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### **Relaunching the European project: reforms without changing the treaties**

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# Relaunching the European project: reforms without changing the treaties

Alfredo de Feo\*

## ABSTRACT

The European project is going through an unprecedented crisis. A large part of public opinion is seeing the European Union more as the problem than the solution. The *business as usual* approach is not a guarantee of survival. This work stems from the necessity of a radical and urgent change of the European Union. It suggests reforms to rebuild a new credibility for public opinion. The reforms proposed, framed by the lessons learned from the past, can be achieved without changing the Treaties. This work highlights also how the momentum for reform is favourable to shape the new Europe for the next decade, but the new Europe will not happen without a strong political leadership and more involvement of the public opinion.

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## Prologue

Declining support for the European project is a feature present in most of the Member States. A growing proportion of EU citizens no longer see the advantages and the added value of the European project. Disenchantment with the EU, and sometimes open hostility, are the results of this situation.

This project aims to explore some essential reforms, which could contribute, to reviving the European project. The subject is at the top of the political agenda and is being discussed not only at the European level but also in the capitals and regions, and by interest groups and NGOs. Decisions, which will be taken by mid-2020 at the latest, will shape the Europe of the next decade.

The crisis of these years is different from most of those that have marked Europe's history. It has not been confined to diplomatic circles but has involved citizens and public opinion. A second feature of the crisis is the urgency to address citizens' concerns. Without an ability to rapidly respond to the current challenges, the crisis could become irreversible and lead to the disintegration of the European project or condemn it to irrelevance. A relaunched European project could respond to the challenges of the coming years.

This research will start by highlighting some previous crises, the solutions found and the lessons learned, which could serve as inspiration in the current situation. The current state of Europe today will be analysed from three perspectives: *Governance* – the role of the EU institutions today; *Delivery* – the policies of the European Union; and *Vision* – models for Europe that are being debated today.

The second part of this work will focus on reforms, dividing them into three clusters: a more democratic Europe; a differentiated Europe; and policies for the Europe of 2030. Each of these clusters contains concrete proposals for modifications. The originality of this study lies in its particular focus on reforms that can be achieved within the current institutional framework without changing the Treaty. A change in the Treaty could be an

aim to follow in the future but it is not compatible with the urgency of the situation and much can be done within the current institutional framework.

The third part will concentrate on how the Europe of 2030 could be shaped. It will analyse whether the proposals launched by the Commission on May 2<sup>nd</sup> might offer a first concrete step toward the Europe of 2030 or whether the Member States and/or the European Parliament should take the lead in the reform. External factors such as the new geopolitical order might influence the process and its timeline. This part will also try to analyse how Member States may react and how majorities could be formed.

This work attempts to stimulate both political actors and citizens to take the responsibility to initiate and support an ambitious process of reforms which could transform the European project into a new Europe. This new Europe would deliver policies with a clear European added value, and would be a place where citizens would feel more protected and see Europe as their second home.

A last consideration will concern the role that the European Parliament could play in this negotiation. Beyond its formal competences, the European Council and all the governments should involve the EP in all phases of the negotiations to make this exercise more democratic and to revive a European identity which has been lost. To achieve a positive outcome the EP should establish new relations with the national parliaments. Relationships between national parliaments and the EP have sometimes been characterised more by competition than cooperation. Should the parliaments find a number of points of agreement on key issues regarding reform it would be difficult for the Governments to dismiss these positions.



### **Introduction**

The European project is turning sixty and it is undergoing a very critical phase in its existence. Like any person of this age, the European project cannot suffer decline without reacting, and it must find external and internal resources to regain a new vitality. An absence of reaction would condemn the project to irrelevance, or even to disintegration, or in any case would take it far from the ambitions of its founding fathers.

The European crisis is deep and complex, and it is intertwined with a globalized crisis which is, above all, a crisis of values, of worldwide instability, of a generalised sense of insecurity, and of threats of different natures: military, religious, environmental, a resurgence of regionalisms and nationalisms and, last but not least, an increase in inequalities around the world.

After sixty years of peace and economic growth, many see the European project not as a protection, but as a threat. The disaffection of a large part of public opinion from the European project is also linked to the globalized crisis and many believe that Europe is more part of the problem than of the solution. Many decisions, or non-decisions, taken by the European institutions have certainly contributed to this feeling.

If Europe wants to contribute with an answer to the crisis this cannot happen with a 'business as usual' approach. A radical reform will be necessary, a reform of its institutions, of its decision-making processes, a reform which could make Europe more democratic and more accountable. The new European model should offer a new vision through which citizens can feel that Europe is their second home, similar to their own country. A relaunch of the European project is needed.

Europe is not an abstract entity. Europe is, above all, its Member States, its citizens and its institutions. Many European personalities, including political leaders have a clear picture of the crisis, but we do not know whether the European leaders will be capable of seizing the opportunity for a radical reform of the EU. The next two years will be crucial.

A unique opportunity to change the course of the European Union is ahead of us. Will European leaders be ready to accept this challenge? Do they understand the successes, failures and limits of the project? The challenges to our societies require a new vision for the European project, which will also be a vision for the national countries. The political courage and vision to take radical decisions will set the direction for the next decade. If this opportunity is missed, Europe may or may not survive, but certainly, it will no longer represent a reference and hope for future generations. The rationale for a reform is strong, but the forces acting against are also powerful. Apart from ideological - opposition, recent elections in some of the 27 Member States do not favour stability, increasing the internal conflicts and making the decision-making process more complicate.

This work does not claim to provide a perfect recipe for a new Europe, but it has the modest ambition of highlighting some essential reforms which could contribute to changing Europe's course and upgrading its role. What does essential mean in this context? In my view, the reforms, which are essential, are those that could allow a shift from a declining Europe to a dynamic new project, which could regain the support of public opinion. 'Essential' also has a temporal dimension. The urgency of the situation requires decisions to be taken in a short period and within the current legal framework. A revision of the Treaties, or a new Treaty, is an objective to be followed after having put in place some essential reforms to face the next decade.

The European project lacks legitimacy. Following Weiler's typology,<sup>1</sup> the European project lacks: a) normative and social legitimacy, as its "mode of governance departs from the habits and practice of democracy as understood in the Member States"; b) legitimacy of results, as it no longer delivers what is expected; and c) 'messianic' legitimacy, as over time we have lost the vision of a promised land.

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<sup>1</sup> J.H.H. Weiler, *United in Fear – The Loss of Heimat and the crises of Europe*, in Papadopoulos, Pernice and Weiler (eds), *Legitimacy issues of the European Union in the face of Crisis*. ISBN 978-1-5099-1821-8, 2017.

This lack of legitimacy has translated into disaffection, in the best case, or hostility among a growing part of the European population, which does not feel involved in the governance model, does not benefit from concrete and positive answers to new challenges and which does not see a vision for the future Europe. Europe is not their (second) home.

This paper will start by analysing the current mechanisms, the roots of the crisis and lessons learned from the past. The European project needs to be revived by redressing the absence of the three legitimacies mentioned above. The paper will analyse three essential reforms which should improve the democracy, delivery and the long-term vision of the European project. A number of other accompanying measures, which may contribute to completing the shape of the new Europe, will be analysed too.

There can be different and even contradictory visions of a relaunch of the European project. It will be of paramount importance that the choice is not the result of obscure diplomatic negotiations but of open discussion and ultimately decisions by the European citizens. The next European election in May/June 2019, could be the first ideal moment for a gear shift in European affairs. Citizens should feel that their involvement and participation in the European election will contribute to the shape of the new Europe for future generations. How the European project can take on a new life and respond to the challenges of the coming years is the question that will guide this work.

The objective of this paper is to be ambitious but also realistic. The analysis will be conducted from the perspective of a practitioner who has spent most of his professional life observing the activities and evolution of the EU institutions from a privileged position, sensitive to the balance between the essential and the possible, and with the modest ambition of finding a blend between the contributions of scholars and political debate.

The sources used in this analysis will be European law, the best inter-institutional practices, articles by think tanks and scholars, journals and books, and positions emerging in the political debate.

This working paper is the result of personal reflections. It has also benefitted from contributions to enriching and stimulating discussions and arguments with professors, fellows and distinguished guests during a short period spent as Jean Monnet Fellow at the Law School of New York University, for which I am grateful to prof. Joseph Weiler and Grainne de Burca.

## **Part I: Europe today: the state of play**

Over the sixty years of Europe's existence, its institutions have evolved, in size, objectives, policies and ambitions. The world around Europe has changed even more. These changes include the end of the cold war and of the communist bloc in Eastern Europe, the economic and financial crisis, the risk of terrorism, massive migrations, new actors on the world stage such as the BRICS<sup>2</sup>, and in particular Russia and China, and last but not least the role of the United States, Europe's first partner and model for European integration.

The European institutional model has remained substantially the same with the triangle of the Commission, the Council and the European Parliament. The latter has increased its role and power, but the Member States and their governments continue to play a prominent role in the decision-making process. However, in the last ten to fifteen years a growing part of public opinion has come to believe less in the advantages of the European project and has started to consider a return to a national or regional model of development to be desirable. Many pro-Europeans are also critical of the current EU organization and desire a different development of the European project.

Before analysing possible patterns of reforms, this first part of the paper will be devoted to describing the main features of the European Union as it stands today, the lessons learned from the past and why the time is ripe for envisaging a reform to relaunch the European project towards 2030. It will analyse the state of play in Europe today from three perspectives: *governance* – the role of EU institutions today; *delivery* – the policies of the European Union; and *vision* – the European models that are being debated today.

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<sup>2</sup> BRICS: Brazil, Russia, India, China and South Africa

### *Governance*

Europe started its journey with a group of six Member States which had similar economic models and levels of development and stable governments. A very large majority of parties and public opinion supported the European project, even those with different ambitions for integration. Most of the power was concentrated in the hands of the governments, to whom the Commission was accountable.

Europe today counts 28/27 Member States, a diversity of parties, administrative cultures, levels of development and traditions, which makes decisions difficult to reach. A lack of strong European leadership has slowed down the development of the EU project. Weaknesses of the institutions have affected the multilayer decision-making system and EU governance.

### *The Council*

The Council is probably the institution, which has suffered the most since the enlargement in 2004. Reaching consensual decisions within the Council has become an increasingly difficult exercise. The creation of coalitions renders the decision-making process even more complex. These coalitions have variable geometries according to the subject: east vs west, north vs south, Eurozone vs non-Eurozone, Euro-positive vs Euro-sceptical.

This situation and the increased role of the European Parliament as co-legislator have further reduced the capacity of the Council to take decisions. Member States now seek the support of the EP to secure majorities on specific issues in their interest. In the last decade, the Member States have reinforced their presence in the EP, not only to convince their national MEPs but also other MEPs to secure majorities on sensitive issues. The Member States are probably the first lobbyists in the European Parliament.

### *The European Parliament*

The European Parliament has suffered less from the increased number of Member States. Unanimity is not in the EP culture, and in spite of the presence of important

numbers of anti-European or Euro-critical members, a parliamentary majority still exists to vote for coherent EU legislation, often offering compromise positions which could not be reached within the Council (e.g. the Services directive, the Reach regulation...). The political groups, which have increased their importance, are the main actors to form compromises, which shape the legislation.

A downside of this situation is that the margins of differentiation between the political groups have faded. The EP acts as a grand coalition, giving the idea to public opinion that it cannot take strong positions and that the political groups are obliged to dilute their positions to achieve the necessary qualified majority. This has become a disincentive to voting in EP elections. In spite of the Council's weaknesses, the Parliament has not taken the lead on the European stage. Its competences have grown, but its real influence remain limited. The Council still dominates the legislative process.

The reduced influence of the EP is also due to the reduction of the proposals presented by the Commission (a political priority of the Juncker Commission) and the reduced budgetary powers. After the entry into force of the Lisbon Treaty, the EP lost its ability to take autonomous decisions without the agreement of the Council, (editor's note: on non-compulsory expenditure), which had been a powerful negotiating tool. However, agenda-setting is an area where the EP has expanded its influence.

Another area where the European Parliament has not yet developed its full potential is scrutiny of legislation, which remains a marginal exercise void of political content. Scrutiny is definitely an area where the EP could take the lead to improve the efficiency and effectiveness of EU legislation.

### The Commission

The Commission has not solved the dilemma of being the executive but not the decision-maker. Its right of initiative is *de facto* undermined by art 17 of the TEU, as it can initiate the Union's annual and multiannual programming "with a view to achieving interinstitutional agreements," which means that only proposals which the co-legislator

agrees to take into consideration can be presented. This is a limitation of its right of initiative.

The role of the Commission has changed in the last decade, and in particular since 2014. Parliamentarization and politicization are the driving forces changing the role of the Commission. The appointment of the President of the Commission and the approval of individual commissioners by the parliament has made the Commission more dependent on a parliamentary majority, like all governments. The Commission has to negotiate with its parliamentary majority. Meetings between the President of the Commission and the leaders of the political groups forming the majority are informal but regular, and give stability to the Commission's activity. Should this majority fail, the EP can activate a 'motion of censure' and dismiss the Commission, a nuclear option that the EP has only used once, in 1999, which led to the resignation *en masse* of the Santer Commission, hours before the vote on the motion of censure.

Another feature of the Commission today is its politicization. According to the Treaty, the European Council should appoint the candidate for President "taking into account the outcome of the European elections." This reference in the Treaty is not formal, but it increased the appetite of the European Parliament. The *Spitzenkandidaten* exercise, invented by the political groups in 2014, gave some transparency to the process of appointing the President of the Commission and has exposed the candidates to public debates. This exercise has suffered from a certain improvisation and it has not attracted much attention in public opinion but it has received attention by the media, which pressed for recognition of this principle. The European Council reluctantly accepted the outcome. A better structure and organisation of the exercise in 2019 could increase the accountability and authority of the future President of the Commission. However, having accepted the exercise in 2014 does not automatically constitute a solid precedent. There is already ground for inter-institutional contrast on this. The leaders of a large majority of the political groups in the EP and the President of the Commission have expressed their commitment to the exercise, declaring they will reject any other candidate who is not from the group with the largest number of seats in the EP. Nevertheless, most of the heads of state remain fiercely opposed to the procedure and at



the end of an informal European Council<sup>3</sup> the President of the Council declared that “There is no automaticity in this process. The Treaty is very clear that it is the autonomous competence of the European Council to nominate the candidate, while taking into account the European elections, and having held appropriate consultations.” This attitude is very similar to that in 2013/2014. The European political parties will have the responsibility to make the process transparent and better link the lead candidates to the national parties’ campaigns so as to involve public opinion.

The politicization of the Commission has also appeared in its internal organisation. The creation of clusters chaired by the Vice Presidents has increased the coherence and the direction of the Commission. Finally, yet importantly, the personality of the President of the Commission has also played an important role. To conclude, the parliamentary majority reinforces the politicization of the Commission without reducing its role as guardian of the Treaty and protector of the fundamental principles of the EU.<sup>4</sup>

Another achievement of the 2014 Commission during its mandate has been a reduction in legislative proposals. This shift is the result of a political decision by the Juncker Commission, but not only. In fact, art. 17 TEU, inviting the Commission to initiate the Union's annual and multiannual legislative programme “with a view to achieving interinstitutional agreements,” has contributed to the reduction in proposals, but at the same time it has increased the number of proposals adopted by the legislative authority.

### *Delivery*

The European project is not only about institutions and procedures. Citizens expect Europe to deliver European public goods. EU policies have a double nature: there are regulatory policies and policies with financial support to beneficiaries.

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<sup>3</sup> Informal Council, 23 February, 2018.

<sup>4</sup> On 20 December 2017 the Commission activated the procedure of art. 7 of the Lisbon Treaty against Poland, due to “a risk of serious breach of the rule of law” and encouraged by an EP resolution voted in November 2017. The procedure – if unanimously supported by the other EU member states – sets off a lengthy process that could lead to the suspension of the country's EU voting rights in the Council of Ministers.

## Regulatory policies

Most of the rules implementing the single market do not have financial implications but instead dictate the rules allowing the free circulation of goods and services and avoiding fragmentation of the market. The objectives of the single market are to stimulate competition and trade, to improve efficiency, and to raise quality with a reduction of costs. The regulatory norms liberalizing the movement of goods and services have produced a positive impact on the economy and employment, and have ultimately contributed to a growth in gross national income. The potential of the single market is still high. According to a study by the European Parliamentary Research Service,<sup>5</sup> more integration of the economy in different sectors could boost it by more than €900 bn. The integration of the single market is considered one of the EU's greatest achievements. It has fuelled economic growth and improved the everyday life of European businesses and consumers. However, the expansion of the single market has also had a downside. It has been one of the causes of the development of nationalistic, populist and anti-European movements. Not everybody shares the benefits of the single market. A (large) part of public opinion considers the opening of the market a threat to the privileges of some categories, or some regions. The efforts of harmonisation in different economic areas are seen as an invasive imposition from 'Brussels,' disrupting the traditions, the comfort and the habits of regions or professional categories. In fact, the free movement of goods and services has marginalised a number of less efficient industries. The message, at the national or local levels has always been to blame 'Brussels,' not the inefficiency of national/local industry. Clear examples are the reactions to the directive to liberalize services, the so-called 'Bolkstein' directive, and the opening of public procurements. A relaunch of the European project should consider this element and offer some counterbalances to these negative effects of the single market.

Looking back at the history of Europe, when Jacques Delors launched the single market he accompanied this proposal with a request to the Member States to double their allocations to the structural policy as compensation for the less efficient regions that

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<sup>5</sup> EPRS, The Cost of non-Europe, 2015, based on specific reports on various sectors. Available at <https://epthinktank.eu/2015/01/02/at-least-e990-billion-of-untapped-economic-growth-potential/>.

might not benefit from the opening of the markets. The objective of the structural funds was to boost the less developed regions to accelerate their development. European funds should have been additional and complementary to national funds. After about thirty years of regional policy, the principles of additionality and complementarity have not always been respected and the objective of reducing the GNI gap has not always been reached.

### Traditional policies

In this section, I will present the state of play of the two oldest policies of the EU, which in 2018 still absorb around 70% of the EU budget: the common agricultural policy and the structural and cohesion policy. Proposals regarding both policies will be made in the section on EU policies toward 2030.

### Common Agricultural Policy

More than sixty years ago, the European project started with the integration of strategic sectors, such as coal and steel and agriculture. The latter was the first common policy. It was created in a moment in which food security was high on the political agenda of the Member States. In the 1960s this problem concerned about 30% of the active population but in 2016 less than 6%. The common agricultural policy (CAP) had the aim of strengthening the competitiveness and the sustainability of agriculture and rural areas across the European Union. The CAP has moved from food shortage to abundance and from market support to producer support. It has widened its scope, including rural development, has opened up to the world (the EU is becoming the world's largest importer of agricultural products from developing countries) and has met the new challenges of sustainability and protection of the environment.

The CAP has evolved from supporting production to supporting the producer, through direct payments with particular attention to environmental compliance and support for young farmers and rural areas. The CAP, including rural development, still absorbs

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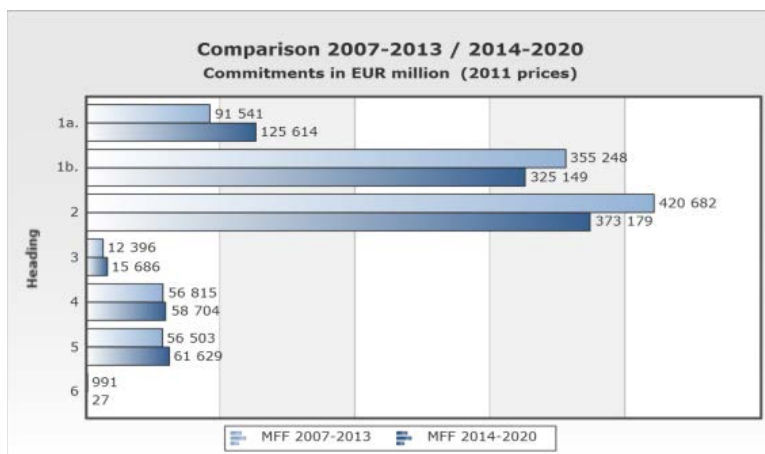
<sup>6</sup> Handel, Michael J. "Trends in Job Skill Demands in OECD Countries", OECD Social, Employment and Migration Working Papers (2012), p. 34. Available at <http://dx.doi.org/10.1787/5k8zk8pcq6td-en>.

more than 35% of the EU Budget and distributes 80% of its budgetary funds to 20% of the farmers.

### The Structural and Cohesion policy

The aim of the cohesion policy is to promote economic, social and territorial cohesion by helping the least-developed EU Member States and regions to catch up with the others. The policy targets all the regions and cities in the EU in order to support job creation, business competitiveness, economic growth and sustainable development, and to improve the quality of life of EU citizens. The cohesion policy operates through five funds.<sup>7</sup> This policy has gone through a number of modifications and in the last decade more focus has been put on EU added value and respect for EU strategic objectives in important sectors such as energy and transport, environmental protection and innovation. This new approach has somehow reduced the Member States' freedom in setting their objectives. Furthermore, the Commission monitors its implementation within its 'Budget focused on results' initiative. Have these improvements to the normative framework been translated into really better implementation? Can this policy be simply reincorporated without modification in the next financial framework? The next section will contribute to answering these questions.

### Priorities 2014-2020



The 2014-2020 financial framework has confirmed a trend, which had already appeared in the previous period, of a reduction in expenditure on cohesion policies (heading 1b), and agriculture (heading 2), an

<sup>7</sup> The European structural and investment funds (ESIF) which contribute to cohesion policy and regional development are the ERDF, the ESF, the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

important increase in growth and competition (heading 1a – +37%) and security and citizenship (heading 3 – + 29%), and a smaller increase in external relations. Even without an increase in budgetary funds, with the consent of the European Parliament, the European Council agreed to shift allocations to priority areas. This trend was then confirmed in the mid-term revision of the financial framework in 2016.<sup>8</sup> Supplementary funds were allocated to job creation and growth (+€1.8 billion) and to migration and security (+ €3.9 billion). The institutions proved capable of focusing on political priorities, but the increase in funds was not sufficient to make a difference.

### Jobs and Employment

The Youth Employment Initiative (YEI)<sup>9</sup> benefitted from an increase in funding, with the objective of supporting young people living in regions with unemployment greater than 25%. This measure focuses on people who are not in education, employment or training (NEETs), including the long-term unemployed and those not registered as job seekers. An amount of €8 bn will be allocated to this measure, which has already reached over 1.4 million young people.

### Climate Change

Following the conclusion of the Climate Change Conference, COP21<sup>10</sup>, the EU, which was a leading actor in achieving the final agreement, made a commitment to devote at least 20% of its spending in the period 2014-2020 to this effort. Estimates show that the EU budget will be close to the 20% target. It is expected to deliver around €200 billion by the end of the period.

### Migration

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<sup>8</sup> Regulation 2017/1123 of 20 June 2017 amending Regulation (EU, Euratom) No. 1311/2013 laying down the multiannual financial framework for the years 2014-2020. Available at <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R1123&from=EN>.

<sup>9</sup> A.C. Alfieri, Youth Employment Initiative, EPRS, 2017. Available at [http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/608688/EPRS\\_BRI\(2017\)608688\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/608688/EPRS_BRI(2017)608688_EN.pdf)

<sup>10</sup> G. Erbach, EU position for COP 21 climate change conference, EPRS, 2015. Available at [http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/572787/EPRS\\_BRI\(2015\)572787\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/572787/EPRS_BRI(2015)572787_EN.pdf).

