

# TABLE OF CONTENTS

<b>PART I: INTRODUCTION .....</b>	<b>1</b>
1. INTRODUCTION .....	1
2. BASICS OF THE EUROPEAN UNION.....	4
2.1 <i>The Acquis Communautaire</i> .....	4
2.2 <i>Institutions of the European Union</i> .....	5
2.2.1 The European Commission.....	5
2.2.2 The Council of the European Union.....	6
2.2.3 The European Parliament.....	7
2.3 <i>Decision-Making in the European Union</i> .....	8
<b>PART II: A FIRST LOOK AT BREACHES. ON THEIR EXISTENCE, EXPLANATIONS AND THE COURT'S ANSWER.....</b>	<b>15</b>
3. (WHAT AND WHY) DO MEMBER STATES BREACH? .....	15
3.1 <i>Breaching what?</i> .....	15
3.1.1 Treaties, Regulations and Decisions.....	15
3.1.2 Directives. ....	16
3.1.3 ECJ-Judgements .....	18
3.2 <i>Who breaches?</i> .....	19
3.3 <i>Statistics: how many breaches?</i> .....	21
3.4 <i>Why do Member States breach? Theory and Empirics.</i> .....	25
3.4.1 Intentional Breaches .....	27
3.4.1.1 <i>Direct political disagreement: a preliminary test of explanation..</i> .....	27
A.) Data collection and bias problems. ....	28
B.) The tests-results and interpretations .....	31
3.4.1.2 <i>Indirect political disagreement: log rolling/package dealing and free riding .....</i>	35
3.4.1.3 <i>Change of political leadership .....</i>	39
3.4.1.4 <i>Preference building and change .....</i>	40
3.4.1.5 <i>Ignorance .....</i>	40

3.4.2 Non-intentional Breaches.....	41
3.4.2.1 <i>Non-intentional “structural” factors</i> .....	41
A.) Degree of Federalism.....	41
B.) Administrative well-functioning .....	43
3.4.2.2 <i>Non-intentional inherent factors</i> .....	43
A.) Vague law .....	43
B.) Conflicting principles of law .....	44
3.4.3 Empirical Testing .....	46
3.4.3.1 <i>Operationalisation of the dependent variable: breaches.</i> .....	46
3.4.3.2 <i>Operationalisation of the independent variables</i> .....	46
A.) Direct political disagreement .....	46
B.) Indirect political disagreement: Logrolling .....	47
C.) Change in political leadership .....	49
D.) Preference building and voting ignorance .....	50
E.) Non-intentional structural factors.....	51
3.4.3.3 <i>Method</i> .....	52
3.4.3.4 <i>Test Results</i> .....	55
3.4.3.5 <i>Conclusion</i> .....	65
 4. TREATING BREACHES: THE LAW'S AND THE COURT'S ANSWER.....	67
4.1 <i>Rules of Primary European Law regarding Breaches of European law by the European Community and its Member States. Damage Compensation and Fines before EC-Courts.</i> .....	67
4.1.1 Recourse for Member States or the Commission against Member States: fines for non-compliance with ECJ-Judgements.....	68
4.1.1.1 <i>Sources of Law</i> .....	68
4.1.1.2 <i>Responding to breaches: Article 226 Nice Treaty (old 169)</i> .....	69
4.1.1.3 <i>Growing teeth. The Renewal of Article 228: Penalty Payments for Breaches. (old article 171)</i> .....	71
4.1.1.4 <i>Member state v. Member state.</i> .....	79
4.1.2 Recourse for Individuals against the EC: Damage Compensation in Primary Community law.....	81
4.1.2.1 <i>Right of Action: Art. 230 Consolidated Treaty (173)</i> .....	81
4.1.2.2 <i>Right of Compensation: Art. 288 Nice Treaty (215)</i> .....	82

<i>4.2 ECJ-Jurisdiction: Damages before National Courts: a Recourse for Individuals against Member States. The Introduction of liability of Member States under European Law.....</i>	84
4.2.1 Direct effect and supremacy doctrine, Van Gend&Loos .....	84
4.2.2 Procedural: Francovich and non-implementation of Directives .....	85
4.2.3 Substantive: Brasserie du Pêcheur, Factortame and liability for legislative action.....	88
<i>4.3 The Political History of State Liability in the European Union.....</i>	96

