

Europe's Future: the Wind is back in the Sails

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The election in Germany, even if disappointing for the current coalition, allows the most respected European leader to remain Chancellor. She can continue to steer the European engine, with a new French counterpart, impatient to test his European agenda, outlined in a speech in the Sorbonne on September 26.

Is this the light at the end of a long tunnel? The end of the somber decade which started with the financial crisis, then the crisis of the Eurozone, the mass migration of 2014/15, the referendum on Brexit in June 2016 followed by the surprising result of the American election?

At the beginning of this year, electoral campaigns in Austria, the Netherlands and France as well as the political debate in Italy gave populist eurosceptic parties center stage, and many across the EU believed they might win a majority of the vote.

But they failed. Everywhere. Brexit, far from being divisive, brought the 27 closer together. President Trump's unilateral moves boosted security and defense plans at the European level. In France Emmanuel Macron was elected with an ambitious European agenda. Unexpected economic growth all over the continent (except in the UK) reinforces a return to self-confidence.

Return to Euro optimism'

As the president of the European Commission Jean Claude Juncker noted in his 'State of the Union' address on September 13, 'the wind is back in EU s sails'. And as always when the Union comes out of a crisis, new steps can now be envisaged in the integration process.

This does not mean that spectacular changes will come soon. The framework will remain the current treaties. The fundamental problem of the distance between the institutions and the citizens remains, as well as the fear of globalization they are accused of encouraging. But many weaknesses,

shortcomings which preexisted the crisis, or were brought to light by it, can now be dealt with.

We will explore briefly the various fields in which the new 'Euro-optimism' will be tested. Not surprisingly, the debate will continue to oppose those, on the one hand, who favor more cohesion and solidarity, and so want to reinforce the role of the Commission or facilitate decision making; and on the other, those who want governance to remain as much as possible in the hands of national governments.

The influence of the latter, which prevented progress in the last ten years, might be reduced now that populist and nationalist voices have been (temporarily) silenced. Some strong mistrust remains however, notably between the old and 'new' member states as well as between the North and the South. Hopefully economic growth will help mitigate these divergences.

The governance of the Monetary Union and/or of the Eurozone

Most economists agree that the Eurozone needs further reform. A roadmap for reform has been articulated since 2011 by the presidents of the EU institutions. But apart from the setting up of a 'Banking Union', the other elements of the reform were never really discussed, due to the diverging views between Germany and most of the other members over financial 'solidarity'.

But these ideas continued to float in the air, and were revived recently by the president of the Commission and the French President.

Macron had already been asking for the creation of a separate Eurozone budget while on his campaign trail. He now suggests that it could be funded with the product of (harmonized) corporate taxes and managed by a 'Eurozone Finance Minister'. He also mentions the creation of a Eurozone Parliament.

Juncker, less enthused with the concept of 'double speed' Europe, is opposed to specific institutions for the Eurozone, since all member states (except Denmark ... and the UK) will one day have to join. He supports the creation of a 'EU Minister of Economy and Finance' but who would be 'double hatted' with the commissioner in charge of the EMU. He agrees with a special budget line

for the Eurozone but inside the overall EU budget. The Commission will make proposals in December on this and on the transformation of the European Stability Mechanism (ESM) to a sort of IMF at EU level.

But the last word will be for Germany: Berlin needs first to approve the European Deposit Insurance Scheme, last leg of the banking union. Angela Merkel has agreed in principle the idea of a Finance Minister or at least a 'full time' president of the Eurogroup as well as a 'small' Eurozone budget. Ex-finance minister Schäuble supported the idea of having the ESM transformed to a European IMF, but in his mind it should be in charge of the control of budget discipline, which is for the moment in the hands of the Commission.

The final agreement, at least in the near future, will probably be close to what is suggested by the president of the Commission, if the Free Democrats do not impose a too restrictive line on the new German government.

Taxation policy

There is a strong popular move in Europe to address the problem of tax havens for multinationals and the differences among corporate tax regimes among EU members.

But, according to the EU treaties, all decisions on taxes have to be made by unanimous vote. As a consequence, it took years to convince Luxemburg and Austria to accept the automatic exchange of information between tax authorities. The financial transaction tax, vetoed by a number of countries, is now under discussion in an 'enhanced cooperation' between eleven countries but no decision has yet been made after six years of talks.