Since the entry into force of the 2014-2020 multiannual financial framework (MFF), the influx of migrants and refugees has probably been the most important emergency for European countries. The approaches of the Member States have been different and some of the EU decisions, like the redistribution of refugees, have been largely disregarded by some Member States.

On the financial side, funds have been concentrated on the internal and external aspects of migration issues. They have been refocused in order to reinforce humanitarian actions and rescue capacity, and also to protect the external borders, assist the Member States in managing refugee flows, and address the root causes of migration. Globally, more than €10 billion were mobilised from the EU budget and the European Development Fund in 2015 and 2016 to be spent on the internal and external dimensions of the refugee crisis, doubling the amount initially foreseen under the MFF for the Asylum, Migration and Integration Fund (AMIF) and the Internal Security Fund (ISF),<sup>11</sup> including emergency assistance.

Further support for the development to African and neighbouring countries comes from financial instruments (see below).

#### A different use of the EU Budget

In recent years, the EU's financial needs have increased. New policies whereby Europe can be more effective than the individual Member States have appeared on the scene. At the same time, the funds allocated by the Member States to the EU budget have declined in nominal terms. To overcome the rigidity of the EU budget, the Commission proposed maximising the funds by abandoning the traditional form of subsidies or grants allocated to the beneficiaries of EU policies and using budgetary funds as guarantees to raise supplementary funds in the private capital market. This new development in the

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<sup>11</sup> The AMIF and the ISF were set up for the period 2014-20 with amounts of €3.1 billion and €3.8 billion respectively. The aim of the AMIF is to promote the efficient management of migration flows and the implementation, strengthening and development of a common Union approach to asylum and immigration. The ISF promotes the implementation of the Internal Security Strategy, law enforcement cooperation and the management of the Union's external borders. See [https://ec.europa.eu/home-affairs/financing/fundings/migration-asylum-borders/asylum-migration-integration-fund\\_en](https://ec.europa.eu/home-affairs/financing/fundings/migration-asylum-borders/asylum-migration-integration-fund_en).

EU budget was allowed by modification of the financial regulation in 2013.<sup>12</sup> This mechanism was used for some external policies, creating trust funds (Financial Regulation, art. 187) and blending grants and loans (Financial Regulation, art. 140) for a number of external and internal programmes.<sup>13</sup> Some other EU initiatives, e.g. the Facility for Refugees in Turkey, are partially financed by the EU Budget, with contributions by the Member States.

Unity and universality are no longer the fundamental principles of the budget. The exceptions are becoming more relevant than the rule. The adoption of the so-called Juncker plan, the European Fund for Strategic investments (EFSI), boosted the importance of financial instruments. The EU Budget finances a guarantee fund with an amount of €16bn (plus €5 bn from the European Investment Bank). The European Investment Bank (EIB) raises funds on the capital market. The EFSI has reached an amount comparable to the structural funds, with a governance structure partially outside the Institutional Structure.

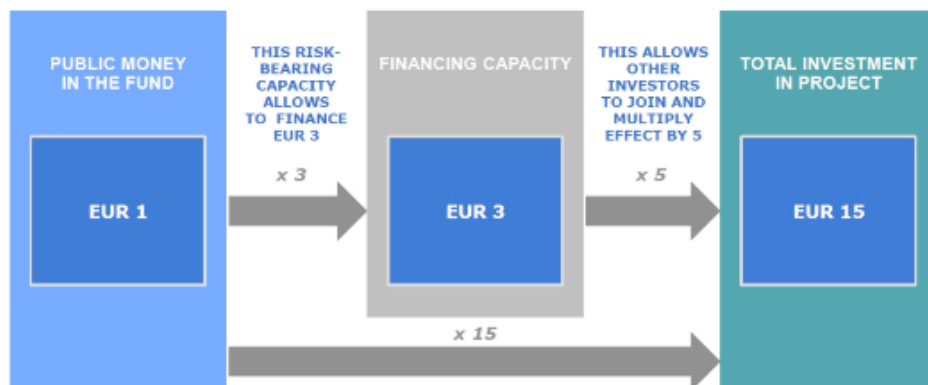


Figure 1: The multiplier effect, as presented in the Commission document ['The investment plan in graphs'](#).

Figure 1 shows the multiplier effect of these mechanisms. Budgetary funds guarantee and incentivise other investors to join a fund, giving an

<sup>12</sup> Financial Regulation 966/2012, OJ 298, 26/10/2012. Available at <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012R0966&from=EN>.

<sup>13</sup> The financial instruments in external programme are the Regional Facilities under the Development Cooperation Instrument (DCI), Enlargement countries and Western Balkans; those in internal programmes are Cosme, Horizon 2020, Creative Europe, Erasmus plus, Life and ESIF.

investment capacity of about 15 times more than the public money invested. After more than two years, the results have confirmed expectations. According to a 2016 Ernest & Young study,<sup>14</sup> the multiplier effect was already at 14.1 with an upward trend. This is one of the critical success factors of this mechanism. Furthermore, in December 2017<sup>15</sup> the EFSI extended its timespan until December 2020 and raised its investment target to €500 billions. The EU budget contribution was raised from €16 bn to €26 bn and the EIB contribution from €5 bn to 7.5 bn, with the aim of mobilising at least half a trillion euros of additional investment by 2020.

A similar mechanism, the European fund for sustainable development (EFSD), was approved in September 2017.<sup>16</sup> The aim of the EFSD is to support investments in African and neighbouring countries with the objective of contributing to the achievement of the Agenda 2030 sustainable development goals by boosting jobs and growth while at the same time addressing the root causes of migration. With an initial budget of €350 million, the fund is intended to trigger up to €44 bn of investment. This amount could increase with supplementary contributions from the Member States or other donors. It is interesting to highlight this innovative use of the EU budget, at a scale that could even surpass the size of the budget itself. This new and innovative budgetary mechanism is therefore destined to become a permanent complement to the European budget.<sup>17</sup>

In April 2018, the EFSI supported investments of €283.7 bn, close to the set target of €315 bn. The mechanism certainly has a number of advantages. For instance, there is no pre-allocation to Member States and projects are selected on the basis of both their European added value and economic viability. The EFSI should intervene especially

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<sup>14</sup> Ernst & Young, Ad-hoc audit of the application of the Regulation 2015/1017 (the EFSI Regulation), 2016.

Available at [https://ec.europa.eu/commission/sites/beta-political/files/ey-report-on-efsi\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/ey-report-on-efsi_en.pdf).

<sup>15</sup> Regulation 2017/2396 on the extension of the duration of the European Fund for Strategic Investments, OJ L 345, 27.12.2017, p. 34–52. Available at <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R2396&qid=1515135192497&from=EN>

<sup>16</sup> Regulation 2017/1601 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund, OJ L 249, 27.9.2017, p. 1–16. Available at <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R1601&from=EN>.

<sup>17</sup> D. Rinaldi and J.Núñez Ferrer, The European Fund for Strategic Investments as a New Type of Budgetary Instrument, CEPS, 2017.



when there is a high level of risk making traditional financial institutions reluctant to finance a project.

Some weak points have also emerged. Governance is one of the critical elements. The management of the fund is composed of the EIB management committee and the investment committee, which according to the principles of the bank is inspired more by economic viability than the traditional public investment approach. The EIB management committee reports to a steering board, which determines the strategic orientation of the EFSI and operations with investment platforms and national promotional banks or institutions. The steering board is composed of four members, three appointed by the EU Commission and one appointed by the EIB. The steering group decides by consensus, making the role of the EIB relevant.

In 2016 the European Court of Auditors (ECA) presented a report<sup>18</sup> on the functioning of the financial instruments, raising doubts about the real added value of the EFSI guarantee. Some of the projects could have been financed even without this guarantee.<sup>19</sup> It also criticised the difficulty for the legislative and budgetary authorities to identify the Commission responsible for decisions. Furthermore, the coherence of the EFSI with all the other traditional budgetary instruments needed to be improved. Some of the instruments seem to compete with each other and even undermine grant operations.

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In the last 30 years, efforts have been made to adapt the decision-making process and to create new policies without dismissing any of the old policies, redeploying financial

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<sup>18</sup> European Court of Auditors (ECA) (2016b), Special Report N°19, Implementing the EU budget through financial instruments – lessons to be learnt from the 2007-2013 programme period? Available at

[https://www.eca.europa.eu/Lists/ECADocuments/SR16\\_19/SR\\_FIN\\_INSTRUMENTS\\_EN.pdf](https://www.eca.europa.eu/Lists/ECADocuments/SR16_19/SR_FIN_INSTRUMENTS_EN.pdf)

<sup>19</sup> See also Claeys G. and Leandro A. (2016), Assessing the Juncker Plan after one year, Bruegel blog post, May 17, Brueghel 2017. Available at <http://bruegel.org/2016/05/assessing-the-juncker-plan-after-one-year/>.

allocations. The level of the current crisis in public opinion has created a sense of urgency. The relaunch of the European project has a window of opportunity that might last at most until the second semester of 2020:

- ✓ March 2019 – definitive exit of the United Kingdom from the EU;
- ✓ June 2019 – election of the new European Parliament;
- ✓ July 2019 – approval of the new Commission;
- ✓ February 2020 – beginning of the preparation of the 2021 budget, the first post-2020 MFF.

This situation has stimulated the institutions, European leaders and scholars to advance proposals, suggestions, and ideas. The following paragraphs do not constitute a summary of the various positions but merely outline some of them.

### *Vision*

The vision of an integrated EU with a single currency, common policies and an external policy has somehow lost its appeal in recent years. Europe is very much felt as unenthusiastic business as usual, with a technocratic approach, without a soul, oriented more towards the market than towards society and citizens. Some of the advantages for consumers – e.g. the abolition of roaming fees in telecommunications and the reduction of fees for credit card transactions – have only been appreciated by relatively small numbers of citizens who have received the direct benefit from these measures. The benefits of an open market and of competition, which offers better prices to consumers, are often considered a threat from big companies to small family businesses.

The loss of attractiveness of European values is reflected in the increase in the influence of anti-European, Euro-sceptical and Euro-critical positions, on both the national and European scenes. This has caused a reaction from a number of European leaders who now see their own political survival at risk. The outcome of the British referendum in June 2016 reinforced the opinion that the very existence of the EU cannot be taken for granted, and its disintegration is a risk not to be underestimated. The attitude of some of the EU countries challenging the fundamental values of the EU, e.g. respect for

democratic principles and solidarity, has increased the mistrust among the Member States.

First scholars and then some European leaders and institutions have understood that only a reform of the EU can revive and relaunch the European project. The second part of this chapter will present the state of play of some of the proposals to relaunch the European project.

### What Institutions think

A reform/relaunch of the European Union was on the agenda of the EU institutions well before June 2016, the date of the British referendum. In fact, if the European leaders had been ready to make progress on the agenda of reforms the British referendum may have had a different outcome. The UK exit in March 2019, independently of the transitional period and the end of the multiannual financial framework, obliges the Member States to think of the future of the EU.

### *The Member States*

Shortly after the British referendum, in September 2016 the 27 remaining Member States paved the way for a reform with the Bratislava Declaration,<sup>20</sup> which sets out a roadmap for continuing with the European project and committing “to offer to our citizens in the upcoming months a vision of an attractive EU they can trust and support.” In March 2017 on the anniversary of the signing of the EC Treaty, the Rome declaration<sup>21</sup> followed this declaration.

The fact that this discussion has arrived on the agenda of the European Council proves that reform of the EU is no longer a fantasy of old federalists or scholars. The Rome declaration, adopted by all 27 heads of state and governments is very clear: “today’s

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<sup>20</sup> Bratislava Declaration, 19 September 2016. Available at <http://www.consilium.europa.eu/media/21250/160916-bratislava-declaration-and-roadmapen16.pdf>.

<sup>21</sup> Rome Declaration, signed by the 27 Member States and the Leaders of the European Council, Commission and European Parliament, 25 March 2017. Available at [https://europa.eu/european-union/eu60\\_en](https://europa.eu/european-union/eu60_en).

agenda is ... to become tomorrow's reality." The agenda is composed of four main items. Europe is to become: a) safe and secure; b) prosperous and sustainable; c) social; and d) stronger on the global scene.

The Bratislava and Rome declarations also have a secondary diplomatic and strategic scope, to present a united Europe to prepare the negotiations for the exit of the United Kingdom, a scope which does not reduce the importance of the political commitment.

### *The European Parliament*

Already in December 2016, the European Parliament adopted a resolution on the possible "evolutions of and adjustments to the current institutional set-up of the European Union"<sup>22</sup> and a second one in January 2017 on "improving the functioning of the European Union building on the potential of the Lisbon Treaty."<sup>23</sup> On the basis of these two reports, the committee responsible (Constitutional Affairs) is holding debates on various aspects of the future of Europe with a view to presenting a motion for resolution to the plenary. In this context, the EP launched a series of debates with heads of government on the future of the European Union<sup>24</sup>. The Parliament also started a reflexion on the next MFF beyond 2020 and in March 2018 voted for a report "Preparing the Parliament's position on the MFF post-2020."<sup>25</sup> While the two resolutions have some ambitions to enhance the procedure to relaunch the European project, the resolution on the MFF limits itself to maintaining traditional policies and to

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<sup>22</sup> Resolution 20/12/2016 on possible evolutions of and adjustments to the current institutional set-up of the European Union, Guy Verhofstadt, A8-0390/2016. Available at <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2f%2fEP%2f%2fTEXT%2bREPORT%2bA8-2016-0390%2b0%2bDOC%2bXML%2bV0%2f%2fEN&language=EN>.

<sup>23</sup> Resolution xx/01/2017 on improving the functioning of the European Union building on the potential of the Lisbon Treaty, Mercedes Bresso, Elmar Brok, A8-0386/2016. Available at <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P8-TA-2017-0049>.

<sup>24</sup> With Leo Varadkar, Taoiseach of the Republic of Ireland, in January 2018; Andrej Plenkovic, Croatian Prime Minister, in February 2018; António Costa, Prime Minister of Portugal, in March 2018; Emmanuel Macron, French President, in April 2018.

<sup>25</sup> European Parliament, Preparing the Parliament's position on the MFF post-2020 March 2018, available at <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+P8-TA-2018-0075+0+DOC+PDF+V0//EN>, and Reform of the European Union's system of own resources, March 2014, available at <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+P8-TA-2018-0076+0+DOC+PDF+V0//EN>.

requesting more resources to adequately finance the new challenges. No effort at prioritization was made.

### *The Commission*

The Commission is fully playing its leadership role in this matter. It considered the Bratislava and Rome declarations to constitute a mandate to open an in-depth reflection on the future of Europe. The strategy put in place by the Commission was very effective. The Commission was able to build up a vision based on a number of documents, presenting options for the Member States to decide, but at the same time being sufficiently outspoken to present its own vision.<sup>26</sup>

The Commission leadership was also bound by an obligation to put forward a proposal for the renewal of the multiannual financial framework beyond 2020. It presented a communication in February 2018<sup>27</sup> and followed this with a proposal on 2 May with a very ambitious calendar.<sup>28</sup> It has a clear timeline. By the end of its term in June 2019, with the formalization of the UK's exit from the EU in March 2019, the Commission will do whatever it takes to have the future MFF adopted before the election for the new European Parliament and for the approval of the new Commission.

Two strategic elements in the Commission's approach are worth mentioning: an opposition to any form of differentiation and the financing of new challenges, with options to reduce the costs of some of the traditional policies.

The following sections will present comments on the Commission's options and procedure.

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<sup>26</sup> The full set of Commission documents on the Future of Europe is available at [https://ec.europa.eu/commission/white-paper-future-europe-reflections-and-scenarios-eu27\\_en](https://ec.europa.eu/commission/white-paper-future-europe-reflections-and-scenarios-eu27_en).

<sup>27</sup> Commission, Communication on a new modern MFF for an EU that delivers efficiently on its priorities post 2020, com(2018) 98, February 2018.

<sup>28</sup> The Multiannual Financial Framework 2021-2027. A Modern Budget for a Union that Protects, Empowers and Defends. COM (2018)321.

## What Political leaders think

The European leaders represent the diversity of the European scene. This section will briefly sketch some of the various positions that they hold. These positions, which were presented at the end of 2017 and the beginning of 2018,<sup>29</sup> often represent starting points and tools for future negotiations.

Beata Szydło, the former Polish PM, supports the supremacy of national parliaments over EU decisions, supporting the idea of differentiated integration. In the same tone, the Hungarian Deputy Prime Minister, Zsolt Semjén, rejects European decisions on the migration issue, in order to defend European values based on Christian civilisation.

On the opposite side, the French President, Emmanuel Macron<sup>30</sup>, presented a 360° agenda to reinforce and reform the EU. He highlighted concrete areas for reform. Among others, these include migration policy, a digital agenda, a budget financed with European taxes on the digital area and on the environment, and a new and more democratic governance of economic and monetary union, introducing an EU finance minister who would also oversee a Eurozone budget and chair Eurogroup meetings. In his speech on the future of the union at the EP, President Macron made a vibrant plea for greater European integration: “I do not want to be part of a generation of sleepwalkers.”<sup>31</sup>

Angela Merkel and Martin Schultz have also delivered a government programme for Germany fully committed to the reinforcement and reform of Europe.

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<sup>29</sup> Most of the positions in this section are taken from public interviews on different media, and cannot be referenced.

<sup>30</sup> Emmanuel Macron, Initiative pour l'Europe - une Europe souveraine, unie, démocratique, Paris, 26/9/2017.

Available at <http://www.elysee.fr/declarations/article/initiative-pour-l-europe-discours-d-emmanuel-macron-pour-une-europe-souveraine-unie-democratique/>.

<sup>31</sup> Emmanuel Macron, Future of Europe, European Parliament, 17/4/2018. Available at <http://www.elysee.fr/declarations/article/discours-du-president-de-la-republique-au-parlement-europeen/>.

In a speech on the future of Europe delivered to the EP,<sup>32</sup> Leo Varadkar, Irish PM, focused on four points: a) the EU continuing to do well what it currently does well; b) focusing on the big new challenges facing Europe and its citizens; c) where appropriate, devolving some powers back to the Member States, municipalities and regions; and d) engaging citizens more and engaging in more direct democracy.

Mr. Kurz, chancellor of Austria, has a motto ‘united in diversity.’<sup>33</sup> He wants to revive subsidiarity and underlines a necessity of the EU focusing more on the big issues, such as more cooperation on foreign, security and defence policy and proper protection of the EU’s external borders. He has an equally clear stance on the EU’s economic competitiveness.

In a very pragmatic way Mr. Rutte, the Dutch PM, considers that Europe should respond to the new challenges but with no increase in budget contributions. This is a position shared by other net contributors (e.g. Austria, Denmark and Sweden).

These short overviews aim to give an, albeit superficial, idea of the complexity of the negotiations which will occupy the political agenda over the next months or maybe years. To conclude, the leaders in power will sit around the same table and, in principle, they should conclude the negotiation with a compromise acceptable to everyone, a compromise that could include the recognition of differentiated integration for a group of Member States.

### What think tanks think

To conclude this part concerning Europe today, I would like to draw attention to the work of think tanks and scholars on reform of the EU. It would be pretentious to try to select articles and summarise them, and this would be incompatible with the length and

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<sup>32</sup> Leo Varadkar, Future of Europe, European Parliament, 17/1/2018. Available at <https://www.finegael.ie/speech-taoiseach-leo-varadkar-t-d-european-parliament-strasbourg/>.

<sup>33</sup> H. Vytiska, Austria’s Sebastian Kurz – conservative and pro-European, EurActiv, November, 2017. Available at <https://www.euractiv.com/section/future-eu/news/austrias-sebastian-kurz-conservative-and-pro-european/>.

objective of this paper. I will instead limit myself to drawing attention to a publication by the EP Research Service which references more than 40 articles published in 2017 by think tanks or scholars.<sup>34</sup> Among the many publications, I think it useful to draw attention to two initiatives which cover most of the European countries.

A Chatham House survey conducted in 10 countries polled 10,000 members of the public and 1,800 of Europe's 'elite' in positions of influence.<sup>35</sup> Among other things, the survey concludes that:

- there is alignment between the two groups in their attitudes to, among other things, EU solidarity, EU democracy and a sense of European identity.
- there is a pronounced divide between more liberal- and authoritarian-minded groups, particularly on issues of identity.
- There is a lack of consensus among the elite on important questions about the direction of the EU. While the elite overwhelmingly feel they have benefited from the EU, they are far from united in their attitudes to further integration.

A second initiative covering the whole of Europe is New Pact for Europe. This group promoted a Europe-wide debate on reform proposals with more than 80 events in 17 EU countries, with the support of national reflection groups created specifically for this purpose in ten EU countries (Belgium, Estonia, Finland, France, Germany, Greece, Italy, Poland, Portugal and Slovakia) and with transnational exchanges between these groups. I conclude this section with the words of Hermann Van Rompuy:<sup>36</sup>

*We will fail to find an agreement if we cannot combine solidarity with security and responsibility. Tensions are surmountable on one condition: we need the political will and leadership to overcome them.*

Hermann Van Rompuy,  
Chair of the New Pact for Europe advisory group.

<sup>34</sup> M. Grajewski, 'The European Union's future: a survey of public opinion', available at <https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2017-06-20-future-europe-attitudes-raines-goodwin-cutts-final.pdf>.

<sup>35</sup> T. Raines, M. Goodwin, and C. Cutts, 'The European Union's future: a survey of public opinion', Chatham House, June 2017. Available at <https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2017-06-20-future-europe-attitudes-raines-goodwin-cutts-final.pdf>.

<sup>36</sup> New Pact for Europe: Re-energising Europe A package deal for the EU27, November 2017. Available at [https://www.newpactforeurope.eu/documents/new\\_pact\\_for\\_europe\\_3rd\\_report.pdf?m=1512491941](https://www.newpactforeurope.eu/documents/new_pact_for_europe_3rd_report.pdf?m=1512491941).



This section has described Europe today from the perspectives of governance, delivery and vision. The following section will look backwards, at lessons that can be learned from previous reforms.

## Lessons Learned

Following the excursus on Europe today, this section will look backwards and analyse how the European project was relaunched in the past, sometimes after crises, sometimes with a new will for European progress. The lessons learned in the past should serve as inspiration for the future, and help to avoid, or at least limit, errors. The section will highlight some of the institutional steps taken in the last sixty years which have contributed to the reinforcement of the European project.

### The Institutional crisis of the 1970s

Following the enthusiasm for the creation of the Common Market in 1957 and the launch of the first agriculture regulations in 1962, a wind of crisis started to blow in Europe. Some farmers felt marginalised, as the CAP initially concerned only a limited number of products. Furthermore, public opinion and national parliaments came to realise that one Member State, France, was the real beneficiary of the new common policy. The financial resources needed for the CAP increased with the necessity of creating mechanisms to control expenditure. At the same time, national parliaments and public opinion raised their voices in favour of a more democratic institutional process, especially given that some competences had been shifted from the Member States to the European level.

An increase in EEC democratic accountability became the point of confluence of all the tensions among public opinion, farmers, the national parliaments and the diplomatic circles of the Member States. Most of the members of the European Assembly had a dual mandate and were very active in their national parliaments requesting a reinforcement of the competences of the European Assembly.

In 1962, the Common Assembly, decided autonomously, and against the Treaty, to change its name to the European Parliament. The change of name did not of course modify its competences but its significance was not only semantic, as an assembly discusses and a parliament decides.

