.g. Spain) have acquired a rural development role much more recently, generally in response to EU measures' (Baldock et al. 2001, pp. VI-VII). One hypothesis that can be found in the literature on this subject indicates that the pressure of Europeanization on managing and content of national policies in the 'new' member states is noticeably stronger than among EU-15 (Grosse 2009, p. 114). If one looks at how public management has changed in post-communist countries, such claim can be considered perfectly valid, since it can be argued that many changes have had their source not only in the post-1989 systemic transformation, but also in the subsequent participation of these states in European integration. On more than one occasion, it was the integration process and the accession procedure that forced them to adopt certain legal and organisational solutions.

11.4. CONCLUSIONS

When one examines the Europeanization of the Common Agricultural Policy, the image that emerges is one of a unique phenomenon. No other state or organisation in the world has ever developed a policy as comprehensive, interventionist and, at the same time, controversial, as the CAP. The peculiar nature of the Policy's Europeanization is related only to the fact that during the integration process, the 28 EU member states have transferred most of their decision-making competences to the Union. It also stems from the influence of various interest groups. While the CAP was one of the first policies established by the EEC, it has proven to be very resistant to reforms. Being a hierarchically managed policy formulated at the intergovernmental and supranational level, it constitutes an effective instrument for Europeanizing national agricultural and rural policies of the member states – in both the institutional and functional dimension. The top-down Europeanization does not automatically lead to the unification of national support systems for agriculture and rural areas, since the scope and consequences of its impact vary across member states.

Among instruments of influence, one needs to name the direct payments system that functions under the I pillar. It obliges EU countries to introduce unified standards of administration in this field. The range of instruments available within the II pillar is much broader. Funding is grouped into national and/or regional programmes for the development of rural areas. Such programmes allow all rural social groups to participate in and benefit from the CAP. Additionally, under the LEADER initiative, each group can directly contribute to the management of activities aimed at developing rural communities. However, actors oriented toward protecting the interests of the Union's agricultural sector remain highly mobilised and active. The pressure they apply makes them crucial players in the process of Europeanizing the CAP and preserves a predominantly agriculture-centred paradigm of the Policy's development.

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