THE STATE OF THE EUROPEAN UNION

The European states facing the reforms of the Union

2018

The State
of the European Union

The European states facing the reforms of the Union

The State of the European Union

The European states facing the reforms of the Union

Director:
Diego López Garrido

Co-directors:
Gero Maass and Nicolás Sartorius

Coordinator:
María Pallares

Coordination assistant:
Tram Ahn Nguyen

Table of contents

Presentation

The financial and monetary crisis of the last decade has transformed the European Union, giving rise to centrifugal tendencies but also generating genuine progress towards deepening the union.

Divergence between the real economies of the eurozone has increased. Some southern European countries, in particular, continue to face serious economic problems, and the gulf that separates them from the northern members of the eurozone is widening. In this respect, Spain is an exception as, at least in terms of GDP growth, it has narrowed the gap.

The decline in industrial output in the south has been mirrored by an increase in central and eastern Europe. The countries of this region have become increasingly integrated into the value chains of major European firms. Lower salaries and social standards have been a significant factor in this geographical shift, which has seen central and eastern Europe accounting for a growing proportion of the EU economy.

The measures adopted to rescue the euro have led to a further deepening of the eurozone. As a result, both the interdependence of the countries of the eurozone and the prospects for resilience in the event of further crises have increased. However, there is no sign of successful initiatives to strengthen the social pillars of the union.

The economic and political weight of Germany have grown both as a result of problems in the south of the eurozone and due to the United Kingdom's decision to leave the EU. At the same time, Germany's trade with fellow EU members benefits from an undervalued currency whose value does not reflect the country's trade surplus.

Since autumn 2015, Germany's unilateral migration policy has created new tensions at the heart of the European Union, exposing the latent tension between the expectations of northern and southern states with regard to the mutualization of risk and responsibility for the stability of the eurozone as a whole. The German open-borders policy and the requirement that eastern European countries would have to abide by it have been a focus of political disagreement between east and west, and this issue can only be resolved by a common immigration and asylum policy.

During the economic crisis, Euroscepticism grew. However, more recently – in response to foreign policy crises and the election of Trump –

public opinion has become more favourable to the European Union. This situation provides new opportunities for pro-European initiatives: we need a politics that is informed by a sense of proportion, proceeding gradually on the basis of flexible political coalitions between different Member States. Structured or consolidated partnerships can be a useful tool.

However, this gradualist approach must be combined with a clear view of the direction of travel. The European Union has lost sight of its goals and its vision and has become an easy target for doubters and sceptics. But a new Europe is on the way, one that is growing out of a response to the crisis and is not in opposition to nation states but instead seeks to work in partnership with them. One of the sources of hope for Europe lies in inter-dependent units such as cities and regions. This is a process that must be driven by Europe's citizens. The Europe of the future will not be a traditional state, nor will it be a club of regional separatists; rather, it will be a networked project of the twenty-first century, inspired by federal ideals.

In autumn 2017 the French president, Emmanuel Macron, presented his vision of a refounded Europe in a speech addressed, above all, to Germany. Macron aspires to build a European Union that looks not to the past but to the future: Europe must be "more sovereign, more united and more democratic"; in other words, it must be more independent in its external relations and more interdependent internally.

Macron's project is also a response to the new populism of the right, and to nationalism and separatism. These trends are fuelled not just by the economic crisis and rising social inequality but also by the reaction to the open immigration and integration policy, and indignation against a politics that is imposed "from above" without involving citizens. It is a populism whose roots are both cultural and irrational.

But if there is one thing that is more dangerous than the populists and the separatists themselves it is being afraid of them. The Italian election result has produced great uncertainty. That the third-largest economy of the eurozone should have to choose between a Eurosceptic far right and a confused movement which, until recently, was also anti-European, is disturbing to say the least. The collapse of social democracy in France and Italy and its greatly weakened position in Germany does not augur well for the future of the EU. Despite this, the coalition agreement in Germany, with a detailed social and European agenda, offers a positive outlook for Europe as a whole if this programme is implemented with commitment and courage.

Democracy needs to offer different options, sovereignty needs to be meaningful, and globalization needs to be endorsed. In Europe, democracy

is grappling with the contradiction of citizens who have more freedom than ever but who at the same time feel themselves to be increasingly powerless. It is the populists who have exploited this new gap between ordinary citizens and the economic and political elites, promising identity, patriotism, emotion and feelings of belonging.

In times of great crisis, it is not too much change that generates insecurity but rather clinging to the policies of the past. People don't want to do away with Europe altogether but rather to create a new Europe. The refoundation of Europe must strive for a new balance of shared sovereignty, democracy and subsidiarity. The Europe of the future must be both larger and smaller than the old one: larger with respect to global issues, and smaller with respect to local ones. The Europe of the future is not a state in the legal or centralist sense of the word, but rather a coordinated entity, one that is simultaneously supranational and federal.