The background to the crisis was a clash over different conceptions of Europe and of the role of the CAP between France and the other five Member States. In addition, “at a

deeper level, the conflict was about leadership.”<sup>37</sup> The Council reacted to the crisis and gave a mandate<sup>38</sup> to the Commission to submit proposals for the financing of the CAP.

Walter Hallstein, President of the Commission, felt that all the problems could be solved with an ambitious package, the first in EEC history, containing proposals for the creation of an own resources mechanism, financing of the CAP and strengthening of the competences of the Assembly.

The Commission’s proposals provoked a wide debate in the capitals of the Member States and among the institutions, and the first institutional crisis, which led France to withdraw its delegation from all European meetings (the ‘empty chair’ crisis), a sort of Frexit.

#### The Gentlemen’s (dis)agreement of 1965<sup>39</sup>

The so-called Luxembourg agreement was reached in February 1965. It marked the end of the ‘empty chair’ crisis. Member States were recognized to have the right to disagree when “very important interests were at stake.” The Council should seek a solution that could be unanimously agreed on, creating a *de facto* right of veto for each Member State, independently of the provisions of the rules of law.

The Luxembourg compromise was a typical example of ‘soft law.’ It had no legal status but became a sort of political ‘*modus vivendi*’ but was particularly disruptive for the whole Community as the ‘veto culture’<sup>40</sup> started to take root in the institutions. The notion of *very important interests* was sufficiently ambiguous to leave the Member States the possibility of using this veto power whenever they wanted. This became a deterrent which changed the nature of the interinstitutional relations. The veto became

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<sup>37</sup> Piers Ludlow, ‘Challenging French Leadership in Europe: Germany, Italy, the Netherlands and the Outbreak of the Empty Chair Crisis of 1965-1966’, *Contemporary European History*, vol. 8, no 2, July 1999, Cambridge University Press, pp. 231-248.

<sup>38</sup> See Conclusions of the Council 15 December 1964. Secrétariat Général, Bruxelles. 1701 f/64 (AG 512), available at

[http://www.cvce.eu/obj/communiqué\\_de\\_presse\\_du\\_conseil\\_de\\_la\\_cee\\_bruzelles\\_15\\_décembre\\_1964-frf85f4923-4a12-4d32-bbdf-9773e446da3c.html](http://www.cvce.eu/obj/communiqué_de_presse_du_conseil_de_la_cee_bruzelles_15_décembre_1964-frf85f4923-4a12-4d32-bbdf-9773e446da3c.html).

<sup>39</sup> The full text is in the EEC Bulletin of March 1966, 3, p. 5.

<sup>40</sup> Teasdale, A ‘Life and Death of the Luxembourg Compromise’, *Journal of Common Market Studies*, 1993, no. 31, p. 567; and Westlake, M. ‘The Council of Ministers of the European Union’, Catermill, 1995, p. 104.

a powerful political bargaining tool in the Council negotiations. Even without legal status, the Luxembourg compromise lasted several decades. Over the years, several declarations called for a stricter application of the Treaty voting rules, but often they remained inoperative.

The Luxembourg compromise inspired the Amsterdam Treaty,<sup>41</sup> in which an ‘emergency brake’ was introduced in the area of Common Foreign and Security Policy, enabling Member States to block majority voting for “important reasons of national policy.”

It was only with the enlargement in 2004 that the Luxembourg compromise became less relevant, as the operating procedures, with 26 MS and then 28, made it necessary to follow stricter rules. The lesson to be learned from this crisis is that soft law can help to stop an even more serious crisis and this can have an impact well beyond the rule of law.

### The 1970 & 1975 Treaties

The problems of the mid-sixties were not solved with the Luxembourg compromise. A more stable solution emerged with the treaty changes of 1970 and 1975, called the Budgetary Treaties.

The Commission proposed<sup>42</sup> a mechanism to guarantee the financial autonomy of the communities and the parliament’s involvement on the revenue side of the budget. The proposal adopted a resolution by the Parliament<sup>43</sup> for a modification of art. 201 of the EC Treaty. The new article provided a procedure to create new taxes to contribute to the EEC Budget. To honour the principle of ‘no taxation without representation,’ the last word on the establishment of the new taxes was assigned to the Parliament. Following a unanimous vote in the Council, the Parliament could approve (or reject) the new own resources with a double majority (a majority of the members and two thirds of the votes cast). The proposal foresaw a reinforcement of the Parliament’s competences once the

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<sup>41</sup> Title V of the Treaty on European Union, 1997.

<sup>42</sup> OJ C 123, 19.09.1969, p. 24; OJ C 152, 28.11.1969, p. 32.

<sup>43</sup> Résolution du 10/12/1969 sur l’institution de ressources propres aux Communautés et à l’accroissement des pouvoirs budgétaires du Parlement européen, Historical Archive of the EP, PEO AP RP/BUDG. 1967 A0-0174/69 0001, OJ C 2, 08/01/1970, p. 13. Spenale report, HAEP, PEO AP RP/BUDG.1967 A0-0174/69 0010.

EC's financing was totally covered by own resources. The Parliament would have the final approval of the budget, as in most of the national parliaments.

This proposal was accepted by five delegations, but France firmly opposed it at the Council meeting in December 1969 and finally the French delegation presented a new proposal in January 1970.<sup>44</sup> This introduced the concepts of compulsory and non-compulsory expenditure and opened EP participation in the budgetary procedure. These principles were accepted by all the delegations and translated into the Treaties of 1970 and 1975.

### The mid-1980s crisis

A turbulent period started after the first direct election of the European Parliament in 1979. The EP became an aggressive actor in the institutional triangle. Its rejection of the budget in 1980 was the first of a series of battles to increase its influence. The elections of François Mitterrand in France and later of Helmut Kohl in Germany revived the Franco-German motor of Europe, which led to an increase in financial resources (1983) and a plan to enlarge the EEC competences. UK opposition to the reforms was mitigated by a generous agreement on a UK rebate and the prospect of a single market, which Margaret Thatcher probably expected to be based more on de-regulation than on super-regulation. The decision to enlarge the EEC to Greece (1981) and Spain and Portugal (1986) changed the social, political and economic dimension of a Europe that was no longer composed of a majority of developed wealthy northern states. A positive conjunction of elements contributed to a step forward for the European project: the presence, at the helm of the Commission, of Jacques Delors; the presentation of the white paper (1985) for the realisation of the single Market; the contributions given by the Doodge and Adonnino Committees to the future shape of Europe; the decision (1985) by the European Council in Milan, for the first time at majority under art. 236 of

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<sup>44</sup> Minutes of the Council meeting of 19-20 January 1970, p. 112, Council, 566/70, HAEU, CM2 1970, 19.

the EC Treaty,<sup>45</sup> to call an intergovernmental conference, which led to the preparation of the Single European Act. The lesson learned during this period is that strong determined leaders can overcome deadlocks, tensions and crises.

### The Single European Act

The response of the SEA<sup>46</sup> to the crisis and tensions of the mid-80s was innovative in two ways: it created a single space of freedom of movement of goods, persons, services and capital; and it recognised, for the first time in a Treaty, a European social area.

The creation of the single market represented a real step forward in the relaunch of the European project. Europe offered a vision, an objective visible to citizens to be reached in a reasonable timeframe: by 1992. The single market for goods, persons, services and capital was certainly a powerful tool to boost the economy. The richest countries gained the most from it. For this reason, the new Treaty mentioned for the first time the objective of a social area in Europe with the aim of eliminating the imbalances in the Community between the developed regions and the poorer regions and to enhance economic and social cohesion. Its inclusion in the Treaty was then translated into concrete measures with a reform of the structural funds and an increase in financial allocations.

The SEA also contained provisions in the institutional domain, in particular the introduction of a new cooperation procedure for some legislative acts and the establishment of an assent procedure for accession treaties. Political cooperation was consolidated with the creation of a permanent political secretariat, which would later develop into the CFSP.<sup>47</sup>

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<sup>45</sup> Article 236 of the Treaty of Rome provided that a government could request a modification of the Treaty and, with the approval of the Council – without specifying the majority – call a Conference of Representatives of the Governments of the Member States for a revision of the EEC Treaty.

<sup>46</sup> Official Journal of the European Communities, L 169, 29 June 1987. Available at [http://eur-lex.europa.eu/resource.html?uri=cellar:a519205f-924a-4978-96a2-b9af8a598b85.0004.02/DOC\\_1&format=PDF](http://eur-lex.europa.eu/resource.html?uri=cellar:a519205f-924a-4978-96a2-b9af8a598b85.0004.02/DOC_1&format=PDF).

<sup>47</sup> The Delors package: The result of a successful Commission strategy, Special issue Common Market Law Review 25: 483-486, 1988 Kluwer Academic Publishers.

### Soft law: budgetary discipline

The response to the crisis did not only come through the Treaty. A very important change, almost a revolution, arrived through soft law with an interinstitutional agreement on budgetary discipline and improvement of the budgetary procedure.<sup>48</sup> This important interinstitutional agreement was not only an attempt by the institutions to improve their relationships and smooth their procedures. It was a central pillar of the reform launched by Jacques Delors to realise the single market.

The single market would benefit most the richer economies. The new Treaty therefore included a chapter on a social Europe, which could have remained a declaration of principles without practical effects. To raise the level of the game, Delors needed an important increase in financial resources. He set the aim of doubling the allocations for the structural funds. However, the finance ministers were not ready to increase the EU budget in the conflictual climate of the 1980s, especially as all the new expenditures would have been classified as non-compulsory expenditure.

To guarantee the finance ministers that the supplementary allocations would be spent on the new policies without interference by the EP, Delors proposed a mechanism to go beyond the provisions of the 1970 and 1975 Treaties. This mechanism was formalised into an interinstitutional agreement.

This first agreement on budgetary matters contained two pillars: financial programming by categories of expenditure, with pre-defined annual ceilings and provisions to revise them; and an application of budgetary discipline to all expenditure. These concepts were unknown to the Treaty.

With the five-year financial planning, expenditure was divided into five categories, beyond the CE-NCE distinction. Each category had a ceiling that could only be surpassed with co-decision. In practical terms, this represented a double loss of power for the EP. The rules in the Treaty foresaw two categories of expenditure (CE-NCE) with clear competences; the IIA foresaw five categories. The EP was not even allowed to move allocations between categories. In a second limitation, the EP committed to not

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<sup>48</sup> Official Journal of the European Communities No. L 185 p. 33 of 15.7.88.

amend certain categories of non-compulsory expenditure for a number of programmes<sup>49</sup> accounting for about 45% of NCE.

In spite of the reduction in its competences, the EP was enthusiastic about this agreement, mainly for two reasons. First, the mechanism to determine the annual maximum rate of increase (MRI) of NCE, which had been at the origin of most of the conflicts during the previous decade, became obsolete. In fact, the IIA foresaw the automatic acceptance of the MRI on condition that the ceilings in each category were respected. Second, the EP saw an opportunity to become a more respected counterpart to the Council.

Beyond the details of the procedure, several lessons can be drawn from the crisis of the 1980s. There was: a presence of leaders ready to do everything possible to reach their objective (e.g. the Fontainebleau agreement on the UK rebate); a capacity (of the Commission) to build win-win packages; pragmatism in the use of the rules of law, with a new Treaty, or a simple gentlemen's agreement, whose implications were not formal but substantial. The IIAs were very successful tools which permitted a smooth development of the annual procedure, with solutions to micro conflicts within the procedures of interinstitutional dialogue.

### **From the snake in the tunnel to the treaty of Maastricht**

Volatility of exchange rates among the Member States of the EC was not only a cause of headaches for governors of central banks but a source of distortion in the common market, in particular of the first common policy (agriculture). Although monetary union was not an objective of the Treaty of Rome, it envisaged a closer coordination of national economic policies (Articles 103–108) with the aim of giving stability to exchange rates. Various efforts, from the two Barre plans to the Werner plan,<sup>50</sup> could not offer an acceptable balance between the 'monetarists,' who wanted monetary union to make the

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<sup>49</sup> The programmes which the EP could not amend were Structural Funds, the Specific Industrial Development Programme for Portugal (PEDIP), the Integrated Mediterranean Programmes (IMPs) and the Research-Technology-Development (RTD) framework programme.

<sup>50</sup> See CVCE: *Les plans d'intégration économique et monétaire*. Available at <https://www.cvce.eu/education/unit-content/-/unit/7124614a-42f3-4ced-add8-a5fb3428f21c/3f1b01bb-eb36-4af4-a2ab-3444f7dd50b7>.



economic policies converge, and the 'economists' who wanted economic union to precede monetary union. Following the monetary chaos created by the US decision to suspend US\$/gold convertibility, the EC, led by the French president Pompidou, agreed with the US government and the representatives of the other industrialized countries<sup>51</sup> to reinforce stability<sup>52</sup> by reducing the fluctuation of currencies within a limit of 4.5% (tunnel). The EC agreed to reduce the fluctuation margin for the currencies of the EC countries to within 2.25% (the snake).

In 1973 the 'snake' mechanism failed due to the oil crisis, but the momentum to make progress was still alive. Proposals came in the mid-seventies from the Commission (Jenkins), and from Giscard d'Estaing and Schmidt. The European Monetary System (EMS, 1979) created the European Currency Union, a basket of currencies of the eight countries<sup>53</sup> which adhered to the EMS, which can be considered a prelude to the euro. The commitment to the EMS produced a reduction in inflation and a beginning of convergence of interest rates.

The ECU experiment was more positive than the 'snake.' The doubling of the structural funds, decided in the framework of the Single Act, also produced positive effects. This positive evolution and the need to take a step forward to phases II and III of EMU in December 1989 convinced the European Council<sup>54</sup> to call an intergovernmental conference to revise the Treaty, to move to the second and third stages, and implement economic and monetary union. The fall of the Berlin wall just one month before the European Council favoured a positive attitude toward this move. The Treaty on the European Union was signed in December 1991. The Treaty provided for the introduction of a monetary policy (Article 3a TEU) implemented by a single and independent central bank (Article 4a TEU), with price stability as a primary objective. It provided the legal grounds for the establishment of a single currency, the ECU (Article 3a TEU). Finally,

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<sup>51</sup> Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden and the United Kingdom.

<sup>52</sup> Danescu E., *Le serpent monétaire*, CVCE.EU by UNILU. Available at [http://www.cvce.eu/obj/le\\_serpent\\_monetaire-fr-58a87b5a-8898-45d4-96f6-f93d69652e33.html](http://www.cvce.eu/obj/le_serpent_monetaire-fr-58a87b5a-8898-45d4-96f6-f93d69652e33.html).

<sup>53</sup> Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg and the Netherlands. The United Kingdom and Greece postponed their entry into the club.

<sup>54</sup> Conclusions of the European Council, 8-9 December 1989. Available at [http://www.consilium.europa.eu/media/20577/1989\\_d\\_cembre\\_-\\_strasbourg\\_fr.pdf](http://www.consilium.europa.eu/media/20577/1989_d_cembre_-_strasbourg_fr.pdf).

the Treaty set convergence criteria which each Member State had to meet in order to participate in the third stage of economic and monetary union (EMU).

The lesson learned was that the Member States felt the necessity of reinforcing their economies to stabilise the exchange rate and finally start the preparation for the single currency. The convergence criteria inserted in the Treaty did not foresee a rigid monitoring mechanism but its implementation was left to the political good will of the Member States, which would create instability and tensions in the future years. This shows that external challenges can favour a step forward to reinforce the European project.

#### [The modest achievements of the Amsterdam and Nice Treaties.](#)<sup>55</sup>

If the aim of this chapter is to draw lessons for the future from previous steps, the Amsterdam and Nice Treaties can only have a short mention.

It is difficult to demonstrate any progress of the European project realised through the Amsterdam treaty. It was more a consolidation of a number of issues already present in other Treaties or practices than real progress in European construction. Weiler describes the Treaty as a “series of modest achievements, a series of modest failures.”<sup>56</sup> Among the achievements we can note an extension of co-decision and a recognition of the role of the European Parliament in appointing the President of the Commission. The introduction of so-called enhanced cooperation, defined by Weiler as an “example of a failure masquerading as an achievement,” opened the way to differentiated integration, an innovative principle which aims to avoid blockages in the case of lack of unanimity. This principle had also been introduced in pillar I, the European communities, to offer an escape route to Member States in the case of a vote at majority. The modest and marginal use made of this possibility introduced by the Amsterdam Treaty suggests that this tool needed to be reshaped to increase flexibility and to open the way to differentiated integration. The non-adaptation of the institutions to an enlarging

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<sup>55</sup> Moravcsik A. and Nicolaidis, K. *Explaining the Treaty of Amsterdam*, Journal of Common Market Studies, vol. 37, 1, pp 59-85.

<sup>56</sup> Weiler, J.H., Amsterdam the quest for Constitutional Democracy, in O’Keeffe, D. and Twomey, P., *Legal Issues of the Amsterdam Treaty*, Bloomsbury Publishing PLC, 1999.

community, the over-modest progress in the second (common foreign and security policy (CFSP)) and third (police and judicial cooperation) pillars were weaknesses of the Amsterdam Treaty.

History was running faster than the revision of rules. The central and eastern European countries emerging from the fall of the iron curtain were pressing for places in the European club. The Nice Treaty had the objective of adapting the institutions to change the rules conceived for a Europe of six to ones suitable for a Europe of 28. The modifications look relatively technical, but in reality the bigger Member States aimed to increase their relative weight, counterbalanced by a system of majorities. A demographic verification was also introduced to increase the power of the most populated country, Germany. The qualified majority would cover 62% of the population.

In spite of it being apparently technical, a ratification referendum in Ireland rejected the Treaty. The complexity of the subject, a lack of clarity and the various compromises within the Council obscured the simplicity of the message.<sup>57</sup> The risk of reducing democratic control was also mentioned as one of the reasons for the rejection. A declaration by all the Member States acknowledging and confirming that the Nice Treaty would not affect Irish military neutrality was sufficient for a second referendum to be held which endorsed the Nice Treaty, paving the way for EU enlargement.

The lesson learned is that each new Treaty has to pass ratification by national parliaments, and in some cases by referendums. Treaties establish rules of law and are sometimes necessary even if they are not easy to decipher. Through apparently technical rules, treaties can also change the institutional framework. In this case, the communication accompanying the ratification of a treaty in national parliaments or by a referendum should be crystal clear, which probably was not the case with the Amsterdam and Nice Treaties. Enhanced cooperation, pillars I and II of intergovernmental cooperation and the voting mechanisms were all elements of high institutional importance but were often obscured, maybe to avoid public awareness, by the technicality of the rules.

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<sup>57</sup> Murphy, E. *The Nice Treaty and the Irish Referendum: What Values are at Stake*, WP No. 58, Galway University, 2002. Available at <http://hdl.handle.net/10379/1281>.

To conclude, the Amsterdam and Nice Treaties were again missed opportunities to involve more public opinion in the European project. The case of the double Irish referendum, as had already been the case of the Danish referendum on the Maastricht Treaty, shows not only the lack of a clear European message but also a disregard of public opinion. The responsibility lies mainly with the national governments, but a coordinated approach among the Member States (e.g. a quorum for participation) could ease the process.

The frustration at the meagre outcome of the (Amsterdam and) Nice Treaty is revealed in the declaration attached to the Nice Treaty<sup>58</sup> calling for “deeper and wider debate” about the future of the EU to “encourage wide-ranging discussion with all interested parties.” This Declaration opened the way for a decade of debates, which were concluded with the ratification and entry into force of the Lisbon Treaty.

### From the Convention to the Lisbon Treaty

The process to relaunch the European project started ambitiously after Nice, and it took almost a decade. It was a very intense period in which Europe came high on the political agenda of each Member State.<sup>59</sup> In the context of this section, it is worthwhile to briefly analyse the method followed to find which lessons can be learned from this process.

The European Council<sup>60</sup> accepted the idea of entrusting the preparatory work to a convention to involve not only the Member States but also the national and European Parliaments.<sup>61</sup> The Laeken declaration called for a forum to be created to broaden the

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<sup>58</sup> Treaty of Nice, Declaration 23 [2001] OJ C80/1.

<sup>59</sup> Craig P. *The Lisbon Treaty: Law, Politics, and Treaty Reform*, Oxford Scholarship Online: September 2013 DOI:10.1093/acprof:oso/9780199664955.001.0001.

<sup>60</sup> Laeken Declaration, European Council, 14–15 December 2001. Available at <https://www.consilium.europa.eu/media/20950/68827.pdf>

<sup>61</sup> The convention on the future of Europe, which began work in March 2002. It was chaired by Valéry Giscard d’Estaing, with two Vice-Chairmen, Giuliano Amato and Jean-Luc Dehaene. There was one representative from each of the 15 Member States, 30 members of national Parliaments, two from each Member State, 16 members of the European Parliament (MEPs) and two Commission representatives.

public debate on the future of the Union. The reform of Europe was certainly more present in the media even if, with some exceptions, there was no public debate.

The European Council appointed three former prime ministers as chairs, Giscard d'Estaing, Dehaene and Amato, and several foreign affairs ministers represented their governments. The institutions involved and the level of representation was a guarantee of willingness to achieve real progress, which was necessary since the EU was on the eve of the most important enlargement in its history.

The timeline set by the European Council for the convention was relatively short, considering the number of participants. The final report was expected by June 2003, a deadline that was respected, but at a cost. The final decisions on the texts and amendments, in particular those related to the institutions, were taken directly by the Presidium (and its Secretariat, which played an important role), without discussions on the various amendments and without the endorsement of either the working groups or of the plenary. The text was then presented to the European Council in June 2003.

The IGC unravelled the text of the convention, leaving important institutional points open for the European Council of December 2003. Simply noting that it was not possible “to reach overall agreement on a draft constitutional treaty at this stage,” the IGC continued its search for a compromise. It is interesting to note that in the middle of the discussions concerning the rebalancing of the votes in the Council and the rules for a qualified majority, which opposed France and Germany on one side and Poland and Spain on the other, a number of ministers of finance sent a letter proposing to cap EU expenditure for the financial framework after 2007, which would have had an effect on all the net beneficiaries from the EU Budget, particularly Poland and Spain.

The compromise text presented by the Irish Presidency was then endorsed by the European Council in June 2004.

The lessons learned from this phase: the convention had the merit of raising the debate on the reform in all countries, creating ownership of the European project. The organization of the debate into working groups producing a final report was also useful to speed up the work and oblige the various components to look for compromises. One of the weak points was the disproportion in the representation. A number of

heavyweights (the foreign affairs ministers of the larger countries) made the convention a prefiguration of an IGC. Other elements were the timeline and the obligation to achieve a result in view of the enlargement. If a strict deadline was positive to oblige decisions to be taken, it also obliged the Presidium to take the last and most important decisions alone, against the spirit of the convention. However, the weakest point of this method was that the IGC decided to reopen the discussion on the text. Even if a limited number of Member States were ready to accept the entirety of the text, the majority of MS pressed to reconsider certain provisions, among which was all the institutional part. The work of the convention was in any case not without use and on many points, except in the institutional domain, its outcome later became the basis for the Treaty, but the draft constitution which went to the ratification process was the result of a classic obscure intergovernmental negotiation.

I will not expand on the subsequent phase of ratification, which was blocked<sup>62</sup> halfway through by negative votes in France and the Netherlands. A lucid comment by Andrew Moravcsik in 2005 highlights the motivation for the rejection in the referenda in three points, which are still valid nowadays.<sup>63</sup>

First is ideological extremism. The centre supported Europe, while the extreme right and left, which now account for almost one third of the French and Dutch electorates, voted “no.” Second is protest voting against unpopular governments. Third, and most important, is a reaction against the insecurity felt by poorer Europeans. Whereas business, the educated elite and wealthier Europeans favoured the constitution, those fearful of unemployment, labour market reform, globalisation, privatisation and the consolidation of the welfare state opposed it. Today these concerns dovetail with the perceived economic and cultural threat posed by Muslim immigration.