Taxing tech companies on the basis of their sales in each country and not where they are established, or harmonizing corporate tax rates, as proposed by president Macron, have little chance of being approved this way. In reaction to Macron's speech, Luxemburg's prime minister suggested that the issue be dealt with at the level of the OECD!

So the question is : has the time come to use the disgruntlement of public opinion over tax policy by addressing the problem of decision making? Juncker

proposed to use a provision in the treaty of Lisbon which allows the European Council, when the Treaties provide that an act is to be adopted unanimously, to authorize the Council to act by qualified majority. This formula was never used but it might be the only way to develop a real EU tax policy.

Europeanization of migration policy

Asylum policy is at the core of national sovereignty but the creation of the Schengen area, with no control of citizens crossing internal borders, has imposed the development of a common policy, at least among the members of the area. So, step by step, the treaties started to include migration among the issues dealt with by the community method.

But resistance remains strong. When migrants started to enter the EU en masse in 2015, president Juncker thought that the time had come for the Commission to act: he suggested that, once given asylum, migrants be spread among all member states with a system of quotas. This proposal caused an immediate and angry reaction from the Central and Eastern European member states, even if some of them, like Hungary, had been confronted with massive arrivals at their border. A decision was made a few months later (by majority voting) but it was only very partially implemented.

Since then, the common action at EU level has been developed with caution and efforts are now rather centered on the protection of external borders (by European border guards), readmission agreements with the countries of origin (supported by specific EU financial assistance), and action against people traffickers.

A revision of the Dublin agreement or a common screening of asylum seekers in special centers and in the country of origin is currently under discussion. Macron alluded to this approach. But it suffers from the mistrust of the central and Eastern European member states. Progress could only come together with other efforts aimed at cohesion.

Security and defense policy at EU level

‘A Europe that protects’ was the slogan accompanying the first efforts of the 27 to display their unity after Brexit at a special meeting in Bratislava a year ago, in September 2016.

Numerous efforts have been made to develop common action relating to counterterrorism. The suggestion by Macron to create a ‘European Intelligence Academy’ would make more visible and systematic this cooperation, which has improved after the terrorist attacks of the last years but could be made more efficient yet.

It is probable that the UK will continue to be associated with action in the security field after Brexit. British Prime Minister Theresa May has already mentioned the UK’s willingness to conclude an agreement with the EU on security and defense after Brexit.

If the withdrawal of the UK will substantially reduce the defense capabilities of the EU, paradoxically at the same time it might also allow the remaining member states to develop more easily programs in the framework of the EU, which used to be blocked by the UK for the reason that they might duplicate NATO’s.

A regained interest in European defense developed, after ten years of stagnation, when the European Council in December 2013 decided to reinforce EU military capabilities, whose shortcomings had been tragically exposed in the Libya war of 2012. It was helped by an important evolution in the approach to common defense by the biggest but traditionally ‘pacifist’ EU member, Germany. A ‘Global Strategy document’ was presented just after the Brexit referendum by High Representative Federica Mogherini as a first serious attempt to update the ‘EU strategic concept’. These efforts were boosted by the perception of American disengagement from Europe after the election of Donald Trump.

In November 2016, the European Commission proposed the creation of a ‘European Defense Fund’, which would support investment in joint research and joint development of defense equipment and technologies. The intervention of the EU budget, and possibly of the European Investment Bank,

in the defense area was a novelty but seems now to be accepted by most member states.

The proposals made by Macron in his Sorbonne speech do not bring new ideas in this field. He mentions an EU intervention force but the EU already has the so-called 'battlegroups' (1,500 soldiers to be deployed with 10 days' notice for a period of 30-120 days). No battlegroup has gone into battle; and the logistics of agreeing on the rules of engagement have not yet been harmonized. The focus for the moment is more on the development of common capabilities.

There is much hope in a tool which was mentioned in the Lisbon treaty but never implemented: the 'Permanent Structured Cooperation' (PESCO). The idea is for a number of countries to commit to strengthen their cooperation in military matters by developing common capabilities. A concrete agreement on PESCO could come as soon as the end of this year.

The continuation of enlargement

When he started his four year mandate in 2014, Juncker promised that there would be no further enlargement of the EU during his term. By saying this, he expressed a widely shared feeling that, at 28, the Union has become very difficult to manage. He was also worried about increasing the East West divide.