### **PART III: THE AIM OF STATE LIABILITY REGULATION. WHAT ARE WE REALLY LOOKING FOR?..... 103**

<b>5. INTRODUCING NORMATIVE LAW AND ECONOMICS: SEARCHING FOR AN AIM OF STATE LIABILITY LAW .....</b>	<b>103</b>
<i>5.1 Introduction .....</i>	103
<i>5.2 A First Analogy: Efficient Breaches in Contracts and Breaches of European law. ....</i>	104
5.2.1 Terminology .....	104
5.2.2 Dealing with Breached Contracts.....	105
5.2.3 Breaches of European law and lessons of contract law?.....	108
<i>5.3 A Second Analogy: The Economics of Tort Law .....</i>	112
5.3.1 Traditional Economic Analysis of Tort Law: Reasoning and Goals... 113	
5.3.2 Introducing the State .....	116
5.3.3 Combining contract law with tort law to understand state liability as a law enforcement instrument. ....	121
5.3.4 Moving from Ex-post to Ex-ante, or from Enforcement to Compliance.....	123
<i>5.4 A Third Analogy: The Economics of Crime and Punishment.....</i>	127
<i>5.5 Summarising: Is there an economic reasoning in the Private Francovich and Public Art. 226-228 Enforcement? .....</i>	131
<i>5.6 Concluding: Aim and Economic Sense of Member State Liability in Enacting Community Law. ....</i>	132

6. ARE BREACHES REALLY THAT BAD? A RATIONALE NOT TO ALLOW BREACHES.....	138
6.1 <i>An Elementary question and aspects of contract law: why do we need enforceability?</i> .....	138
6.1.1 Kaldor-Hicks efficient agreements .....	138
6.1.2 Second best solutions.....	140
6.1.3 Inefficient Legislation .....	140
<b>PART IV: INTRODUCING POSITIVE LAW AND ECONOMICS.</b>	
<b>REACHING THE AIM.....</b>	<b>145</b>
7. EVALUATION OF THE CURRENT SITUATION: TWO DISTINCT ENFORCEMENT MECHANISMS .....	145
8. PROCEDURAL ASPECTS. PRIVATE AND PUBLIC ENFORCEMENT: COMPLEMENTS OR SUBSTITUTES? .....	146
8.1 <i>Evaluation of public enforcement</i> .....	146
8.1.1 What is public enforcement of law and how can it work against a State? The specificity of the European Union.....	147
8.1.2 Borrowing from Criminal Law. Eight Arguments in Favour of Public Enforcement. ....	150
8.1.2.1 <i>Of Costly Information, Free-riders, Fishermen and Force.</i> .....	151
8.1.2.2 <i>Rational Private Ignorance and Public Goods</i> .....	158
8.1.2.3 <i>Indifference and rights vs. interests</i> .....	162
8.1.3 Problems of the Commission's Public Enforcement.....	164
8.2 <i>Evaluation of private enforcement</i> .....	166
8.2.1 The European Court of Justice and private enforcement.....	166
8.2.2 Information as a comparative advantage of private enforcement.....	168
8.2.3 The Credibility Problem of the Private Threat: on procedural hurdles, participation restrictions, group action and punitive damages.....	169
8.2.3.1 <i>Procedural critique</i> .....	169
8.2.3.2 <i>Procedural difficulties and the role of group action in the European Union</i> .....	171
8.2.3.3 <i>Punitive Damages as a Demand Stimulator</i> .....	180
8.2.4 Few cases: does it work or not at all?? .....	184

<b>9. SUBSTANTIVE ASPECTS OF PUBLIC ENFORCEMENT: DETERRENCE BY FINES?.....</b>	<b>187</b>
<i>9.1 Details on the specificities of art. 226-228.....</i>	<i>187</i>
<i>9.2 The lack of first and second order deterrence by article 228 and proof thereof.....</i>	<i>190</i>
<i>9.3 Law and Economics of crime .....</i>	<i>194</i>
<i>9.4. Existing public state sanctioning: international economic sanctions .....</i>	<i>195</i>
<b>PART V: STATE LIABILITY IN TORTS AS A LAW ENFORCEMENT INSTRUMENT. DOES IT WORK? .....</b>	<b>203</b>
<b>10. SUBSTANTIVE ASPECTS OF PRIVATE ENFORCEMENT: DETERRENCE BY DAMAGE COMPENSATION?.....</b>	<b>203</b>
<i>10.1 Introduction .....</i>	<i>203</i>
<i>10.2 Distinct features .....</i>	<i>204</i>
10.2.1 Different budget restraints.....	204
10.2.2 The Efficacy of Tort Systems in deterrence .....	207
<i>10.3 A formal Public Choice Approach.....</i>	<i>208</i>
10.3.1 Treaty provisions and regulations: Nontariff Barriers and Free Trade Regulation .....	210
10.3.2 Transposing Directives: Francovich and the effect on producers' costs.....	212
10.3.3. The Formal Framework for non-tariff barriers .....	215
A. Decisions under the absence of liability.....	215
B. Introducing member state liability .....	222
10.3.4 Policy Conclusions .....	234
A. <i>The Status Quo .....</i>	<i>234</i>
B. <i>Recommendations.....</i>	<i>236</i>
<b>SUMMARY .....</b>	<b>241</b>
<b>LIST OF CASES .....</b>	<b>246</b>
<b>BIBLIOGRAPHY .....</b>	<b>249</b>