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<sup>62</sup> Fifteen Member States suspended the ratification procedure after the rejection in France and the Netherlands.

<sup>63</sup> Moravcsik, A., *Europe without Illusions: A Category Error*, 112 Prospect, 2005. Available at <https://www.prospectmagazine.co.uk/magazine/europewithoutillusions>.

The solution to arrive at the Lisbon Treaty from the rejection of the draft constitution was a master class in diplomacy. There was no public discussion, but the insertion, especially on the cover page, of a catalogue of amendments which were impenetrable for the public, and a commitment to speedy ratification. Not even the rejection in the Irish referendum changed the Treaty, which the Irish people then adopted in a second referendum.<sup>64</sup>

As a result, the Lisbon Treaty introduced important changes like an extension of the legislative competences of the European Parliament, compensated with a reduction of its powers in the budgetary domain.<sup>65</sup> The new Treaty outlines a Europe far from the federal dreams of the founding fathers and others. It reinforces the role of the capitals and of the national parliaments, setting a limit to 'ever closer Union.'

All these lessons have to be borne in mind when it comes to future revisions.

### **The momentum for the reforms**

A complex organisation like the EU is difficult to reform and it is hard to overcome path dependency, but a number of conditions create a favourable situation for a change. For the first time since the Single European Act and the launch of the euro, there is a real opportunity to relaunch the European project. Reform of the EU is at the top of the agendas in many capitals and the Commission has taken the lead.

#### *Reforms on the political agenda*

The President of the Commission is leading the path to reform, on a double track. On the one hand he is offering a number of options to the Member States, but on the other he is also indicating his line for the future of Europe, as described above.

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<sup>64</sup> The first referendum on the Treaty of Lisbon was held on 12 June 2008 and was rejected by the Irish electorate by a margin of 53.4% to 46.6%, with a turnout of 53%. The second referendum was held on 2 October 2009 and the proposal was approved by 67.1% to 32.9%, with a turnout of 59%.

<sup>65</sup> Benedetto G., *Power, money and reversion points: the European Union's annual budgets since 2010*, Journal of European Public Policy, DOI: 10.1080/13501763.2016.1154589. Available at <http://dx.doi.org/10.1080/13501763.2016.1154589>

French President Macron also sets an articulate and pragmatic vision for Europe 2024, which is not necessarily linked to the Treaties. Further to reform of the Eurozone, “the heart of Europe’s global power,” President Macron advocates for a more protective Europe, with defence, security, border management, and a reinforcement of its international trade. He clearly expresses himself for closer integration with multiple speeds.

The new German government has put Europe at the centre of its programme, also indicating the possibility of a multi-speed Europe, reinforcement of the Eurozone with more strict respect for the economic parameters and using EU funds to support structural reforms in Member States.

The Hungarian and Polish prime Ministers have expressed quite different views. President Orban says that Europe “must abandon the illusion of federalism,” and that Europe is a “community that does not believe in its own future, and therefore there is no place for it in the future.” This is a position difficult to reconcile when unanimity is needed. All these ideas are already on the tables of chancelleries and soon negotiations will start.

These examples indicate that EU reforms are on the agenda of each head of state or prime minister, even if the positions remain distant.

Reforms are not the only alternative. Two major risks threaten the relaunch of the European project: the temptation that to defeat populism it is sufficient to be less populist; and the attitude of minimising the problems, looking for the usual low-profile compromise. This latter is an approach that the Brussels bubble might tend to inspire. Both approaches are dangerous, and they would only aggravate the problems.



### *Brexit*

The UK's decision to abandon the project is probably the most powerful driver for reform Europe has had since the beginning of its history. Steiger and Martill<sup>66</sup> rightly consider that Brexit has acted as “a wake-up call to decision-makers and the public to face the reality of Europe's problems and to undertake serious action to identify solutions.” Brexit has already changed the way of thinking about the future of Europe, not only for the United Kingdom but also for the European Member States, institutions, political parties and public opinion. European Leaders must now act upon this.

A supplementary driver for reform is the reduction of EU financial resources of about €12 bn. (variable over the years) which will appear in the EU budget from 2019 onwards, the UK being a net contributor. This lack of resources obliges the Member States to decide among three options:

- a) maintain current policies with an increase in MS contributions;
- b) maintain current policies but reduce their financial support with a linear cut;
- c) Redefine political priorities to free resources for new policies.

The last option may be preferred by the net contributors, but other variables will also enter into this complex negotiation.

### *Geopolitics*

A number of externalities will contribute to the need to reinforce European unity. The USA's new attitude to facing some of the major worldwide problems obliges the EU to

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<sup>66</sup> Martill, B. and Staiger, U. (eds). 2018. *Brexit and Beyond: Rethinking the Futures of Europe*. London: UCL Press. Pag. 260.

revise its positions in a number of areas: the new US approach to defence and the role of NATO; its attitude towards some countries such as Iran; climate change after its withdraw from the Treaty of Paris; and last but not least its attitude towards international trade, with the imposition of tariffs on specific products. The European countries need a new approach to the US which is more independent and autonomous than in the past.

Russia's attitude is also a cause of concern for the European Union. In particular, its actions in Ukraine and Crimea, its approach to energy problems and its actions in Syria and other parts of the Middle East create suspicion and mistrust in the European countries. Here too, a renovated Europe could be the answer to facing up to and cooperating with Russia from a stronger position.

A supplementary externality which requires a stronger and more united Europe is the emerging role of the new economies of Brazil, Russia, India, China and South Africa (BRICS). As the Brics enhance their coordination, a disunited Europe will condemn itself to irrelevance on the world stage.

### *The MFF beyond 2020*

Another element playing in favour of an in-depth-reform is the expiry in 2020 of about seventy regulations – practically all the EU policies which have a financial implication. Of course, this is not a new situation and there is a general expectation and tendency to renew regulations, but this time is different and the new priorities on the table and the pressure of public opinion for a change might breach the path dependency. The MFF beyond 2020 and the legislative package represent the first concrete opportunities to relaunch the European project.

### *Challenges and opportunities*

To conclude this section, Europe is living through a very special period where transnational challenges and the other elements mentioned above could play a role in

reversing the disenchantment on the part of public opinion. The momentum is favourable for launching a new vision for Europe, but momentum is not sufficient by itself to reverse the 'business as usual' approach. The courage of visionary leaders will be necessary. The momentum is probably favourable but the outcome is not guaranteed. The next two years, or less, will be decisive regarding a step in the direction of a new European project. Not all the Member States may be ready to subscribe to it. Enhanced cooperation offers an opportunity to initiate a reform, but it also guarantees the reluctant Member States a possibility to step in. An asymmetric Union could facilitate the beginning of a reform with a limited number of willing Members States. An alternative to differentiated integration is parallel bilateral or multilateral cooperation among the Member States, as mentioned by President Macron – intergovernmental cooperation outside the community method.

Reinforcement of the accountability of EU policies and a more active role of the EP might change the perception of public opinion. The second part of this paper will outline some reforms which could be carried out without a revision of the Treaties and which can be perceived by public opinion as a relaunch of the European project.

## **Part II: Essential reforms to relaunch the European project**

The second and central part of this work will explore some essential reforms which could contribute to relaunching the European project. Why essential? They are essential reforms because it is absolutely necessary to demonstrate the political will of the European Leaders for Europe to change and adapt to its new challenges. They are also essential because they are basic and easy reforms which do not require a Treaty change. Furthermore, they are essential because they will be visible to public opinion – a concrete change demonstrating that Europe is not a dinosaur. However, the fact that these reforms are essential does not mean that they will be easy to achieve. Fierce opposition can be expected from the beneficiaries of measures to be discontinued.

The reforms can be divided into three clusters: a more democratic Europe, a differentiated Europe and policies for Europe 2030. For each of these clusters concrete proposals will be presented.

## **A more democratic Europe**

The literature on the European democratic deficit could fill hundreds of library shelves or thousands of megabytes of a virtual e-library. I have no intention of either summarizing the different positions or ‘creating’ a new ‘pseudo-original’ theory. The existence of the ‘standard version’ of the democratic deficit, launched by Weiler<sup>67</sup> in 1995, has been commented on and extended by many scholars. Some are inclined to think that there is no democratic deficit,<sup>68</sup> while others demonstrate that there is.<sup>69</sup>

A few simple notes on the subject. The European architecture has had an Assembly since the very beginning and a directly elected European Parliament since 1979. During these forty years the EP has acquired some competence in budgetary matters and then full legislative competence regarding most EU legislation on a formal equal footing with the Council. All the EU governments are indirectly legitimized by their national parliaments. The national parliaments are also involved in procedures with formal competences on subsidiarity and political influence. On the basis of these considerations it is difficult to say that there is a democratic deficit, but at the same time we have to recognize a lack of democratic legitimacy in the European process, a deficit of accountability and a lack of political credibility. Redressing all or some of these weaknesses is an essential condition for relaunching the European project. After analysing some of the reasons for the weaknesses, this section will outline three relevant aspects of the European architecture: accountability, relations with national parliaments and the link between representation and taxation.

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<sup>67</sup> J.H.H. Weiler, U.R. Haltern & F.C. Mayer (1995), European democracy and its critique, *West European Politics*, 18:3, 4-39, DOI: 01402389508425089. Available at <http://dx.doi.org/10.1080/01402389508425089>.

<sup>68</sup> G.Maione, Europe’s Democratic Deficit: the question of standards, *European Law Journal* 4(1):273-302. Available at <https://pdfs.semanticscholar.org/6835/9f48ddd18838ac09002584182433885e184f.pdf> ; A.Moravcsik, In defence of the democratic deficit: Reassessing legitimacy in the European Union, *JMCS*, 2002. 40 (4) p. 603-324. Available at <https://www.princeton.edu/~amoravcs/library/deficit.pdf>.

<sup>69</sup> Follesdal, A. and Hix, S., Why There is a Democratic Deficit in the EU: A Response to Majone and Moravcsik, *JCMS* 2006 Volume 44. Number 3. pp. 533–62 DOI: 10.1111/j.1468-5965.2006.00650.x.

### *European Parliament accountability*

The European Parliament represents democracy in Europe, since its direct elections and its legislative and budgetary competences are more important than those for some national parliaments. History has taught us that parliamentary assemblies have never been the preferred institutions of monarchs, who have always tried to limit their influence and considered consulting assemblies more a procedural obligation than part of a real partnership in governing. In spite of the resistance of monarchs, throughout history parliaments have gained powers and respect.

The construction of Europe was no exception. The parliamentary assembly in the Coal and Steel Community and in the early European Economic Community was a mere forum for discussion. The budgetary powers granted by the 1970 and 1975 Treaties were the second-best option to avoid the concession of legislative powers. The EP's budgetary competences remained marginal, regarding only 3% of expenditure. Throughout its existence the European Parliament has fought to extend its influence and competences, a process of empowerment marked by pragmatism, opportunism and long-term vision. Its empowerment came mostly through soft law followed by formalization in the treaties. However, the EP remains weak only because we would like to see it stronger and become the motor of the European project.

The elected Parliament nowadays approves the appointment of the President of the Commission and influences the appointment of the whole college of Commissioners. It has the power to dismiss the executive and it has extended budgetary and legislative competences. After the entry into force of the Lisbon Treaty, Priestley<sup>70</sup> argued that

The long march of the European Parliament to a form of institutional maturity is more or less at an end. The Lisbon Treaty has filled most of the gaps, ironed out some of the inconsistencies and completed the main foundations of what is the parliamentary dimension of Europe's construction.

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<sup>70</sup> J. Priestley, *Six battles that shaped Europe's Parliament*, John Harper, 2008 ISBN-10: 0955620236 ISBN-13: 978-0955620232.

Is this sufficient to make the European Parliament a strong and respected institution?

Since 1979 the European Parliament has been directly elected, but do we really have European elections? This is the first cause of concern undermining the credibility of the EP. Rather than European elections there are 28 national elections to appoint the members of the European Parliament. Except for rare exceptions, the electoral campaigns are based on national issues, often with candidates who have no or little experience or knowledge of European affairs. In the last campaigns, the only parties that ran a 'European' campaign were the anti-European parties.

The absence of a uniform electoral system makes the European elections more similar to national elections. A low-level harmonization of the electoral system was made in 2002,<sup>71</sup> introducing a generalised proportional system in all countries. Nevertheless, the differences remain important, ranging from the types of constituency (regional or national), the existence of electoral thresholds and preference votes or 'closed' party lists.

The EP itself had difficulty in pushing for further harmonisation. A resolution adopted in 2015,<sup>72</sup> despite the modest requests it made to the Council – the introduction of an obligatory threshold ranging between 3% and 5% and the right to vote in European elections for all Union citizens living outside the EU, was adopted by a small majority (315 vs 234).

Another element of weakness is the low rate of participation in European elections, below 43%, which would have been even lower if the anti-Europe parties had not motivated their electorate to vote. It is also particularly alarming that in the most recent

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<sup>71</sup> Council Decision 2002/772/EC concerning the election of the representatives of the European Parliament, OJEU L 238, of 10/21/2002. Available at <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32002D0772&from=en>

<sup>72</sup> Resolution 11 November 2015 on the reform of the electoral law of the European Union (2015/2035(INL)). Available at <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P8-TA-2015-0395>.

democracies of central Europe the turnout is below 20% (CZ, SK) or 30% (HU, HR, SL, PL). There are multiple causes for the lack of interest in European elections. The low turnout is not only a 'privilege' of the European elections but is a generalised phenomenon in many democracies. The turnout for the US Congress election in 2014 was 41.9%, but this cannot be a consolation.

Another feature appearing in many democracies is a growing support for anti-establishment movements denouncing the incapacity of traditional political parties to manage the crisis and to respond to citizens' worries. This phenomenon has increased following the financial crisis of 2008 and it has found a fertile ground in the social, economic and technological division between developed and less developed areas within countries. This tendency has appeared in national elections (GR, IT, DE, AT, FR) and it was also present in the US presidential election and the UK referendum. This has weakened the traditional parties. The presence in the European Parliament of political groups fighting against Europe, or against this Europe, is over 25%.<sup>73</sup> This situation condemns the three groups which form the parliamentary majority of the Commission to vote together, reducing their differences to a minimum.

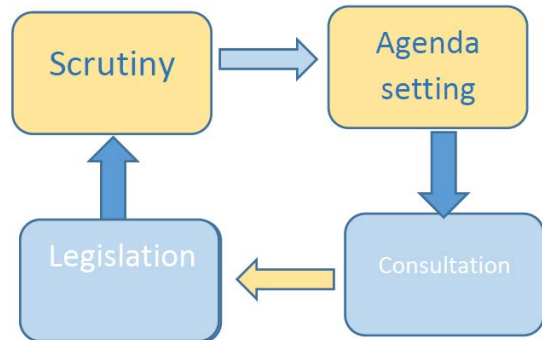
The absence of a European political culture and European identity is something that cannot be solved by either a regulation, a directive or a Treaty change. The current institutional architecture does not help citizens to identify the governments taking and enforcing decisions. The recurrent national narrative, where unpopular decisions are the responsibility of 'Brussels' while the popular ones are the merit of the national government, alienates public opinion from the European project. Europe should do more and protect its citizens, to complement what each Member States does, so that citizens can see the advantages of being part of a wider community. Only this can contribute to the development of a European '*demos*.'

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<sup>73</sup> It is difficult to give exact figures for the diversification of parties within each political group. For an in-depth analysis of votes in the EP see <https://www.votewatch.eu/>.



The vote for the European Parliament, for the time being, does not set the political direction of the European Union. However, it certainly influences legislative decisions. The Parliament has a veto power even on essential moments in EU life (e.g. treaty changes, enlargements, international trade, the financial framework, Brexit etc.) but a substantial equal footing of the two arms of the legislative authority is yet to be reached.



The European Parliament is a legislative body and it has become a global actor in the whole legislative cycle. This is an area where art. 17 of the TEU<sup>74</sup> and ‘soft’ law<sup>75</sup> have modified the balance between institutions, and opened new and partially unexploited opportunities. The traditional right of initiative of the

Commission is diminished by the necessity of “achieving interinstitutional agreements.” The interinstitutional agreement on Better Law-making constitutes the natural structure<sup>76</sup> of cooperation enhancing, *de facto* the role of the EP.

### Proposal

To revive European interest and increase the accountability of the EP, European citizens should see a Europe that protects them and their interests in areas where the individual Member States cannot be so efficient. Their choices in the European Parliament elections should influence a different course of action.

A different presence of European political parties in European elections would be necessary. European parties should offer the electorate different models of the European project according to their ideologies, so that with their votes citizens can

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<sup>74</sup> Art. 17, TEU, the Commission “shall initiate the Union's annual and multiannual programming with a view to achieving interinstitutional agreements.”

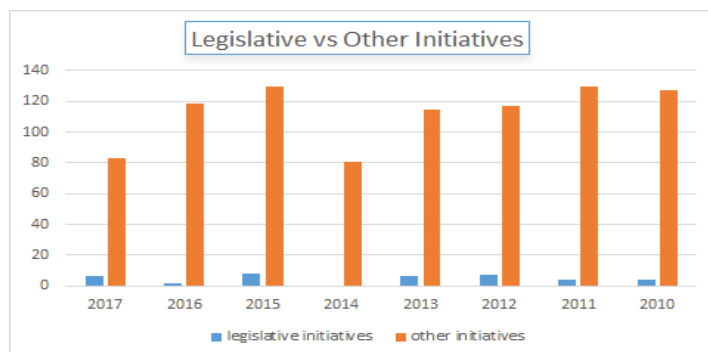
<sup>75</sup> Interinstitutional agreement on Better Law-making, OJ L 123, 12/5/2016. Available at [http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016Q0512\(01\)&from=EN](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016Q0512(01)&from=EN).

<sup>76</sup> L. Tilindyte, The interinstitutional agreement on Better Law-making, EPRS, 2016 PE 579.061. Available at [http://www.europarl.europa.eu/RegData/etudes/ATAG/2016/579061/EPRS\\_ATAG\(2016\)579061\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/ATAG/2016/579061/EPRS_ATAG(2016)579061_EN.pdf).

influence the direction and the model of Europe. Each European political party should define its vision of Europe and agree with the national parties the themes of the campaign for the European elections. The election would then give a sense of direction for the following term.

In this context, even the practice of there being a 'lead candidate' for the Presidency of the Commission should take on another dimension, especially if his/her campaign is made in conjunction with the national leader on European themes. It will be up to each party to define a model of Europe which might attract the interests of citizens.

A shift in the European elections should create a clear majority and an opposition with a different programme, as happens in the national context. The EP should raise the game and increase its visibility beyond legislation, in particular by being more proactive in two phases of the legislative cycle: agenda-setting and scrutiny.



Concerning agenda-setting, The EP should be the voice of EU citizens outside the EU bubble. The Commission maintains the right of initiative, but its role has become diminished, with the EP acquiring a 'soft' right of initiative, which could be exploited in a more proactive way. The table <sup>77</sup> shows the limited

number of legislative procedures initiated by the EP, compared to other initiative reports. Apart from the numbers, with this tool the EP has the possibility of steering the political agenda, gaining more visibility and influencing the direction of the European project. The EP would then be a stronger actor and would enhance the EU's democratic legitimacy.

<sup>77</sup> The table EP Legislative initiatives is an own elaboration based on data in the EP Legislative Observatory.

The second challenge which the EP should rise to in order to complete its role as a global actor in the legislative cycle, is a reinforcement of its monitoring of EU policies, with a capacity to take decisions in cases of weaknesses. This activity, which already exists, is not systematic and it is not valued within the Parliament in spite of the fact that a structure exists, in the EP Secretariat, to support MEPs monitoring the implementation of EU policies. MEPs do not see this activity as politically rewarding, and so it is marginalised. The EP should take concrete measures to make its scrutiny activity more relevant in the plenary, with the possibility of taking decisions which, if necessary, could change the implementation of legislative acts or their delegated acts or implementing measures. EU legislation should be more oriented towards outputs and outcomes, in order to deliver European public goods. Democratic scrutiny of all EU policies should become the fourth phase of the legislative cycle. At present, the European Court of Auditors is somehow filling the gap in the absence of scrutiny by the EP. In November 2017, the ECA launched an audit on EU passengers' rights, with an online survey<sup>78</sup> addressed to citizens. The ECA has certainly played an important role, for instance by insisting on focusing its monitoring on EU policies more on outputs than merely on compliance with the rules. At the same time, the Court has to support the more political work done by the institutions. The legislative authority should structure an interinstitutional procedure to frame scrutiny activity based on ECA reports and other independent assessments. Scrutiny should assume a more prominent role and be part of the legislative cycle. Where necessary, modification of legal acts should be introduced. This would contribute to making EU legislation more efficient and effective and highlighting to public opinion that there is an accountable executive that can pay the consequences for its own responsibility.

### *Relations with the national parliaments*

Relations with the national parliaments is another delicate chapter in the life and organization of the EP. The narrative of a democratic deficit in Europe started when a number of competences were switched from the national to the European sphere and

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<sup>78</sup> European Court of Auditors: audit on passenger rights in the EU. Available at <https://www.eca.europa.eu/en/Pages/NewsItem.aspx?nid=9214>.

consequently they were subtracted from the control of the national parliaments, to the advantage of national (ministries) and European (COREPER and Commission) technocracy. In the sixties and seventies, the national parliaments played a decisive role in obliging their respective governments to expand the competences and role of the European Parliament. During the ratification process of the Treaty of 1965, which merged the administrative structure of the three Communities, the Dutch Tweede Kamer and the Italian Camera dei Deputati<sup>79</sup> invited their respective governments to present proposals to change the budgetary procedure, introducing a genuine own-resource system in order to give the European Parliament the same competences as national parliaments in establishing and monitoring the budget. Both governments consequently acted by following the requests of the majorities in their parliaments.

This strong EP-NPs alliance coincided with a period when members of national parliaments were delegated to the European Parliament. Naturally, these national MEPs became the best ambassadors for the EP in their respective assemblies. Governments were much more sensitive and attentive to requests from their parliaments than to EP resolutions.

After the institution of direct elections and the abolition of the double mandate, the EP and NPs appeared to become more in a competition than in alliance. The EP generously offered logistic facilities to representatives of the various chambers and full access to and transparency for the formal and most of the informal meetings, without any reciprocity. Nevertheless, the European Parliament continues to suffer from an inferiority complex with respect to the national parliaments, while the national parliaments feel a sense of marginalisation in European affairs.

The Lisbon Treaty also recognized and enlarged the role of the national parliaments, which are now formally part of the procedure for adopting new legislation, but limited to a subsidiarity check. Joint meetings between parliaments are organised during the so-

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<sup>79</sup> Council of Ministers, letter sent by the President of the Tweede Kamer (Dutch Second Chamber) to the President of the Council, 14.6.1965, S/560/65, HAEU, BAC 118, no. 36, p. 50. and minutes of the in-camera meeting of the Council, Fanfani/Luns declaration, HAEU, BAC 118/1986, no. 36, p. 54.

called parliamentary week of the European Semester.<sup>80</sup> National parliamentarians from all the European countries reunite with the MEPs to discuss economic, budgetary and social matters and to exchange information on best practices for implementing the provisions of the Treaty, and on cooperation to ensure democratic accountability in the area of economic governance and budgetary policy in the EU, particularly in the EMU. It is extremely rare for these meetings to end with a common position. Other inter parliamentary meetings are organised on specific subjects but even in this case it is more an exchange of information than a coordinated effort to find common ground.<sup>81</sup>

The Lisbon Treaty offers national parliaments the possibility not only of monitoring compliance with the principle of subsidiarity but also of creating a virtual third chamber<sup>82</sup> with “the power to influence legislative outcomes at the EU level” and providing a “new channel of representation linking the citizen with the EU.” This attitude of the NPs to influence legislation largely prevails. In 2017, only 62 reasoned opinions on subsidiarity were delivered against 336 contributions on various legislative acts.