This message was not very well perceived in the Western Balkans, where candidate countries were making major efforts to get closer to the EU and to satisfy the more and more demanding 'benchmarks' of the negotiation.

Now, two and a half years later, the president of the Commission changed his tune and stated that 'we must maintain a credible enlargement perspective for the Western Balkans'. The Commission is preparing a report which will be discussed in March 2018 on the way forward for enlargement. There is a new sense of urgency because of the economic stagnation in the region but also to counter the clear intention of Russia (and Islamist groups!) to fill the current vacuum.

Montenegro, Serbia and Albania might join in the not too distant future. It will take more time for the other Balkan countries who each have specific problems.

With Turkey, the negotiation has been put on hold and nobody wants to revive it in the current circumstances. Turkey, however remains a NATO ally and an important neighbour with whom a successful agreement has been concluded to block the 'Balkan route' for migrants.

Institutional issues

Even without changing the treaty, a certain number of ideas have been circulated in the last years aimed at facilitating the functioning of the EU institutions. The current momentum might give them more chances, even if some countries are openly reluctant, because of public opinion or to defend selfish interests.

As discussed above, Juncker has proposed that tax issues be decided by majority voting, using the 'passerelle' formula of the Lisbon treaty; he also suggested to 'double hat' the chairman of the Eurogroup and the commissioner in charge of the EMU. This double hatting has worked well in the field of Foreign Affairs, with Federica Mogherini being at the same time a Vice President of the Commission and the 'High Representative' presiding the Foreign Affairs Council.

Juncker goes even further in exploring this rationalization of EU leadership by suggesting that the president of the Commission be at the same time the president of the European Council. Since the two tasks are widely overlapping, this idea which does not require treaty change might gain momentum.

However, it cannot be looked at separately from the procedure to select the president of the Commission. In 2014, the European Parliament imposed on the Council the formula of the 'Spitzenkandidaten', according to which the candidate chosen by the political group having obtained the highest number of seats in the Parliament's election would be 'elected' president of the Commission.

The European Council did not formally accept this procedure but it enjoys a strong support in political circles notably in Germany. In his Sorbonne speech, Macron suggests having real 'European elections' ... above the current political groups! He also suggests replacing the departing British MEP by candidates from different countries elected on a 'European list'. This idea, defended by the

European federalists, has little chance of being adopted; the counter argument is that this would further increase the distance between the Parliamentarians and the citizen.

More interesting is the mention by Macron of the need to reduce the number of commissioners - from 28 to 15. This change is mandated by the Lisbon Treaty but the European Council decided not to adopt it, on the request of the Irish government, as part of its efforts to win a second referendum on the treaty, after having lost a first one in 2008. This change is overdue and was already mandated by the treaty of Nice of 2001, but it requires first the agreement of Ireland to renounce the assurances it has received.

A summit on March 30, 2019 in Siriu, Rumania

After a dinner in Tallin on September 28, during which they discussed informally the ideas mentioned by Juncker and Macron, the EU leaders accepted Juncker's suggestion to gather on March 30, 2019, the day after the withdrawal of the UK, in Rumania (the country of the rotating presidency at that time) for a special summit on the future of the Union.

In the meantime, there will be regular meetings to discuss the various issues mentioned above - and others related to education, social issues, the future of the common agriculture policy and others which will be aired in the meantime.

It is clear that there is no consensus at this stage on any of these issues. Compromises will need to be made between the 'federalists' and the 'intergovernmentalists'. Germany will have to show how far it wants to go in integrating further the Eurozone. But the main challenge might be to bring more cohesion between the East and the West of the Union.

The biggest problem is not only economic coherence (economic growth is faster in the East than in the West). The gap is more cultural. It touches the attitude towards migration and, in some countries like Hungary and Poland, the respect of the core values of the EU. This East West gap even exists inside Germany where, in the East, the extreme right party Alternative für Deutschland received twice as many votes as in the West.

Some, including Macron, consider that an ambitious agenda for Europe's future can only be implemented through a 'two speed Europe' in which some issues would proceed faster than the others. This is the main reason he wants institutions and a budget at the level of the Eurozone.

Others are afraid that going this way will only widen the divisions and that the cohesion of the block will only be realized through patient, and not aggressive efforts. These are ongoing and will be helped by the current optimistic mood. A summit in Rumania, from that point of view, has a very symbolic meaning.

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