Auel<sup>83</sup> considers that in spite of their stronger institutionalised role in EU legislation, “NPs’ involvement in pre- and post-legislative scrutiny has not yet lived up to its full potential.” The fact that national parliaments could have a potential interest in investing more time in European legislation is definitely a positive feature, provided that they do this in respect of the rules of law and avoid creating institutional over-crowdedness. It is

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<sup>80</sup> The European Semester provides a framework for the coordination of economic policies across the European Union. It allows EU countries to discuss their economic and budgetary plans and monitor progress at specific times throughout the year. More details are available at [https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester\\_en](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester_en).

<sup>81</sup> Details on the Mid-term report 2016: Relations between the European Parliament and EU national parliaments are available at [http://www.epgencms.europarl.europa.eu/cmsdata/upload/832c136e-45fa-4efd-9a84-9332a02422ad/Mid-term Annual Report 2016 Relations with national Parliaments web.pdf](http://www.epgencms.europarl.europa.eu/cmsdata/upload/832c136e-45fa-4efd-9a84-9332a02422ad/Mid-term%20Annual%20Report%202016%20Relations%20with%20national%20Parliaments%20web.pdf).

<sup>82</sup> I. Cooper, A., ‘Virtual Third Chamber’ for the European Union? National Parliaments after the Treaty of Lisbon, *West European Politics*, Vol. 35, Iss. 3, 2012.

<sup>83</sup> K. Auel, *Quality of EU legislation – The Role of National Parliaments*, in A. De Feo, B. Laffan, *Scrutiny of EU Policies*, EUI, 2017. Available at [http://cadmus.eui.eu/bitstream/handle/1814/48867/Book ScrutinyEU Policies2017.pdf?sequence=1&isAllowed=y](http://cadmus.eui.eu/bitstream/handle/1814/48867/Book_ScrutinyEU_Policies2017.pdf?sequence=1&isAllowed=y).

fully legitimate that the NPs fulfil the role assigned them by the TFEU of subsidiarity checking. The activities of national parliaments since 2010 have shown a limited and declining interest in reasoned opinions and an increasing interest in legislative opinions, confirmation of the “systemic connection between the European Parliament and national parliaments.”<sup>84</sup>

National Parliaments Opinions on EC proposals			
year	doc COM	Subsidiarity	legislative opinions
2010	848	28	208
2011	981	57	281
2012	803	80	476
2013	940	108	377
2014	760	23	239
2015	685	8	77
2016	875	61	343
2017	680	62	336
source: own elaboration on EP-NP website and Commission Register			

The table only shows a general trend. The inclusion of the number of Commission proposals confirms a reduction in proposals by the Juncker Commission.

National parliaments clearly have an interest in policy dialogue and

opinions on legislative proposals. These opinions have three objectives:

- A. To influence legislation in progress;
- B. To indicate the parliamentary position to their respective governments according to their constitutional rules;
- C. To contribute in a very constructive way to the preparatory work of the European Parliament.

Relations between the European Parliament and national parliaments should in future concentrate more on legislation than on subsidiarity checking. The Commission and the national governments already have the responsibility to respect the subsidiarity principle, so the role of NPs is marginal,<sup>85</sup> while enhancement of the role of national parliaments could contribute to improving the legitimacy of European legislation.

<sup>84</sup> A. Manzella, The European Parliament and the National Parliaments as a System,

• in S. Mangiameli (ed), The Consequences of the Crisis on European Integration and on the Member States, The European Governance between Lisbon and Fiscal Compact, Springer , 2017, ISBN 978-3-319-47964-

<sup>85</sup> E. Griglio, Better law-making and the integration of impact assessment in the decision-making process: the role of national parliaments, p. 64 in A. De Feo, B. Laffan: Scrutiny of EU Policies, EUI, 2017, doi:10.2870/696239 ISBN:978-92-9084-570-6. Available at <http://cadmus.eui.eu/handle/1814/48867> .

A second area where national parliaments could give important added value to the European institutions is scrutiny of the transposition and implementation of European legislation in their territory. This activity, which is currently marginal in the EP, could be enhanced by closer NP-EP cooperation, even if the aims of the scrutiny are not necessarily the same: a national parliament might naturally be interested in securing EU investment in its territory, while the EP might be more keen on monitoring the European added value of a European policy.

The role attributed to NPs by the Treaty is more formal than substantial. The high-level bodies like the Conference of Parliamentary Committees for Union Affairs of Parliaments of the European Union (COSAC) are more forums for discussion with no or very little concrete impact, while the relations between parliamentary committees can be much more concrete, of mutual benefit and legislatively oriented.

### Proposal

Enhancement of the relationship between the EP and NPs should focus more on legislation. NPs could contribute in the pre-legislative phase and in the ex-post phase – evaluation of EU Policies. The EP should closely follow these activities. Relations between the EP and NP parliamentary committees should be constant but not structured, and should be organised only when there is a reciprocal interest. The widespread technology of teleconferencing can open a new world of cooperation between parliamentary committees which is cheap and efficient. New relations between the EP and national parliaments could greatly enhance the democratic accountability of the European project. The reform should respect the division of competences established by the Treaty but at the same time national parliaments should be more involved in every legislative procedure which might have an impact on their citizens.

The role of NPs should have two objectives: to influence and monitor the positions expressed by their government; and to make the EP aware of their positions expressed.

Current relations, which are organised around the Conference of Parliamentary Committees for Union Affairs of the Parliaments of the European Union (COSAC)<sup>86</sup> and the work of the European Affairs committees, are not ideal ways to reinforce NP control over legislation. Because of their horizontal nature these committees are more competent to oversee institutional problems than to give systematic opinions on the substance of each regulation.

Spontaneous relations already exist between parliamentary committees, but a reform should establish a procedure to be activated by each national specialised committee to inform the relevant EP parliamentary committee of its position in the course of the pre-legislative phase. The EP parliamentary committee would then consider these opinions in autonomy but with full knowledge of national concerns. To be efficient, this procedure should be flexible, a consultation on demand whenever it is felt necessary. A complementary measure which should become systematic is for national MEPs to be present in the debates of specialised committees of the NP. In this case too, spontaneous relations exist, but they should become the rules for every legislative procedure.

This procedure should also work at the initiative of the European Parliament, with parliamentary committees of NPs being invited to give their opinions on the status of EU legislation in their country.

An organizational reform could enhance these new relationships between the EP and NPs. Currently the EP department dealing with national parliaments is housed in Services of the EP President (DG Presidency), where most of the activities are of a protocol nature. To reinforce the link among parliamentary committees, the EP department dealing with national parliaments should be moved to the EP department dealing with internal policies (DG IPOL). National parliaments, on their side, should

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<sup>86</sup> COSAC was established in Madrid in May 1989 by the speakers of the national parliaments of the EU Member States. It was formally recognized in a Protocol on the Role of National Parliaments in the European Union of the Treaty of Amsterdam.



conduct their activities on European legislative procedures more in their parliamentary committees than in the European Affairs committee.

*No Representation without taxation*

No taxation without representation is a mantra of fiscal policy. It is a phrase<sup>87</sup> attributed to James Otis in 1761 that reflected the resentment of American colonists at being taxed by a British Parliament to which they elected no representatives. It became an anti-British slogan before the American Revolution: "Taxation without representation is tyranny." This means that democracy gives legitimacy to the fiscal capacity of a state. In the case of the European Union we have representation of citizens through the directly elected parliament, but this EP does not have a direct say on the revenue side of the budget. The EP has the privilege of establishing expenditure without worrying about raising the money from the citizens. Some authors argue that there is 'no real representation without competence on taxation.'<sup>88</sup>

What we can have for free in the market has no value. To feel ownership of a product we should pay for it. We prefer to pay for a glass of wine or an orange juice than to have a free glass of tap water. The situation of the EU is even more complex. Citizens pay for it through national contributions but there is only a vague perception of their indirect contributions. The introduction of a direct tax which could be visible to citizens and endorsed by a decision of the EP would probably be unpopular because citizens do not like taxes, but this could change the legitimacy of European policies and perceptions of the European Parliament.

The introduction of a European tax should not be an indirect way to increase the cost of the EU but it should replace hidden contributions with a transparent contribution. Under the current Treaties, when we mention European tax we do not mean

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<sup>87</sup> Definition in [Dictionary.com](http://www.dictionary.com).

<sup>88</sup> G. della Cananea, No Representation without taxation in the EU, in J.H.H. Weiler, U.R. Haltern & F.C. Mayer (1995), European democracy and its critique, West European Politics, 18:3, 4-39, DOI: 01402389508425089. Available at <http://dx.doi.org/10.1080/01402389508425089>.

transferring to the EU a full fiscal capacity, which remains in the hands of the Member States, but the agreement of the MS to transfer the results of a national tax in all the Member States to the EU budget without any other decision.

During the period 2013-2017, reflexions on the financing of the EU progressed, thanks to the establishment of an interinstitutional High Level Group on Own Resources (HLGOR) which produced a report<sup>89</sup> delivered to the presidents of the three institutions with an in-depth analysis and concrete suggestions on potential EU taxes.<sup>90</sup> In a separate section I have presented the state of play of reform of the EU and the different options for candidates for European taxes. Here I only want to stress the importance of the link between taxation and democratic legitimacy.

### Proposal

The introduction of a European tax could be a very painful exercise demanding a courageous explanation exercise, but as soon as EU citizens start to contribute directly to Europe financially their voices will be reinforced and Europe will be more accountable to them.

How can all this happen? There are two steps. The first is the introduction of a 'European' tax. This decision does not need a revision of the Treaty but of the own resources decision, and it will be discussed in another section of this paper. The second step, which is relevant in this context, is the role of the European Parliament. The Council needs to come to the conclusion that at least part of EU financing should be guaranteed by taxes transferred from the Member States to the EU budget automatically without a national decision. The level of the 'European' tax should be proposed by the Commission in the annual budget. The EP could then give its consent to the annual implementing measures.

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<sup>89</sup> HLGOR, Future Financing of the EU. Available at [http://ec.europa.eu/budget/mff/hlgor/final-report/index\\_en.cfm](http://ec.europa.eu/budget/mff/hlgor/final-report/index_en.cfm)

<sup>90</sup> G. Benedetto, Institutions and the route to reform of the European Union's budget revenue, 1970–2017, *Empirica* (2017) 44:615–633, DOI 10.1007/s10663-017-9383-. Available at <https://link.springer.com/content/pdf/10.1007/s10663-017-9383-5.pdf>.

The introduction of such a mechanism may be an essential reform to increase the identity of a community which belongs to the European citizens. A European tax should replace the existing financing mechanisms and not be a hidden mechanism to increase allocations to the EU Budget.

### *The timeline and duration of the Multiannual Financial Framework*

In the section 'Europe today,' I presented the challenges and problems that the EU has to face to prepare for the next decade and I highlighted that the decision on the MFF will be the first concrete act to prove a willingness to reform and to relaunch the European project. When the Commission presented its proposals on 2 May it pleaded for a final adoption before the end of the EP term, in May 2019. Some heads of state and prime Ministers supported this position. The EP has not yet taken a formal position, but the political groups closest to the governments seem to share this approach.

Should the European Council reach a common position, consent will be given by an outgoing parliament with the support of a commission in the very last days of its mandate, with no responsibility for implementation. Should the new financial package be adopted before mid-2019, the next commission and the next parliament will have no strategic decisions to take. They will only have to implement the programmes already adopted.

Should the EP rush the approval of whatever is adopted by the (European) Council, it would be an institutional suicide and the next parliament would then be relegated to a very marginal and irrelevant role. How can political parties imagine that European citizens will find the motivation to vote in the next election if all the structural decisions for the next decade have already been taken? How credible would a debate among Spitzenkandidaten be if the decisions which go beyond the next commission have already been taken?

For once, the timetable is favourable and there is no rush. A temporary solution should be found to fill the gap due to the absence of the UK contribution. There will be no legal

void: the next MFF needs to be ready by April 2020 when the preparation for the 2021 budget starts. The current MEPs can have a very important role in shaping the positions of their political groups and political parties, at the European and national levels, for the forthcoming electoral campaign. This procedural point has relevance not only for the current year but this is a recurrent problem linked to the length of the financial framework, which is not modelled on the institutional timeline.

The duration of the MFF (5 or 7 years) and of the legislation linked to the financial framework is another point which could reinforce the democratic legitimacy of the EU. Since 1993, the financial planning has lasted seven years, *de facto* leaving one Commission and one Parliament without any say on the, not only financial but also legislative, fundamental decisions. Since the time of the Convention, the Parliament has fought without success to link the duration of the MFF to the institutional timespan. The Lisbon Treaty (art. 312) establishes that the MFF “shall be established for a period of at least five years,” leaving the possibility of adopting the MFF for a longer period.

These two problems are not only institutional but they have an impact on the public perception of the role of the Parliament. The solution proposed below offers more legitimacy to the whole process.

### Proposal

Decisions about the next MFF beyond 2020 should be at the centre of the political debate in view of the next EP elections. The European (and national) political parties and the Spitzenkandidaten should take positions on their vision of Europe and the priorities to be financed toward 2030.

The public voting for the next EP will then see that their vote might influence and, possibly, change the course of the history of the EU. The electoral campaign will then be run, for the first time, on European themes. These decisions might reverse the declining trend in the turnout for European elections and whatever choice is made will give a new democratic legitimacy to the European project.

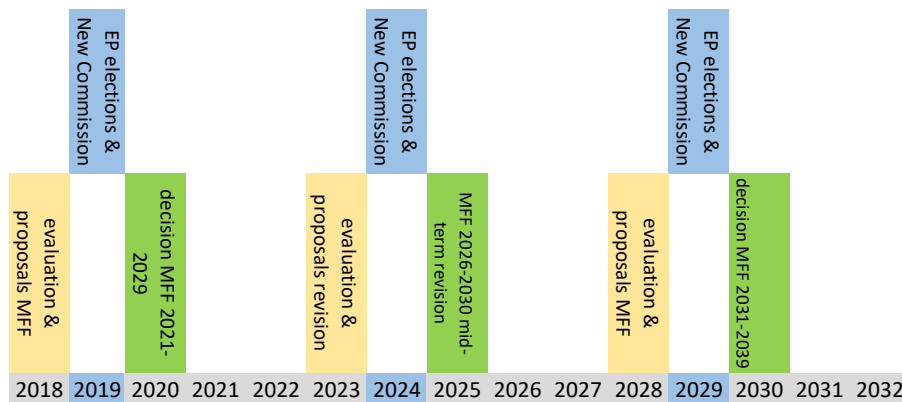
As soon as possible, the current Parliament should take a very clear stance rejecting the calendar proposed by the Commission. A new Parliament elected on a campaign on European themes will be the best guarantee of a more democratic and legitimate EU.

Imposing the procedure for this MFF without changing its duration will not solve the structural problem of legitimacy in the adoption of the MFF. As the Council (in favour of a 7-year MFF) and the EP (in favour of a 5-year MFF) have both valid arguments, we need an alternative timeline which could foresee a debate in the European election where citizens' votes will make the difference to the way Europe will be shaped.

A different structure of the timeline will present a number of advantages. It would allow:

- ✓ a longer programming period, as requested by the Council – 10 years instead of 7 years;
- ✓ a mid-term review/revision every 5 years, in line with the institutional calendar, 5 years as requested by the EP;
- ✓ the outgoing Commission and EP to make proposals leaving their legacy to the incoming Commission and EP;
- ✓ the political parties and the Spitzenkandidaten to present their own options during the electoral campaign;
- ✓ The incoming Commission and EP to assume the political responsibility for their decisions.

The table below outlines the possible alternative timeline.



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To conclude, the planning of financial provisions gives predictability to policies and to public finances. The legislative decisions do not need a rigid deadline. There is no need to insert a duration. All EU legislation should be submitted to regular scrutiny, scrutiny which should be conducted by the legislative authority with the support of the Court of Auditors and the Committee of the Regions.

The institutions should set up a scrutiny procedure to focus their attention every year on a limited number of pieces of legislation so that about every three years all the legislation is scrutinised. The annual financial allocation should be defined every year as a function of the effectiveness and performance of the legislation. This will increase the accountability of EU policies.

## **Differentiated integration**

Differentiated integration is an old concept floating in the European arena, often with different denominations: Europe à deux vitesses (Tindemans, 1975), KernEuropa (Schauble and Lamers, 1994), Avant-garde (Chirac, 2000), Centre of Gravity (Joschka Fischer, 2000), Europe à la carte, Variable geometry or Multitier Europe.

Behind these semantics there are different concepts. Differentiated integration, as understood here, is not a multi-speed Europe but it is a positive way to develop integration in areas where a number of Member States are ready to share a common approach without obliging the others to follow, but leaving the door opened for the outer states to join at a later stage. This idea of differentiated integration is like a galaxy organised around a 'core' EU, where all the Member States should share principles and values but where there are a number of satellites in specific areas where only some Member States participate but which are open to all and with transparency in the decision-making process.

The flexibility progressively introduced in the Treaties has allowed progress in integration, overcoming gridlocks and avoiding major crises, but it has also created a complex and opaque system. This flexibility could contribute to structuring a different model of Europe which will not oblige all the Member States to follow the same model of integration.

### *Flexibility in the EU Treaty*

There is a large quantity of literature on the concept of an asymmetric Union.<sup>91</sup> This concept was already present in the Single European Act, which introduced a complex procedure allowing for country-specific environmental derogations from internal market harmonization (Art. 114 TFEU) but which has rarely been used by the Member States. The Maastricht Treaty made a step forward allowing some Member States to be excluded, *ab origine*, from the implementation of a crucial policy, such as EMU. This

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<sup>91</sup> See a selection of the articles consulted in the references.

important breach of the legal unity of the EU was hidden in protocols and agreements annexed to the Treaty.

In the case of the Schengen agreement, initially created at the intergovernmental level, the differentiation was inserted later in a protocol to the Amsterdam Treaty. The Lisbon Treaty was no exception: it added a new major opt-out for the UK in the area of police cooperation and criminal justice. The Treaty went even further by introducing a right to future differentiation: the possibility to unilaterally withdraw at any moment from all the third pillar instruments.

Below is a short overview of some of the provisions of the Treaties which have allowed flexibility in the decision-making process.

**Opt-outs and derogations** have been the ‘tools’ most used for flexibility, exempting Member States from the application of some Treaty rules.

- *The Protocol and Agreement on Social Policy (1991)* was the first exception permitted to the UK (which later adhered in the Amsterdam Treaty);
- *The adoption of the euro as the national currency* is the most important area of opt-out/derogation. There are two formal opt-outs, the UK and DK; one informal, SE, where a referendum rejected the euro; and one general derogation, linked to the capacity to respect the rules for Member States not fulfilling “the necessary conditions for the adoption of the euro,” a sort of double derogation for incapacity (to fulfil the conditions) but also unwillingness to ask to join the group.
- *The Schengen rules* concerning the suppression of border controls have a formal opt-out concerning three countries, UK, IE and DK, but with a clause for opting back in and a general clause on unilateral suspension of the Schengen rules. The Lisbon Treaty includes the Schengen rules in the community ‘acquis,’ which means that no derogation is possible for candidate members (Protocols 19 and 22, TFEU).



- *Judicial cooperation* foresaw an opt-out for the UK, IE and DK with the possibility of opting back in for some of the measures. The UK accepted 35 out of 135 measures (e.g. the European Arrest Warrant, Eurojust and Europol).
- *Decisions with Defence implications*: an opt-out for DK (Protocol 22).
- *Charter of Fundamental Rights*, an opt-out for the UK and PL (Protocol 30).

**Specific Rules for the Eurozone** are implemented by the Member States whose currency is the euro but are open to voluntary adhesion by non-euro Member States.<sup>92</sup>

**Eurozone Governance.** The Treaty of Lisbon<sup>93</sup> authorizes Ecofin Member States whose currency is the euro to meet and vote in a euro area configuration, while the Parliament maintains its full unity even when discussing eurozone issues.

**‘Brake’ clauses,**<sup>94</sup> which are the formalization of a veto, apply in a limited number of domains – e.g. social security and criminal justice – when a fundamental aspect of a member’s national system is affected.

**Automatic enhanced cooperation**<sup>95</sup> if a legislative procedure in the areas of security, freedom or justice fails to be adopted. If nine Members States are ready to request authorization for enhanced cooperation it is automatically granted.

**Enhanced cooperation**<sup>96</sup> allows a group of Member States to adopt and implement EU legislation which has failed to obtain the majority required by the Treaty and on condition that they follow the procedure established by the Treaty. In a nutshell, this procedure can be initiated when it appears impossible to adopt a measure with the ordinary procedure, on condition that at least nine countries are willing to proceed and

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<sup>92</sup> The six- and two-packs regulations and the rules to complete the European Banking Union, comprising the Single Supervision Mechanism (SSM) in Regulation 1024/2013<sup>11</sup> and the Single Resolution Mechanism (SRM), in Regulation 806/2014<sup>12</sup>.

<sup>93</sup> TFEU Articles 156.2 & 238(3)(a) and Protocol 14.

<sup>94</sup> TFEU Articles 48, 82 and 83.

<sup>95</sup> TFEU articles 82, 86 and 87.

<sup>96</sup> TEU articles 20, and TFEU 326-334.

that the other Member States can join whenever they want and they fulfil the conditions set by the legislation. In practical terms, this procedure has only been used for the Divorce Law and the European Patent, which have been in force since 2012 and 2013 respectively, and one measure authorised but still under discussion, the Financial Transaction tax.

### *Flexibility outside the Treaty*

The following list does not aim to provide a complete description of the various Treaties, but to illustrate the complexity of reality and the alternative to structured differentiated integration with the development of intergovernmental agreements in areas which could be covered by the European Treaties.

**The Prüm Convention**<sup>97</sup> (2005), This convention on cross-border cooperation, particularly in combating terrorism, cross-border crime and illegal migration, was launched by seven Member States and has now been ratified by thirteen Member States. Part of the convention was included in Community law in 2008.

**The EMU International Treaties.** A number of international treaties have been concluded among the Eurozone Member States. These are the European Financial Stability Facility Framework Agreement (EFSF) (2010), the Treaty on the European Stability Mechanism (TSCG) (2012), the so-called Fiscal Compact open to euro and non-euro states,<sup>98</sup> and the Agreement on the transfer and mutualisation of contributions to the Single Resolution Fund (SRF) (2014).

**The Agreement on a Unified Patent Court (UPC)**<sup>99</sup> was created by the Member States that adopted the European patent. 25 Member States have adhered to the UPC.

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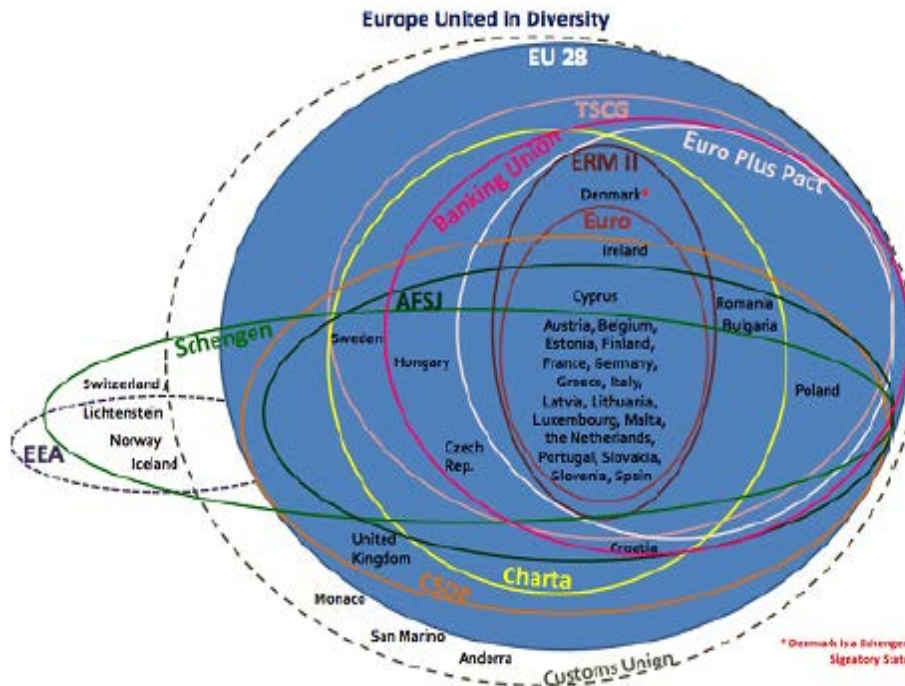
<sup>97</sup> See International Treaty at <https://treaties.un.org/Pages/showDetails.aspx?objid=0800000280263b7b> and Council Decisions 2008/615 and 216 of 23/6/2008 at <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32008D0615> and <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:210:0012:0072:EN:PDF>.

<sup>98</sup> See the Commission ESM web pages at <https://www.esm.europa.eu/about-us/history>.

<sup>99</sup> See <https://www.unified-patent-court.org/>.

The table below gives an overview of the complexity of the current situation.

**Table 1: Differentiated integration in the EU<sup>100</sup>**



Source: Tetin, Furda 2012, updated by Tekin, 2015.

To conclude, a variable geometry Union is well established in the EU rules of law and in the practice of the Member States. It can only expand further. We have also seen that an alternative exists to the EU model of differentiated integration and that this can lead to a proliferation of separate multilateral intergovernmental agreements, ruled by

<sup>100</sup> F. Tekin, Brexit or No Brexit? Political and Institutional Implications of an EU without the UK. Available at <http://www.iai.it/sites/default/files/iaiwp1607.pdf> <http://www.iai.it/sites/default/files/iaiwp1607.pdf>.

international treaties,<sup>101</sup> which risks increasing the opacity of the European project and alienating EU citizens even further.

Differentiated integration is thus a reality, endorsed by the European Council. The commitment to an “ever closer Union” enshrined in the Treaty on European Union “allows for different paths of integration for different countries, allowing those that want to deepen integration to move ahead, while respecting the wish of those who do not want to deepen any further.”<sup>102</sup>

Differentiated integration has worked as an ad-hoc exception and it has led neither to an ‘avant-garde’ group nor to a coherent group of ‘outsiders.’ For this reason, a crucial reform in the next decade should be the building of a coherent and structured way to manage different levels of integration. This can constitute not only a solution for the Member States sharing common values but also an objective for other Member States that might join in a second phase. Structured differentiated cooperation within the EU framework can increase the legitimacy of measures, reduce the risks of rupture between the ins and outs and maintain the powers and composition of the EU institutions.

### *Structured enhanced cooperation*

Differentiated integration, *per se*, is not a crucial reform but enhanced and structured differentiated Integration could offer a better framework for both the group of states that want a closer Union and those that are not ready to follow with the same rhythm of integration. To achieve this objective, it is necessary to give more legitimacy and a structure to this new model of integration. I will briefly analyse this form of cooperation from three perspectives: democracy, governance and vision.<sup>103</sup>

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<sup>101</sup> Y. Bertoncini, *Differentiated Integration and the EU: A Variable Geometry Legitimacy*, IAI, 2017 ISBN 978-88-9368-034-9, available at [http://www.iai.it/sites/default/files/eu60\\_7.pdf](http://www.iai.it/sites/default/files/eu60_7.pdf) and A. Barbier-Gauchard, *Non-Community European spending*. Notre Europe 2013, available at <http://www.institutdelors.eu/media/noncommunityeuropeanspending-barbier-gauchard-ne-jdi-aug13.pdf?pdf=ok>.

<sup>102</sup> Conclusion European Council meeting, 27 June 2014.

<sup>103</sup> J. Weiler, *United in Fear – the loss of Heimat and the crises of Europe*, in Papadopoulou, Pernice and Weiler, *Legitimacy Issues of the European Union in the Face of Crisis*, Nomos, 2017, ISBN 978-3-8487-4107-6.

Differentiated integration should not be an obscure agreement among diplomats relegated to a hidden protocol attached to the Treaty. The enhanced cooperation procedure<sup>104</sup> should continue to constitute the basis for opening a differentiated integration and a vision for the direction that other Member States could follow.

The procedure can be launched after the Commission has verified that the majority required to approve a piece of legislation cannot be reached and that at least nine Member States agree to go forward. The authorising procedure to activate enhanced cooperation is then submitted to the Council for decision.

A simplification of the authorising procedure should be a first objective of a reform. Activation of the procedure foresees unanimity to authorise the launch of enhanced cooperation for a limited number of Member States. The ‘passerelle’ clause (art. 333, TFEU) would allow this measure to be adopted with a qualified majority, like all ordinary procedures. This will simplify the procedure and facilitate the delivery of the authorising decision, encouraging Member States to remain within the framework of the Treaty.

The authorization to proceed with enhanced cooperation should be limited to a *legality check*, i.e. that the Commission’s proposal passes the subsidiarity check, that no majority can be reached in the ordinary procedure and that all Member States can join at a later stage provided they respect the conditions of the legislative act. If the cooperation is framed within the Community method, the Commission will guarantee access to outsiders, while in the case of cooperation outside the Community frame, the participating Member States alone will take the decision to admit latecomers, with the risk of potential discrimination. Once the procedure is launched, the European Parliament should give its approval of the act, or its opinion in the case of action in the external relations domain.

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<sup>104</sup> Art. 20 TEU and art. 326-334 TFEU.

More democracy should be brought into the process, even with the risk of delaying final decisions. This procedure is not only an exception to the ordinary procedure but could also have a quasi-constitutional impact. Member States should then consult their national parliaments about proceeding with or remaining outside the enhanced cooperation. Specific approval by national parliaments should give democratic legitimacy (Bertoncini p.6) to a procedure which remains exceptional with respect to ordinary procedures.

Governance of enhanced cooperation also needs a more transparent structure. Once differentiated integration is operational, the Commission should create a structure (a separate agency?) to manage the activity according to the rules established by the legislative act.

The role of the European Parliament is more problematic. The European Parliament has always defended the idea of its unity, a position shared by authoritative scholars. Curtin and Fasone<sup>105</sup> consider that “a move towards such a ‘flexible’ European Parliament would affect that institution’s overall institutional credibility.”

To make enhanced cooperation more accountable, the representatives of the citizens involved in the cooperation should give their opinion. The European Parliament should delegate decisions on the subject covered by the cooperation to a special committee where only members from the countries subscribing to the cooperation should be allowed to vote. Apart from exceptional cases, the debates should be open to all the MEPs. The activity of the special committee should be prepared by an ad-hoc committee, which should also have the same configuration as the special committee. The European Parliament should define the exact operating modality in its procedural rules. The special committee should also maintain relations with the national

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<sup>105</sup> Curtin and Fasone, Differentiated representation: is a flexible European Parliament desirable? P 118, in B. De Witte, A. Ott and E. Vos, Between Flexibility and Disintegration, Edward Elgar Publishing Limited, ISBN 978 1 78347 588 9 (book) and ISBN 978 1 78347 589 6 (eBook) 2017.

parliaments concerned. The administrative and operational costs should be borne by the participating Member States.

Ideally, a separate section of the EU budget should be opened with a special procedure defined either in the financial regulation or in an informal interinstitutional agreement. This special procedure should be managed by the Member States participating at the cooperation. In parallel, a working group of the European Parliament, where only the MEPs from the countries participating can vote, should prepare the budgetary decisions. Financing of this section should be done via 'assigned revenue' (art. 21 Financial Regulation). The inclusion of the budget chapter in the EU budget would guarantee transparency and control by the Court of Auditors and the whole European Parliament.

The above paragraph started with the word 'Ideally.' This means that there are also sub-optimal solutions, especially concerning the Eurozone budget, which could be explored, such as for example intergovernmental budgetary decisions outside the ordinary budgetary procedure, but still with transparency and control left to the European Parliament and the Court of Auditors. These modifications, framed by the current Treaty, will improve governance and give more legitimacy to the outputs of differentiated integration (see Bertoincini p.9).

This section has outlined some suggestions for a reform of EU policies. How these policies should be attached to different levels of integration will be explored below.

### *The European Galaxy<sup>106</sup>*

Structured and legitimated enhanced cooperation is only part of a positive development of differentiated integration. In a European Union organized in satellites around a central planet, Member States should define to which satellite adhere, so to create a coherent group of Member States for each group. Differentiation within each group

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<sup>106</sup> The 'galaxy' concept has been used to describe the any facets of European Finance. See High Level Group on Own Resources, Future Financing of the EU, p.82, available at [http://ec.europa.eu/budget/mff/hlgor/library/reports-communication/hlgor-report\\_20170104.pdf](http://ec.europa.eu/budget/mff/hlgor/library/reports-communication/hlgor-report_20170104.pdf).

should be avoided. This will give more clarity of the commitment of each Member State and a clearer structure to the differentiated EU.

The European Union faces a great challenge. All its policies with a financial impact will expire in 2020. This offers a genuine and unique opportunity to rethink and redefine the political priorities which can best serve the new challenges – a sort of zero-based budget where the appropriateness of every policy should be verified rather than continuing with policies because they ‘have always existed.’

The United Kingdom’s exit adds another driver for reform of policies, as, independently of the outcome of negotiations, the absence of the UK in the next financial framework (which involves past commitments) will reduce the EU budget by about €10-12 bn a year.

However, decisions on policies will depend on the willingness of all the Member States to support all the new policies. A consequence of a differentiated approach is the possibility that a group of Member States will subscribe to a policy in which not all the MS are involved. The EU will become a galaxy with a central planet (the core EU, to which all the MS should subscribe) and a number of satellites with different groups of policies.

#### The core EU

All the Member States that have adhered to the European project should recognize the core values of the EU: democracy, human rights and the rule of law, and the so-called four freedoms – the free movement of goods, services, capital and persons. The single market translates these freedoms into practice. All 27 Member States should be part of the ‘core EU’, which should include all the ‘acquis’ linked to the implementation of the single market. The core EU should also include the EU external actions.

The core EU should be at the centre of negotiations for future enlargements.



## The Eurozone

The Eurozone is already a reality. A reform of it should consist in it adopting its own budget, to which all the countries which share the euro currency should contribute, as well as the pre-ins which are preparing to adopt the euro.

A Eurozone budget should progressively include:

- a fund for the convergence of structural policies;
- a fund for responding to asymmetric shocks;
- a fund to guarantee the European Deposit Insurance Scheme;
- a capacity to raise loans;
- a capacity to issue euro bonds or accountability<sup>107</sup> bonds.

Launching such a Eurozone budget is, at least initially, more important than its size and its governance.

Financing of this Eurozone budget should combine several sources, including a portion of the EU budget. In particular:

- ★ The funds for the cohesion policy allocated to the 19 countries whose currency is the euro should be entered in the Eurozone budget after 2020. These are estimated at about €20 bn a year. An estimation of the funds from the pre-ins, the Member States adopting measures to join the euro, is not available.
- ★ The introduction of a co-financing for the common agricultural policy could liberate supplementary resources to devote, at least in part to the Eurozone budget;
- ★ There should be revenue resulting from European taxes, e.g. a FTT tax and/or a web tax;
- ★ There should be direct contributions from the Member States concerned.

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<sup>107</sup> C. Fuest and F. Heinemann, Accountability Bonds, EconPol, 2017. Available at [http://www.econpol.eu/sites/default/files/2017-11/2017-03\\_EconPol\\_POLICY\\_BRIEF\\_v4.pdf](http://www.econpol.eu/sites/default/files/2017-11/2017-03_EconPol_POLICY_BRIEF_v4.pdf).

Combinations of several sources of financing have already been successfully experimented with in other EU decisions (e.g. trust funds and financing for migrants in Turkey).

The size of the Eurozone budget is an important element, and diverging views are apparent among some of the actors.<sup>108</sup> For this reason I consider that a transfer of policies and funds from the EU budget to the Eurozone budget could contribute to the success of this reform.

#### Other Satellites

The aim of the European integration remains that every countries should participate to the entire policies, but the possibility that some countries decide to postpone the participation to some block of policies should be contemplate. I don't want to enumerate the possible list of potential satellites, as this choice is linked more to the politics. We describe a method, which could fit different situations. This mechanism will more effective and transparent if each block will group coherent policies, where all Member States, adhering to the group could participate.

To simplify, as per an example, a block of:

- *Internal and external Security and Defence* could include the Intelligence services, the protection of EU external borders as well the external security and the progressive development of a European Defence.
- *European solidarity* could include the Cohesion funds, Social Agenda and the management of migration within the EU.
- *European growth* could include Research & Development, energy and transport networks.

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<sup>108</sup> J. Strupczewsk, Eurogroup head outlines pragmatic view on 'euro zone budget,' Reuters, 14 October 2017. Available at <https://www.reuters.com/article/us-imf-g20-eurozone-budget/eurogroup-head-outlines-pragmatic-view-on-euro-zone-budget-idUSKBN1CJ0TF> . President Macron mentioned several billion euros, and PM Merkel mentioned a small budget.

- *Preservation of Europe* could include Environment, climate change and agriculture policies.
- *Europe of Culture and Education* grouping all the policies in this area, including Erasmus and the European youth strategy

#### European Partnerships<sup>109</sup>

European partnerships are not part of differentiated integration as it is understood above, but they could become a special satellite of cooperation between the ‘core EU’ and ‘Europe’s best friends’. A block where the 27 Member States share with third countries a number of common values and policies, special trade relations and also participation in certain EU policies. European partnerships should offer a model of cooperation with third countries with which Europe has special relationships. In this sense, they could even be an alternative to EU accession. They could be described as a pre-ins or post-outs model. The example of the EFTA countries could be a model.

A trade agreement should not only cover the purely commercial relationship but also define the conditions for participating in other EU policies. The third countries should contribute to the cost of participation in such policies.

This model could also offer a solution to structure the special relations between the EU and the UK post-Brexit.

To conclude, the cases indicated above are only examples of a more structured development of differentiated integration. Other areas of cooperation could be opened. It is important to have a coherent model, which can be adapted to different situations. The model proposed is not only a procedure but it is a radical change to the ‘one size fits all’ approach of the last 60 years. The community method should offer the framework

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<sup>109</sup> J. Pisani-Ferry, N. Röttgen, A. Sapir, P. Tucker, G.B. Wolff, Europe after Brexit: A proposal for a continental partnership, Bruegel, 2016. Available at <http://bruegel.org/2016/08/europe-after-brexit-a-proposal-for-a-continental-partnership/>.

but it should not be an absolute framework. As the Commission argued (State of the Union, 2017), a balance between the Community method and intergovernmental cooperation should be found at both the governance and financing levels. The right balance in this cooperation will guarantee the progress of the European project in the next decade.

## ***EU Policies toward 2030***

### *The challenges ahead*

Only institutions which have the capacity to renew and adapt to an ever-changing world will survive through history. The European Union has made some cosmetic changes but, to respond to the new challenges and to citizens' expectations, radical changes are necessary. This section will highlight another essential reform to relaunch the EU project: a rethink of EU policies toward the 2030 horizon.

New European policies for the next decade will be the message that millions of disenchanted citizens are waiting for. This will prove that Europe is not a static bureaucracy managing day-to-day work but that it is ready to adapt to new challenges and focus on European added value (EAV). European added value is not a vague concept where every Member State tries to realise its national interest. Member States often confuse EAV with the benefits that any European financing brings to a national economy. A European policy brings added value if:

- a) it produces savings on transaction costs. The expenditure at the EU level is cheaper than 27 national initiatives;
- b) it produces cross-border benefits, funding policies that can facilitate economic growth;
- c) it raises the threshold, allowing investments which would be too expensive for a single Member State.

Respect for EAV in the implementation of EU policies should be a prerequisite. It requires a commitment by the Member States to the concept and for the legislative authority to have a solid scrutiny procedure.

Any reform is a delicate exercise, and not necessarily a win-win solution. There will be fierce reactions to the dismantling of old and comfortable policies. These reactions can be overcome only with credible new policies, a reduction of national expenditure on the EU and under certain conditions the possibility for the MS to replace EU financing with European taxes transferred to the EU Budget.

EU policies suffer from path dependency. Once a policy is established, it can eventually be adapted but it is very difficult to dismiss it. If we examine the legislative packages adopted every seven years together with the Multiannual Financial Framework, we will see some cosmetic changes in form – e.g. Agenda 2000, the Lisbon Strategy, Horizon 2020 – where the financial allocations were adapted to the priorities of the year, but not many changes in substance. This means that new policies have piled up with old ones, financed through a redistribution of resources. The institutions have rarely agreed to suppress EU legislation to finance new priorities.

If Europe is to deliver, to respond to citizens' main worries, an in-depth exercise with the aim of rethinking EU policies for the next decade should be launched. For the first time, the Commission took an initiative to push the Member States to reflect on this with a contribution to the informal leaders' meeting on 23 February 2018.<sup>110</sup> Beyond its soft and prudent language, this document is quite radical and puts on the Member States' table a number of radical options to reduce some traditional policies in order to divert the financial resources to new challenges and new priorities, all with high European added value.

In 2010, under pressure from the Court of Auditors, the Commission started to monitor the outcomes of EU policies to raise the awareness of the other institutions. In 2015, the Commission launched the Budget Focused on Results initiative, which aims to change the spending culture in the Commission and in beneficiaries by making outputs and quality of expenditure a horizontal priority. This approach has become even more important to respond to new challenges without increasing EU funds. Efficiency and effectiveness have become benchmarks to evaluate EU policies.

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<sup>110</sup> Communication on A new modern Multiannual Financial Framework for an EU that delivers efficiently on its priorities post-2020. COM(2018) 98 final, 14/2/2018. Available at [https://ec.europa.eu/commission/sites/beta-political/files/communication-new-modern-multiannual-financial-framework\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/communication-new-modern-multiannual-financial-framework_en.pdf).

The Commission has invested in this initiative, but no indicators show its impact yet. An important step forward has been the introduction of a number of indicators for most EU policies in most of the EU legislation for the period 2014-2020.

Performance objectives, macro-economic conditionality, indicators, evaluation and reporting arrangements – including the possibility of structural funds drawing supplementary funding from a ‘performance reserve’ – are now present in most legislation. In the 56 financial statements in the 2014-2020 legislative package, there are about 300 objectives and 700 indicators, both general and specific. Almost half of the programmes have more than 10 objectives, while some have more than 20 and a few more than 40.

VP Kristalina Georgieva did all that was possible to raise political awareness of this issue, inviting the representatives of the two arms of the budgetary authority to establish an Inter-Institutional Working Group on Performance-Based Budgeting (IIWG), indicating its mandate and working methods. The reactions to this invitation from both the Council and the Parliament were cold,<sup>111</sup> to say the least. Diverging views appeared on the content of the mandate and on the working methods. The Commission then decided to downgrade its objectives, creating an ‘experts’ group with no-one involved at the political level.

The budget for results approach has an impact on the administrative culture of the Commission but not at the policy-making level. Nevertheless, a process which requires a change of culture takes time, and the efforts to improve policy-making with evidence-based decisions continue. As the President of the Commission, J.C. Juncker, announced in the State of the Union 2017, a ‘Task Force on Subsidiarity, Proportionality’ and on ‘doing less more efficiently’<sup>112</sup> was created in January 2018. This group’s mandate is “to take a very critical look at all policy areas to make sure we are only acting where the EU

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<sup>111</sup> See Council of the EU, "I" Item Note on Commission's Performance-Based Budgeting initiative: a pragmatic approach, 5846/16, Brussels, 8 February 2016. Available at <http://data.consilium.europa.eu/doc/document/ST-5846-2016-INIT/en/pdf>.

<sup>112</sup> Press release November 2017. Available at [http://europa.eu/rapid/press-release\\_IP-17-4621\\_en.htm](http://europa.eu/rapid/press-release_IP-17-4621_en.htm).

adds value.” This was also a political failure, as neither the Council nor the Parliament participate in this task force, reducing the possibility of a real political impact.

The Commission document mentioned above is also its response to the reluctance of the legislative authority to engage in in-depth discussions on the validity of policies. A relaunch of the European project needs difficult decisions, which might involve the suppression of well-established policies. These suppressions can only be accepted if a credible alternative policy plan is presented.

The Commission has adopted a very fine strategy, leading the 27 Governments to reflect on concrete choices. The first option paper with five options, a number of reflection papers in different policy areas, the speech on the State of the Union 2017 and finally the outspoken document of February 2018 are pieces of this strategy. The latter document translates the needs into financial terms and explores some options to reduce current policies. The aim of this section will be to see how two scenarios (option 4: radical change and doing more together) could be combined to offer the best possibility of relaunching the European project.

In carrying out this analysis, we have to consider that a limited number of Member States could decide to adopt the policies toward 2030. Differentiated integration could facilitate the adoption of new policies. This exercise is certainly difficult as it would question policies which have been part of the EU since the very beginning. On the other hand, an extension of enhanced cooperation and the rules on majority voting could make this exercise less complicated.

Most legislation with a financial impact will expire in 2020 and will be renewed using the ordinary legislative procedure with a qualified majority. A coalition of Member States committed to relaunching the European project and to concentrating financial resources on policies with higher European added value could form the minority blocking the approval of a renewal of old regulations with less European added value. These Member States – possibly at least nine – could initiate an enhanced cooperation to launch new policies.



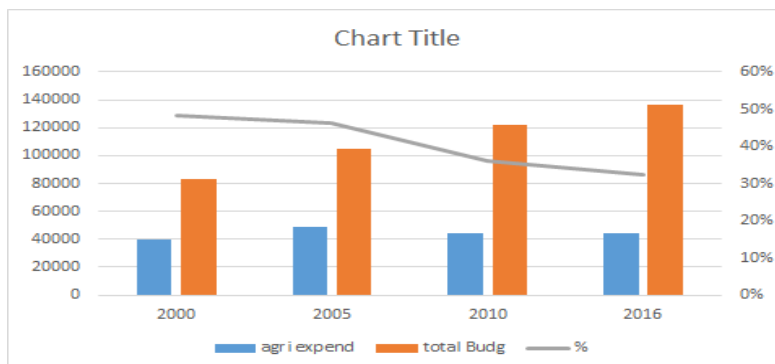
Changing path dependency will be a very difficult task in all the Member States, as all will find strong resistances to the changes, but if a coalition of willingness can lead the change others will be attracted (obliged) to follow.

### *Doing less*

To develop new ambitious European policies, more financial resources are necessary. It is unlikely that the Member States will be ready to sign a blank cheque to invest in new policies without reviewing the effectiveness of current spending and the added value of current policies. The two initiatives launched by the Commission mentioned above which aim to maximize the use of EU public spending failed to gain the full involvement of the legislative authority, which is reluctant to take the responsibility to engage in this kind of exercise. Starting the negotiations on the Commission proposals, the European Council will use supplementary tools – indicators for the different policies to evaluate their outputs. Will European leaders be ready to take this opportunity and to launch a virtuous mechanism of reform of policies to achieve more efficiency and reduce costs.

The following paragraphs do not claim to give conclusive solutions but only to draw attention to and stimulate reflexion on some areas, in particular the common agricultural and cohesion policies, where EU financial resources are allocated more out of inertia from the past than for the delivery of European public goods.

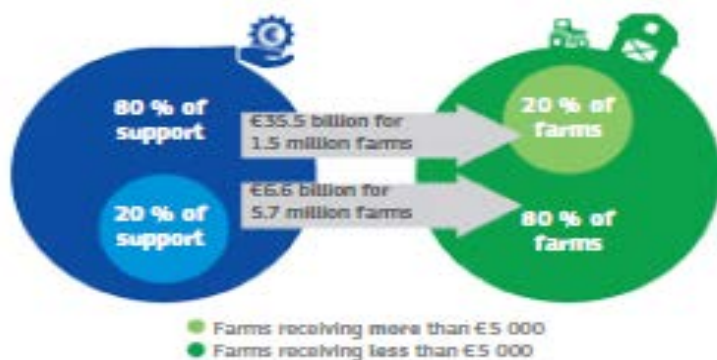
### Common Agricultural Policy



Agriculture is the first and the only common policy without national co-financing. Its share of the EU Budget decreased spectacularly after the 1980s and has continued to decrease since

2000. However, the total amount of annual spending is increased by assigned revenues,<sup>113</sup> which are revenues originating from financial corrections under accounting or conformity clearance decisions, from irregularities and from the milk levy assigned to the financing of EAGF but not entered in the EU budget. In 2016, assigned revenues represented almost €3 bn (about 7%) of total agriculture expenditure. Assigned revenues represent an exception to the principle of universality of the budget, according to which the total revenue shall cover total payment appropriations.<sup>114</sup> They guarantee supplementary funds to agriculture. Direct payments aimed at supporting farmers' income are linked to respect for a certain number of criteria, such as market orientation, environmental sustainability, animal health and welfare, and food safety.

#### Who benefits from common agricultural policy support?



Note: 2015 data

Source: European Commission

In spite of the reform in 2013, the distribution of agriculture funds continues to favour the larger farms and the richer owners in richer Member States, which receive 80% of the total funds, mainly because of historical residues. The Commission's reflection paper underlines the necessity of finding a better

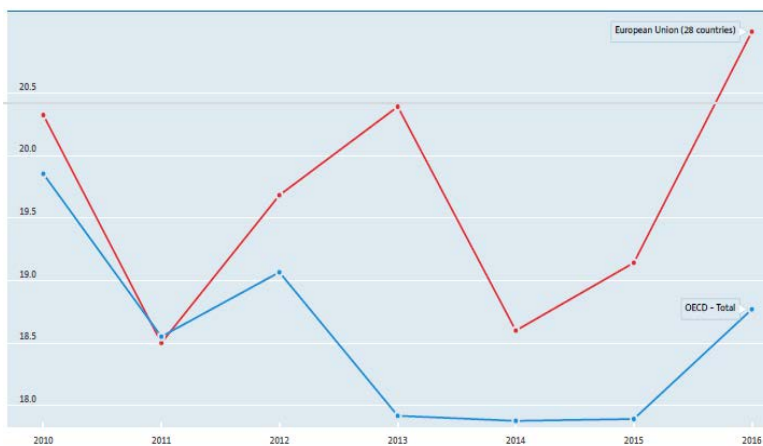
balance between protecting the environment, viable agriculture and the vitality of remote areas, objectives which have both European and national dimensions. The CAP

<sup>113</sup> Regulation (EC) No. 1306/2013 on the financing of the Common Agricultural Policy (Article 43), OJ L 347 of 20.12.2013, p. 549.

<sup>114</sup> Financial Regulation 966/2012 of 25 October 2012 on the financial rules applicable to the general budget of the Union, art. 20 (Universality) and art. 21 (Assigned Revenue).

reform of 2013 did not touch the substance of the support. Tangermann<sup>115</sup> recognizes that the so-called reform “continues to act in favour of the status quo and against determined policy reform. Economic rationality is ignored as long as possible.” The agriculture of 2030 cannot be based on the principles of 1957. A fundamental radical reform is essential to relaunch the European project, but it will be unrealistic to suggest the suppression of this policy, which in its protection of the environment has a European dimension.

### Transfer of Public funds to agriculture (source OECD)



The transfer of public funds to agriculture is a constant in most countries in the world. The OECD gives a detailed overview of the situation<sup>116</sup> measuring “the annual monetary value of gross transfers to agriculture from consumers and taxpayers arising from government policies that support agriculture, regardless of

their objectives and economic impacts.” The OECD table highlights two elements:

- ✓ the effect of the 2013 reform, which entered into force in 2014. It was at full regime in 2015 and has reversed the tendency of a reduction in public support for farmers’ gross receipts;
- ✓ the gross transfers from public spending to the agricultural sector amounted to about 21% in 2016, a sort of hidden food tax paid by consumers and taxpayers.

The necessity of reducing budgetary expenditure has been a powerful driver of past CAP reforms (Mansholt, Mac Sharry, Fischler). The reform towards 2030 should be radical

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<sup>115</sup> S. Tangermann and S. von Cramon-Taubadel, Agricultural Policy in the European Union - An Overview, Göttingen University, ISSN 1865-2697.

<sup>116</sup> OECD (2017), Agricultural support (indicator). doi: 10.1787/6ea85c58-en.

and start with a drastic reduction of the EU budget after 2020, within certain limits: environmental compliance (which means suppressing support for all pesticides and glyphosates); maintaining farms in remote areas and support for young farmers should lead the new criteria for support to agriculture. Member States should be more involved and allowed to finance and/or co-finance agriculture according to the characteristic of their own territory, while the EU should maintain the normative part. Doing less in agriculture should be an objective of a reform of EU policies for the next decade.

As indicated, the Commission paper of February 2018 suggests introducing “changes to the system of direct payments ... to focus payments on expected results” to sustain production in less profitable areas, in small and medium-sized farms and better coordination with rural development measures. The document envisages a reduction in support for the CAP of 15% or 30%, which would allow a saving between €60 and €120 bn. The Commission document does not mention the possibility of introducing co-financing into the CAP, as with all the other European policies. Co-financing could be differentiated according to the beneficiary countries. It could be higher for the richer countries and lower for the poorer countries.

### Cohesion policy

The concept of economic and social cohesion appeared in the Single European Act (1986) to reduce “disparities between the various regions and the backwardness of the least-favoured regions,” but some forms of regional and social policies had already started in the 1970s. The Lisbon Treaty adds the “economic, social and territorial” dimensions to cohesion policy. Direct spending on the cohesion policy amounts to about 28% of the EU budget, falling from 33% in 2000, but this is because the cohesion regions receive part of the funds for competitiveness and jobs creation. The cohesion policy has nevertheless changed. The 2014-2020 legislation is more focused on results and has a more binding conditionality. It introduces smart indicators to assess performance. Projects should fit into the global EU strategy, and there is a performance

reserve to allocate supplementary funds to the ‘best performers.’ These are, in principle, important changes, but has the practice changed?

The cohesion policy is the main tool for transferring financial resources from richer to poorer countries. These transfers provoke inevitable tensions at each renewal of the financial envelope. The net contributors are in favour of reducing the resources allocated or at least of introducing a rigid conditionality; understandably, the net receivers prefer more autonomy and flexibility and to receive the full amount of the pre-allocated sums.

This objective has been partially reached. Only some of the regions, beneficiary of Cohesions, had their GDP increased more than their national average, reducing the disparities, while the majority has the regional GDP still below the national one.

The cohesion policy is probably the policy submitted to most evaluations, evaluations that often have end up with divergent conclusions. The importance of its role in redistributing the budget is not contested. Reducing the gap between the regions of each country should be the primary objective of each Member State, and European funds can contribute to this objective. In spite of the progress of the legislation, too often there is a tendency to finance small projects, below €1 million, with a high local dimension but limited European added value.

Cohesion policy, like the CAP, should be re-assessed to reinforce its conditionality and the delivery of European public goods. It should also be more focused on redressing structural weaknesses, which are the object of the policy recommendations. The Commission shows awareness of the problems in its reflection paper,<sup>117</sup> adding new criteria for the selection of projects such as demographics, unemployment, social inclusion, migration, innovation and climate change.

To conclude, a re-thinking of the cohesion policy is another essential reform for the next decade. A cohesion policy more oriented to European added value and with stricter

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<sup>117</sup> European Commission, Reflection Paper on European Finances, 2017. Available at [https://ec.europa.eu/commission/publications/reflection-paper-future-eu-finances\\_en](https://ec.europa.eu/commission/publications/reflection-paper-future-eu-finances_en).

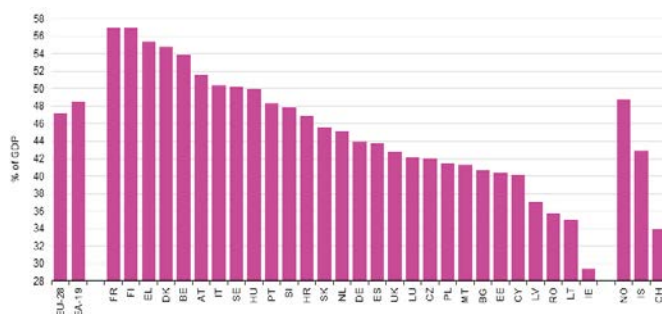
conditionality is needed. Reform of this policy will depend on the creation of a Eurozone budget. If such a budget is created, the cohesion policy for the Member States adhering to the euro should be decided within the Eurozone, in particular to redress structural weaknesses and to contribute to implementing policy recommendations.

In this regard, a Commission communication of February 2018 envisages the possibility of reducing the geographical extent of the support. Terminating support for the more developed and transition regions will generate a reduction of about €95 bn. This reduction could be even more, up to €124 bn, if the support for all the regions in France, Italy and Spain is discontinued. The Member States could then start a reflection on their priorities, considering that a reduction of the financial transfers from the EU budget under the cohesion (or agriculture) policy will automatically generate an increase in European resources in other areas, like, for example, defence, environmental security or management of the migration flux.

### Horizontal problems

In addition to radical reforms of the EU policies, some horizontal reforms should accompany them. A simplification of procedures and a harmonization of requirements would be perceived as a reduction in European bureaucracy and an increase in the transparency of decision mechanisms. These modifications, which would probably not be radical, could have an impact on EU citizens' perceptions of European added value.

Public spending in EU countries  
as % of EU GDP



EU public spending is about 1% of EU GDP.

This is infinitesimal compared to Member

State spending, which averages 47% among the EU28, but EU spending often attracts more attention from public opinion. This is why even

minor changes can make a difference in terms of public perceptions.

In this respect, a different style of communication in Member States could make perceptions of Europe more positive. The attitude of blaming 'Brussels' for all unpopular decisions generates the feeling that Europe only takes unpopular decisions against the will of the Member States.

### *A closer Europe*

In the last 30 years, there has probably never been an emergence of many transnational challenges to which a united Europe could clearly respond in a more effective way than the single Member States. During the last decade the geopolitics of the world have changed and there is urgency for a closer Europe to define its position with respect to the different blocs, and there is no alternative for the individual Member States.

I do not aim to present a complete list of wishful thinking, but to draw attention to some of the areas where a closer Union can be easily understood by its citizens.

### European Defence

Since 1954, the European Member States have been aware of the necessity of sharing resources, intelligence and production in the defence sector, but up to now the conservatism of military circles and the roles of the US and NATO have discouraged progress in this field.<sup>118</sup> However, the situation has changed in recent years with the election of a new President of the United States, new instability in former Soviet Union regions due to the attitude of the President of Russia and conflicts in the Middle East due to the presence of so-called Islamic State with all its variants. The comfortable situation which Europe had known since the end of WW2 is suddenly over.

In November 2016 the Member States initiated a process adopting an EU global strategy in the area of security and defence based on three ambitious strategic priorities: a)

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<sup>118</sup> A. Marrone, M. Nones, eds, *More Europe on Defence or no Europe*, IAI, 2013. Available at <http://www.iai.it/sites/default/files/iai1303e.pdf>.

responding to external conflicts and crises, b) building the capacities of partners, and c) protecting the European Union and its citizens. The Council recognized this progress,<sup>119</sup> but beyond the self-celebration there is still a long way to go in this domain. Cooperation or integration of military capacities does not necessarily need supplementary resources. On the contrary, if Member States are committed to achieving something in common, this can lead to important savings and increases in efficiency. External elements are pressing for increased cooperation among the Member States.

It is too early to say whether such a policy will develop as a part of the EU, of an asymmetric EU or even as cooperation among a limited number of Member States. The different institutional solutions are not irrelevant, but at this stage it is important to draw attention to the need for closer European cooperation to shape the Europe of 2030.

#### Relations with the Middle East and African countries

2016 and 2017 saw a dramatic increase in the numbers of displaced people from the Middle East and the North Africa region. Whatever the causes – conflicts, poverty or insecurity – these multiple complex emergencies have an unprecedented size. It is illusionary to think that this situation will stop in the coming years if some of the causes are not removed. Some Member States are tempted to solve the problem by closing their frontiers but this is a short-term view which will not pay in the end.

Long-sighted relations should be built in these regions, which are too close to Europe to think that they will not be a common problem for the Europe of 2030. This policy to increase support in the migration countries has already started<sup>120</sup> with agreements with Turkey and Libya, with the creation of the Emergency Trust Fund for Africa, and finally

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<sup>119</sup> Conclusion of the Council 13/11/2017 on the EU Global Strategy in the area of security and defence, available at <http://www.consilium.europa.eu/media/31520/ccs-on-security-and-defence.pdf>

<sup>120</sup> A complete and updated picture of the EU initiatives is available on the Commission website at [https://ec.europa.eu/home-affairs/what-we-do/policies/european-agenda-migration/background-information\\_en](https://ec.europa.eu/home-affairs/what-we-do/policies/european-agenda-migration/background-information_en)



with the EU External Investment Plan. In order to maximise the investments, most of these actions are financed through a mixture of EU funds, Member State contributions, other country contributions and private funding. To conclude, this is another area where a new European policy with supplementary financial resources can shape a safer world for the next decade.

### Security in Europe

European defence could make Europe and the Member States stronger in the world. Some of the key factors to improve Europe's security are:

- a coordination of the intelligence services of the Member States for Europe to be more efficient against terrorist threats;
- joint protection of EU borders;
- management of the migration influx in order to regulate access and the facilities offered;
- enhancement of cybersecurity to protect the privacy of EU citizens and protect against fake news, a new problem which can only be dealt with in a coordinated way;
- enhancement of coordination against criminality through common rules and a structure to defend citizens from cross-border criminality.

None of these issues are new, but more effective cooperation can shape the Europe of the next decade. All these points are already on the agenda and many of the Member States share this necessity. To raise the game, in addition to political will supplementary financial resources are necessary.

### Climate change

The commitment to reduce CO<sub>2</sub> emissions to combat climate change is a policy that the EU Members States have to pursue together. Protection of our environment is a duty and Europe has taken a leading role in the battle to reduce CO<sub>2</sub> emissions by 2050. Kalantzakos underlines that the EU's aim "is to lead by example and to provide an

alternative scenario to a growth and energy intensive model that leaves the planet with no future.”<sup>121</sup> This is an approach shared by the Member States. EU support for this policy could be more consistent with the objective. The EU has committed to spending 20% of the total funds allocated to the programming period 2014-2020 through the LIFE programme of financial instruments for energy efficiency. Should more resources be available, EU funds could support the Member States’ efforts.

The launch of a policy for European cities whereby EU funds could support efforts made to reduce CO<sub>2</sub> with smart mobility could be not only effective in substance but also visible to EU citizens.

The Smart Cities initiatives under Horizon 2020 has been successful but lacks substantial resources to allow a tangible impact on the reduction of emissions and recognition by citizens.

### The European Social Agenda

Social elements already exist in many EU policies but there is pressure, not only from less developed areas but also from economic sectors, to reinforce and better structure the European Social Agenda. The existing financial tools should play a more important role: the ESI could focus more on the areas more in need; EFSI 2.0 could focus more on social infrastructure, health care, housing, education and integration challenges; Erasmus+, the Youth Employment Initiative and the European Globalisation Adjustment Fund should be maintained and reinforced. Hemerijck and others<sup>122</sup> suggest a roadmap for a new Social Agenda:

- a) *Acknowledge synergies between economic competitiveness and social protection objectives;*
- b) *Make the EU a model for the Member States for a ‘social investment turn’;*

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<sup>121</sup> S. Kalantzakos, *The EU, US and China Tackling Climate Change: Policies and Alliances for the Anthropocene*, Taylor and Francis, 2017. ProQuest Ebook Central. Available at <https://ebookcentral.proquest.com/lib/EUI/detail.action?docID=4891063>.

<sup>122</sup> A. Hemerijck, R. Huguenot-Noël and D. Rinaldi, *Social Europe by means of the EU budget*, Bertelsmann & FEPS, 2018, pending.

- c) Define the appropriate policy-mix for action at every level of governance and in the private sector;*
- d) Deliver on social investment post-2020.*

A reinforced European Social Agenda could be the positive response that some of the citizens, who have turned against the European project, expect.

### Economic and Monetary Union

The completion of the Economic and Monetary Union is more a necessity than a new policy. It should be one of the essential pillars of the future Europe. While most analysts share the minimal requirements in terms of financial and monetary tools, the major point of divergence remains governance mechanisms: intergovernmental or under community methods. Not surprisingly, after years of theoretical debates the Commission has taken a clear stance launching a complete set of proposals<sup>123</sup> to complete the EMU under the community structure. These proposals, which will polarize the debate until a final decision by the European Council (expected by the end of 2019) can be divided into three parts:

- a) integration of existing mechanisms into the EU Treaty;
- b) new budgetary instruments;
- c) governance of the EMU.

#### a) Integration into the EU Treaty

The proposal aims to incorporate under the EU legal framework two existing mechanisms: the European Stability Mechanism (ESM) and the Treaty on Stability, Coordination and Governance. The ESM, which has safeguarded the stability of the euro area by assisting Member States to regain or maintain access to sovereign bond markets, will be transformed into a European Monetary Fund (EMF). The EMF will be built on

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<sup>123</sup> For the complete sets of proposals on the Commission website, see [https://ec.europa.eu/commission/publications/completing-europes-economic-and-monetary-union-factsheets\\_en](https://ec.europa.eu/commission/publications/completing-europes-economic-and-monetary-union-factsheets_en).

the existing architecture, in particular the appointing mechanisms, the voting rules and the role played by national parliaments. It might also act as a last resort lender in order to facilitate the orderly resolution of distressed banks.

The treaty on Stability, Coordination and Governance, was adopted in 2012 as an international treaty to accelerate its entry into force, but with a commitment to incorporate it in the legal framework of the EU within five years. The proposal<sup>124</sup> incorporates into Union law the main elements of the treaty in order to support sound fiscal frameworks at the national level and is fully in line with existing rules defined in primary and secondary legislation.

Both these proposals could be considered relatively neutral in substance. The current structure and voting mechanisms are followed, although authoritative scholars, such as Sapir, suggest a governance model based more on majorities than unanimity.<sup>125</sup>

The governance of the EFM is similar to that of the current intergovernmental ESM, consisting of a Board of Governors, a Board of Directors and a Managing Director, assisted by a management board. The same is true of its voting rules: (i) unanimity; (ii) a super qualified majority (85%), (iii) a qualified majority (80%), and (iv) a simple majority. Unanimity has been kept for decisions having a major direct financial impact on Member States (e.g. decisions on lending capacity, and on capital calls not urgently needed). In spite of this, some finance ministers have reacted to these proposals with cold reluctance, the main fear being that in this new setting the decisions might be more political than independent, even if the independence of the ESM decisions remains to be proved.

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<sup>124</sup> Proposal for a Council Directive laying down provisions for strengthening fiscal responsibility and the medium-term budgetary orientation in the Member States, of 6/12/2017, Com(2017) 824. Available at [https://ec.europa.eu/info/sites/info/files/economy-finance/com\\_824\\_0.pdf](https://ec.europa.eu/info/sites/info/files/economy-finance/com_824_0.pdf).

<sup>125</sup> A. Sapir, D.Schoenmaker, We need a European Monetary Fund, but how should it work?, Brueghel, 2017. Available at <http://bruegel.org/2017/05/we-need-a-european-monetary-fund-but-how-should-it-work/>.

b) New budgetary instruments

With its proposals to reinforce the euro area, the Commission outlines what could be the financial instruments in the next multiannual financial framework. Four specific instruments are identified:

- i. support for Member State structural reforms through a reform delivery tool and technical support at the request of Member States;
- ii. a dedicated convergence facility for Member States on their way to joining the euro;
- iii. a backstop for the Banking Union, through the EMF/ESM, to be agreed by mid-2018 and made operational by 2019;
- iv. a stabilisation function in order to protect investments in the event of large asymmetric shocks.

Some of these measures will be tested in the period 2018-2020.

c) Governance of the EMU

With the Commission proposals on the table, the battleground is ready. The Commission proposes but the European Council disposes. The French President, Macron, has set an ambitious plan to develop the EMU with a mutualisation of debts, a finance minister and governance decisions to be taken unanimously, leaving a *de facto* veto power to Germany. The former German government was against the mutualisation of debts and wanted to maintain full control (unanimity) of all decisions. The Commission proposal, set in a Community framework, leaves unanimity for important decisions while others can be taken with a super majority of 85%.

To conclude, the process to complete the EMU has started but there is no light yet at the end of the tunnel. Its governance, the extension of the Eurozone budget, its financing, the risk sharing on loans and the conditionality on the use of funds for structural reforms will be some of the hot problems on the table.

### *Concluding Remarks*

The previous sections have presented three essential reforms which might contribute to a relaunch of the European project for 2030. How can Europe be more democratic, accountable and involve more EU Citizens? Europe should accept that 'one size fits all' is no longer a possible option. Around the core group of principles, e.g. the single market, other satellites could develop to allow more integration in specific areas, such as the Eurozone, civil liberties, energy and transport networks, climate change and defence. A key question is how these activities can be financed.

This section has offered a partial solution consisting of revising the political priorities and dismissing some of the traditional policies. However, the financing of Europe in 2030 is more complex. The previous section described the complexity of the current situation with a mixture of EU funds, trust funds and direct contributions by Member States, and offered a possible scenario for the Europe of 2030.

To conclude, the three sets of proposals mentioned above should inspire the stakeholders in future negotiations: flexibility and political and institutional courage should lead to a reform of Europe for the next decade.

### **Part III Europe in 2030**

The concluding part of this paper will focus on the possible outcome of a reform. The Commission is doing its job. In March it presented a proposal to introduce a European tax on the profits of digital companies and in May the formal proposals for a multiannual financial framework beyond 2020, which means the first concrete step towards shaping Europe for the next decade. The ball is now rolling in the field of the Member States, national parliaments and the European Parliament, which is part of the negotiations with its veto power, but also interest groups, including regional authorities. This third part will take stock of the proposals and then present some scenarios of possible outcomes.

A fundamental and preliminary question will concern how far differentiated integration can receive the support of the Member States and whether this could be the key to success. The aim is not to define a divisive model of Europe ‘à la carte,’ but to open the possibility of starting the evolution with a limited number of Member States, which others may join at a later stage, accepting the ‘*acquis*’ which will be decided by the first group.

The advantages and disadvantages of the options presented will be analysed, especially with an eye to the blocs of States which might form coalitions to achieve their national objectives. Policies will be analysed in terms of the benefits for the different blocs. The financing of the policies will also be a component of this third part.

A concluding section will attempt to design the Europe of the next decade.

#### *The game starts*

With its presentation of proposals for the new Multiannual Financial Framework<sup>126</sup> the Commission marks the beginning of the game for the negotiations. The proposals have

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<sup>126</sup> Commission communication, A Modern Budget for a Union that Protects, Empowers and Defends.

arrived at the end of the preparation of this work, and I want to conclude it with a short presentation and some preliminary comments, as they represent the kick-off of the real game: the negotiations among heads of states and governments.

This negotiation will be particularly complex, with a number of opposite interests among the various Member States, the influence of political groups and committees of the European and national parliaments, and under the scrutiny of the various stakeholders interested in European affairs. This presentation ends months of preparations, circulations of ideas, resolutions and proclamations, and opens a new phase of negotiations and, hopefully, decisions.

The Commission's proposals, which are described below, are a first concrete but nevertheless timid attempt to get out of the 'business as usual' approach and present some innovative elements. Looking back at the history of Europe, which was described above, the situation today has, *mutatis mutandis*, some similarities to the period preceding the enlargement to Spain and Portugal and the Single Act. The crisis of the European project is deeper than in 1986. It is due not only to a lack of resources but also to a lack of ambition and a disaffection of public opinion, while in 1986 the accession of Spain and Portugal opened a new horizon for European construction. The two Presidents of the Commission, Jean-Claude Juncker and Jacques Delors, have many similarities in their cultural backgrounds, their previous experience, their vision and their forward-looking capacity. In the early 1980s the EP played an important role, leading the way to a vision of a more ambitious Europe.

Nevertheless, the leadership of the Commission today is probably weaker, as Juncker does not have the same support that Delors received from the German and French leaders, François Mitterrand and Helmut Kohl. Angela Merkel and Emmanuel Macron certainly share some but not all the objectives of a reform, and finding a compromise between the two will be one of the first challenges in the negotiation. Another



substantial difference is the number of participants around the negotiating table: ten in 1985 and twenty-seven now, with administrative, cultural and economic divides much deeper than in the past. At the same time, some of the European Leaders see the urgency of reforms. A deep EU reform could unite the Europhiles and part of the euro-sceptics.

In spite of the differences, similarities can inspire the negotiations. The current EP and the one to be elected in 2019 can lead the way to a relaunch of the European project.

### *Two supplementary drivers of reform*

Two events in the middle of 2019 might have an impact on the negotiations: a) the formalization of Brexit and b) the election of the European Parliament. Both events are likely to influence the negotiation. It would be pretentious to foresee the outcomes of the two events, but in my appreciation the possibility that both events will represent a stimulus for reform is greater than the possibility that the two events will stop the reform process.

### *The impact of Brexit*

Since the outcome of the referendum, in June 2016, and the formal opening of the procedure ex art. 50 TFEU, the unity among the 27 has been reinforced. This unity has made the EU negotiator, Michel Barnier, strong and determined in the negotiations. This feeling has even increased with the progress of the bilateral talks when it became clear to many, in Europe and also in the Member States, that the UK would face many unforeseen problems after its exit from the EU. The relevance given by the traditional press and by the media to this negotiation has even made European, but also British, public opinion more aware of the difficulty of leaving the European Union. Generally, Brexit has reinforced the sense of belonging to the European Union.

March 2019 will probably see the last act in the first ever exit negotiation in the history of the EU. A conclusion of these negotiations allowing many concessions to the 'exiter' might create a dynamic of disintegration of the European project. The difficulty of managing the exit would favour a generalised will to change the system. If the

formalization of the UK exit does not see the EU capitulate on the fundamental points, this could stimulate other MS, and also public opinion, to proceed towards an in-depth reform.

If there is an impact of Brexit on the reform, there might also be an impact of the reform on Brexit. Should a reform to relaunch the European project be successful, after its exit the UK will see a different Europe, probably closer to the model that it had imagined. Could this give the British citizens an opportunity to re-think the whole exit process? I do not wish to speculate, but a reform could destabilize the reasons at the base of the decision to abandon the European project.

#### The election of the European Parliament

In May 2019 the European citizens will be called on to elect their MEPs. As indicated above, discussion of a reform of the project will oblige political parties to take positions and make campaigns on European themes. The same will be true for the lead candidates for the Presidency of the Commission.

The election could be another unique opportunity to bring this debate to the citizens, so that the elected MEPs will receive a mandate on the themes of the reform. The likely presence in the future parliament of a stronger coalition of Euro-critics might facilitate a push towards more ambitious reforms.

#### *Possible blocks*

The Member States will definitely play the central role in the scene. Several variables and sub-variables will intersect in these negotiations. Below, some of the possible blocs that might aggregate Member States are discussed.

A possible divide will be between the MSs which see a reinforcing of the European commitment as a solution to the transnational challenges and a second group, MSs whose interest is only limited to the financial support that their country can receive from the EU without feeling particularly committed to the rules. Another divide will be

between net contributors and receivers. These blocs will be far from homogeneous and other variables will complicate the objective of compromise.



### Financial resources

One of the divisions is between net payers and net beneficiaries. However, these two groups are not homogeneous. On the net payers' side, there is the group of 'not a euro more,' who will resist any supplementary contribution to the EU budget. Other Member States seems to be more open to a (moderate) increase of the resources but with reinforced conditionality. These Member States could agree on supplementary allocations to the EU budget provided that they know in advance where these resources will be allocated and that the beneficiaries respect a number of conditions.

On the beneficiary side, they all want more money but some also want less Europe while others can follow more Europe.

Within this group, a second division could be between Member States outside the euro group and those that have adopted the euro. The latter could find compensation in the form of a hypothetical Eurozone budget, which would be part of the negotiations.



### *European commitment*

The level of attachment to the European project is another variable. This bloc is also complex as the Member States have different ambitions relating to their commitment. There are the motors of integration, the happy followers and some Member States which resist any idea of supplementary integration, which can translate into new competences and policies, transferred to the European level (to the Commission?).

### *National interest*

Finally, every single Member State will enter the negotiations on the MFF beyond 2020 with a list of national interests. This is fully legitimate, if all the MS are open to negotiating and flexible to compromise.

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To conclude, the decision on the MFF is probably the most important decision the European Union takes every seven years, as it shapes legislation and financial resources for a about a decade. For all the reasons expressed above, this negotiation will be the first opportunity to give some answers to the disenchantment with the European project on the part of public opinion. The Commission's proposals are important as they set the scene, but the heads of state and prime ministers meeting in the European Council will be at the core of these negotiations. The importance of their decisions is such that the

European Council will go over the competences attributed by the Treaty,<sup>127</sup> only leaving a margin to fix the details to the co-legislators, Council and Parliament.

The EP should give its consent to the decision taken by the European Council. It is clear that after a decision by the European Council, the margin for negotiations is very limited, especially because all the governments have a parliamentary majority in the European Parliament. To reduce the risk of the EP rejecting the whole package adopted by the European Council, all previous negotiations have involved a delegation from the EP, often led by its President, in the early phases of the negotiations.<sup>128</sup> The role of the EP could go well beyond the formality of the procedure. Especially if it coordinates with the national parliaments, the EP could influence the direction of the future Europe, creating a new democratic dimension which the European Council could not ignore.

### *All winners; all losers*

The negotiation on the post-2020 MFF could be the first concrete step to initiate a relaunch of the European project. This negotiation will be complex with multiple layers of interests overlapping. The situation of the EU countries has changed enormously from that in 2012/2013 when the legislative package and the 2014-2020 MFF were negotiated. If the economic situation is certainly much more positive nowadays than it was before the agreement on the 2014-2020 MFF, the political scene looks quite different, and not only because of the absence in these negotiations of the UK. Even where there is the same coalition in power, i.e. Germany, after the election the Chancellor Angela Merkel has had to face a Bundestag which is much less supportive of European policies. There are governments more critical towards the European project with respect to 2012/2013 in Austria, the Netherlands, the Czech Republic, Hungary, Poland and Italy. The exception is France, which has a more dynamic president with a

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<sup>127</sup> Art. 15 TEU establishes that the European Council shall “provide the Union with the necessary impetus for its development and define the general political directions and priorities thereof.”

<sup>128</sup> Peter Becker, *Reforming the European Multiannual Financial Framework*, and A. Vitrey, *The First Multiannual Financial Framework under the Lisbon Treaty*, in M. Bauer, S. Becker and A. De Feo (eds), *The new politics of the European Union budget*, Nomos, 2017, ISBN: 9783848735006.

clear European agenda, but a relatively short period of time to produce results, with more than 30% of the voters, which expressed anti-European and nationalistic positions.

The EU treaty foresees unanimity to adopt the MFF. A 'passerelle' clause could allow a vote at majority, but this is unlikely to happen. Looking at the political positions of the different countries, unanimity is certainly a deterrent to a high-profile agreement, but everything is not lost. The history of Europe has shown that institutional creativity can help to solve impossible problems. Unanimity can be reached with opt-outs, enhanced cooperation or differentiated integration.

For Member States which are reluctant about further integration, opting out could be perceived as a national success. The same could happen if some European competences will be repatriate to the Member States. In this sense a differentiated integration might result in all being winners but at the same time all being losers, because if one or more Member States move away from the European project everyone will be a loser.

The transfer of financial resources is another driver for reaching unanimity. This has already happened in previous MFF negotiations, where some Member States benefitted from financial compensations unrelated to EU policies whose main objective was only to make the MFF agreement acceptable.<sup>129</sup> Differentiated integration will have the advantage that it will allow the 'outs' to step in, with the only condition being that they respect the regulations that will have been adopted by the 'in' group.

### *The new geopolitics: no alternative for Europe*

Throughout these pages, I have indicated the growing number of transnational challenges facing our societies: migration, security, development, climate, defence and

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<sup>129</sup> See examples in the European Council conclusions of February 2013, available at <http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2037%202013%20INIT>.

energy. Each of these challenges has its own specificities, but recomposing all the pieces of this puzzle we discover that beyond these individual challenges there is a new world order where individual nations, however big they are, will be condemned to irrelevance. Europe should prepare itself for this relatively new situation.

For its security and defence, Europe can no longer rely on the US shield. Only coordinated or integrated European defence will allow Europe to be an actor on the international stage and to have the capacity to be a serious counterpart of the US and Russia. The migration flow from the Middle East and Africa should only be tackled with a coordinated European effort. The same is true for energy and climate issues. The new world sees the presence of blocs like Russia, China and the US, not to mention India and Brazil, which are trying to expand their influence. For instance, China's development policy is already expanding its economic influence in a large part of Africa, which will be a very attractive market in the next decades. The military presence and influence of Russia in the Middle East and the various attempts by Russia to destabilize the European countries are another example of a new world order where Europe should find a new dimension.

The Member States are naturally jealous of their autonomy and traditions but also aware of the weaknesses of their national defence mechanisms. A timid beginning of coordination has started with closer cooperation but there is still a big gap to fill for Europe to act as a bloc, and to take direct responsibility in the dialogue/confrontation with the other blocs. The European project for the next decade should make steps forwards in this direction as well.

### *The MFF beyond 2020: the Big Bargain starts*

On 2 May the Commission presented its proposals for the 2021-2027 Multiannual Financial Framework. These proposals represent a novelty with respect to previous years as the Commission introduces some reductions of a size unknown in the past to make resources available for the priorities of the next decade and to maintain some of the traditional policies. The Commission has opened the way to a reform but too timidly, leaving the burden of the decisions to the Member States and the European and national parliaments.

This paper is not the place to summarize or comment on the proposals in detail, but they represent, nevertheless, the starting point for the potential reform process that I have described in these pages. I will limit myself to highlighting the most relevant features which are likely to be at the centre of debates and negotiations in the next months.

### *The financial balance*

The Commission's response to the reduction of the UK contribution (about €12 bn.) was one of the first challenges for these proposals. The Commission presents a blend of reductions, increases and some cosmetics. The reductions are concentrated in the agricultural policy, about 5%, and in the cohesion policies, about 6%. The financial resources to support new policies should be derived from a new basket of own resources and from a modest increase in the GNI contribution.

The cosmetics concern: 1) a more important reduction of agriculture and cohesion funds, that announced; 2) integration of the EDF, a proposal already rejected in the past by the Council. This means that Member States pay more for the EU budget but they do not pay for the EDF – it represents 0.03% of GNI; 3) a difficult comparability of the Commission proposals (38 programmes, EUR 27) with respect to the previous period (57 programmes, EUR 28). This blend allows the Commission to present an apparent increase in global terms, to cover the deficit resulting from the absence of the UK, and the beginning of a European taxation mechanism to alleviate the financial burden on the Member States' finances.



### European added value

Using soft language, the Commission recognizes that European added value cannot be justified for all the measures financed by the EU Budget. European added value is when one euro invested through EU policies is less costly than one euro spent at the national level, or it produces better results, or it allows financing large-scale or transnational projects. The Commission decision follows a thorough spending review, which the Council and the EP were reluctant to be fully involved in.

The reduction of the number of EU programmes from 57 to 38 will reduce comparability and make the life of former beneficiaries more difficult. The reduction should also contribute to simplifying access to EU funds for potential beneficiaries through the establishment of a single rulebook.

The Commission also commits to improving the mechanisms to monitor the performance of EU policies, reinforcing the link between indicators and political decisions. This might happen if the legislative and budgetary authorities can be involved in this process upfront.

### Own resources

The Commission is proposing an ambitious reform of the own resources based on three principles:

- ✓ simplifying the current own resources, with a simplification of the Value Added Tax to base it only on standard rated supplies, reducing the Member States' reimbursement for collecting costs;
- ✓ creating a new basket of own resources, linking the contribution to specific EU policies (e.g. common consolidated corporation tax, emission trading schemes, a contribution calculated on the amount of non-recycled plastic packaging waste) which should contribute about 12% of the EU resources;
- ✓ gradually reducing the GNI contribution.

At each renewal of the financial framework, the Commission has presented proposals to reform the financing mechanism, but it has never succeeded in convincing the Member States in spite of the support of the EP. Can this time be different? The preparation was probably better. The High Level Group on Own Resources has not only presented proposals but also raised the level of awareness in the Member States, in particular in national parliaments. This, linked with the need for supplementary resources, might increase the chances of a more favourable acceptance by the Council.

### Conditionality

Most of the time, European funds have been allocated on the basis of compliance with specific regulations. This time, the Commission proposes to reinforce the conditionality by also requiring beneficiaries to respect supplementary conditions to benefit from European financial support.

Direct agriculture payments will be subject to respect for environmental and climate standards, reinforcing measures that previously existed, and introducing eco-schemes and a performance-based strategic framework.

A new link will be introduced between the policy recommendations made in the course of the European Semester<sup>130</sup> and the cohesion policy. Cohesion funds will also serve to finance recommendations, not only the structural policy decided by the Member States. This is an important step, as it will create an incentive for the consolidation of the economic stability of the Member States.

The Commission also proposes increasing national co-financing, with the aim of not only reducing the burden of the EU budget but also of increasing ownership by the Member States. This is an approach different from that taken for the common agricultural policy.

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<sup>130</sup> The European Semester provides a framework for the coordination of economic policies across the European Union. For each country the Commission presents a set of country-specific recommendations (CSRs), reforms which can realistically be achieved over the next 12-18 months.

### A more stable and efficient Economic and Monetary Union

In its proposals, the Commission does not prefer to create a Eurozone budget, but introduces two measures that could have a direct link with the stability of the economies of all the Member States. These measures will create a link with the structural reforms. They are to be decided at Member State level and will finance structural interventions to stabilise the economy in the case of asymmetric shocks. These new instruments will contribute to consolidating the Economic and Monetary Union and to supporting economic convergence, financial stability, job creation and investment.

- a) *Reform Support Programme*: this will offer technical and financial support for reforms at the national level with an overall budget of €25 billion.
- b) *European Investment Stabilisation Function*: this will complement existing instruments at the national and European levels to absorb large asymmetric macroeconomic shocks in the euro area, with a budget of €30 bn.

### Respect for the rules of law

The Commission also proposes a general condition of respect for the rules of law to protect the financial interests of European taxpayers. In the case of a breach of the rules of Law, which might endanger the EU financial interests, the Union can suspend, reduce or restrict access to EU funding in a manner proportionate to the nature, gravity and scope of the deficiencies. This measure could be invoked when a generalised deficiency regarding the rule of law endangers European financial interests. This innovative mechanism can only be activated in a case of a breach of the rules of law if the breach threatens the financial interests of the European Union.

The new proposals are considered to be mainly aimed at two European countries (Hungary and Poland) but others might be added to this list. On the basis of the limitation introduced, no measures against flagrant violations of the rules of law can be taken if there is no breach of financial interests.

## Focus on priorities

The increase in the number of headings from five to seven<sup>131</sup> makes the new priorities for the next decade more visible. The new priorities, and some of the other traditional policies – the digital agenda, research and innovation and last but not least the policies for education and youth – which so far have been under-financed now reach the centre of the European stage, with a substantial increase in financial allocations. If the Commission's proposals are adopted, some other traditional policies will receive supplementary financial support.

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To conclude, the paragraphs above are not meant to comment on the Commission's proposals but to draw attention to some of the main novelties which are likely to be at the centre of negotiations.

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<sup>131</sup> 1. Single Market, Innovation and Digital; 2. Cohesion and Values; 3. Natural Resources & Environment; 4. Migration & Border Management; 5. Security & Defence; 6. Neighbourhood & the World; 7. European Public Administration.

## ***Conclusion***

The last two years have produced more modifications to the geopolitical order than the previous twenty years after the fall of the iron curtain. Europe will have the opportunity to raise its political presence and role within the new world order. This is becoming not an idealistic and federalist vision but a necessity to resist the expanding role of Russia, the change in US international policy and the roles of emerging powers like China and India. At the same time, a populist wind has started to blow in all the European countries, destabilizing the many values which were at the base of our societies.

Above, I have described the disenchantment with the European project on the part of a growing number of European citizens, but at the same time the necessity of facing the current challenges together. The necessity of building up the Europe of 27 after 2019, the renewal of the Multiannual Financial Framework and the legislative package is a unique opportunity to rethink all the EU policies and reinforce their European dimension. This work has highlighted how urgency and momentum encourage us to initiate this process of reforms to shape the Europe of the next decade.

The central research question behind this work has been *How can the European project come to a new life and respond to the challenges of the coming years?*

The proposals presented here have aimed to: a) reinforce the European dimension of the institutions and to create a European identity; b) build a model of differentiated integration where a core group of willing Member States will shape the new policies while the others will have the possibility of joining but without influencing the new policies; c) define the policies for moving toward 2030 from a fresh perspective with no conditions from the past.

The proposals presented by the Commission on 2 May contain some novelties in their approach, which is more focused on priorities than the past but still not too ambitious. This negotiation could become the first opportunity for stepping up towards a new European project. The new Europe should not be a prolongation of the old one. Member

States should take back responsibilities in areas where there is less European added value but reinforce their integration in the priority sectors. In the following weeks and months, negotiations will open a unique window of opportunity for governments to reform the European project.

The European Parliament could play a decisive role in this negotiation. The consent procedure gives the EP not only the competence to approve the text which will be approved by the European Council but also to reject it. The EP should make its presence felt during all the phases of the negotiation. Its position will be stronger if it can achieve some coordination with the national parliaments. The future European Parliament will reflect the mood of public opinion. A change in the balance between Euro-critics and Europhiles is likely. The EP could then become the motor for a radical change in the European project. This outcome can be reached if coordination on substance is found with the national parliaments (preferably all of them).

The reform should abandon some of the traditional policies where European added value is less and where member States can reinforce their roles within the rules established at the European level. Financial resources can then be concentrated on the priority policies.

The European Parliament has an opportunity to raise the level of the debate to oblige the Council to look beyond the Commission proposals. Success for the European Parliament in this negotiation could not only shape a new Europe for the next decade but will show public opinion the meaning of democratic institutions.

If the challenge of the reform is seized by the governments under the pressure of the parliaments (national and European) the European project will come to a new life and will then be able to respond to the challenges of the coming years.

## **Post scriptum**

The preparation of this work started in September 2017, and it was nourished by the State of the Union 2017 speech, pronounced by Jean Claude Juncker in front of the European Parliament. This work was concluded in May 2018, shortly after the Commission presented its last legacy: the proposals how EU policies and EU budget should shape Europe for the next decade.

In this work, I have highlighted how the world's new order and all other external elements should encourage Member States to a closer cooperation.

At the same time, we have assisted in the success of political forces, which do not believe in the European cooperation and consider that each Member States should give their own answer even to transnational problems. The national translation of the America's first motto.

The dimension of the migration problem, or at least the perception given by media, has disintegrated the trust that once existed among a Member States. It is not exaggerated to consider that some declarations made by National Leaders (no name, no shame), had a tone and a content closer to a pre-war situation than the usual diplomatic controversy.

All this to say, that if Member States do not find the lucidity of looking for a constructive compromise in the Migration issue and in a new policy for a new development of the neighbouring policy, the risk of disintegration of the European Union will increase and no reforms could influence it. This might not mean the end of the European project, but the end of the current Institutional architecture, based on a blend of European and national centre of powers, where the smaller and weaker Member States are protected by the community method of decision, based on the mutual understanding. In case of the failure of the reforming the EU and solving the current tensions, Member states might recreate several intergovernmental agreements, increasing the contradictions among potential blocks and offering the possibility to the other superpowers (US, Russia, China) to influence in domestic affairs.

This worst-case scenario is not science fiction but a reality which could materialize if the escalation of mistrust is not reversed. In this case, all attempts of reforming and relaunching the European project will be in vain.



List of abbreviations

AMIF	Asylum, Migration and Integration Fund
CAP	Common Agriculture Policy
CFSP	Common Foreign and Security Policy
CE	Compulsory Expenditure
DI	Differentiated Integration
EAFRD	European Agricultural Fund for Rural Development
EAV	European Added Value
ECSC	European Coal and Steel Community
ECA	European Court of Auditors
EDC	European Defence Community
EEC	European Economic Community
EFSD	European Fund for Sustainable Development
EMFF	European Maritime and Fisheries Fund
EMS	European Monetary Fund
EPRS	European Parliament Research Service
ESI	European Structural and Investment Fund
ESF	European Social Fund
ESM	European Stability Mechanism
EIB	European Investment Bank
EMS	European Monetary System
EMU	Economic Monetary Union
EP	European Parliament
EU	European Union
HLGOR	High Level Group on Own Resources
GNI	Gross National Income
IGC	Intergovernmental Conference
IIA	Inter Institutional Agreement

ISF	Internal Security Fund
MRI	Maximum Rate of Increase
MFF	Multiannual Financial Framework
NCE	Non-Compulsory Expenditure
OMC	Open Method of Coordination
SEA	Single European Act
TEU	Treaty on the European Union
TFEU	Treaty on the Functioning of the European Union
ORD	Own Resources Decision
UPC	Agreement on a Unified Patent Court
YEI	Youth Employment Initiative
VAT	Value Added Tax

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