Europe must be more sovereign and more united when it addresses global challenges such as migration, poverty, terrorism, climate change, protectionism and the digital revolution. It will have to think in more ambitious terms if the USA withdraws from the continent and powers such as China, India and Russia become key players on the global stage. Achieving true sovereignty depends on moving from a politics of unilateral action and coercion to one of reconciliation and coordination.

Monetary union is incomplete without fiscal and social union. In light of the new global security situation, it is important to include the creation of a security, defence and energy union on the agenda. And there is another question that cannot be sidestepped: the European Union must become more democratic. For this relaunch, Europe needs – in the medium term – a declaration of reciprocal dependence. Europe draws its strength not from the independence of member countries as nation states but rather from their interdependence and their cooperation, a unique historical phenomenon. The drive towards regional independence, such as we have recently seen among a minority of Catalans, is the expression of a new, exclusive nationalism that has also appeared in other parts of Europe. But what has made Europe strong and innovative is not nationalism but rather an intelligent balance between autonomy and dependence within a federal framework.

<div style="text-align:right">

Nicolás Sartorius
Executive Vice-president
Fundación Alternativas

Gero Maass
Representative in Spain
Fundación Friedrich Ebert

</div>

Introduction. The resurgence of nationalism

Diego López Garrido

This year's State of the European Union Report (2018) approaches the subject from a slightly different perspective than earlier editions. It addresses the subject not only from the viewpoints of European Institutions based in Brussels, Strasbourg and Luxembourg but those of Member States as well.

Studies on the Union often overlook the fact that the Commission, the European Parliament, the European Court of Justice and the Council of the European Union are not the only entities involved in European policy. Member States and their institutions play an important role as well. Not all of the policies they implement are strictly national in scope. Member States apply European law (well or poorly, as the case may be); adopt positions that condition the Union's actions and focus (conducive in areas such as security and defence and sometimes obstructionist on other issues such as the refugee crisis); and make the existence and evolution of the European project feasible (e.g. economic and budgetary policy).

Policies implemented at the European level and public opinion regarding them suppose an inevitable (and desirable) symbiosis between national and community interests and European and national law. This is natural, given the Union's status as a community based on the rule of law, human rights, the separation of powers and democracy. No comparable regional framework exists anywhere else in the world.

The Fundación Alternativas and the Friedrich-Ebert-Stiftung have invited authors from Spain, Germany, Portugal and France to contribute to the 2018 report with an eye to providing a snapshot of the present State of the Union that takes a variety of angles and cultural perspectives into account.

The decision to put a focus on national perspectives has not been fortuitous. Over the past few years we have seen what can best be classified

as a resurgence of state powers unparalleled in the fluctuating but never monotonous, history of the European Union – a journey forward together since the end of the Second World War that has supposed greater cooperation and convergence (a reduction of the per-capita income gap within Europe through economic growth), the implementation of common policies (on monetary issues, trade and the freedom of movement of persons) and solidarity (cohesion and development assistance).

The economic crisis and its legacy (the deterioration of the welfare state, growing inequality, the fiscal crisis and the expanding hegemony of American financial and high-tech companies) have interrupted this forward momentum. Just when it seemed the laborious recovery from the recession and reductions in unemployment and deficits would bring an end to a misguided austerity policy and pave the way for what we envisioned in our 2017 report as "the relaunching of Europe", the Union finds itself beleaguered by political and ideological threats jeopardising its integrationist culture that bear the unmistakeable stamp of old European statism.

These have arisen at the very worst moment possible given that 2018 is a decisive year in which reforms essential to Europe's future must be charted out and integrated into 2021-2027 budget proposals and debates leading up to the upcoming European Parliamentary elections in 2019. These elections represent a crucial opportunity to give these reforms the democratic legitimacy required to bring them to fruition.

What are these threats unequivocally linked to anti-Europeanism of the most reactionary type?

The first is populist nationalism, a perennial thorn in Europe's side that has made a lamentable comeback. Phenomena as diverse as the recent electoral successes of far-right parties in Poland, Hungary, Austria and the Czech Republic, the independence movements in Catalonia and Northern Italy and Brexit share an exclusionary, identitarian vision diametrically opposed to Europeanism and its supranational objectives.

It is coherent, if paradoxical, that the current crop of nationalist conservatives openly sympathizes with leaders not particularly known for their defence of liberal democracy such as Trump and Putin, both of whom instinctively advocate the centralisation of power.

Inseparably linked is the menace of rekindled authoritarianism in the heart of continental Europe that cannot be dismissed as a figment of the imagination or an illusion. The European Commission has invoked Article 7 of the Treaty of European Union against Poland in response to that country's violation of fundamental constitutional principles such as the separation of powers and judicial independence.

Authoritarianism creates the ideal breeding ground for outbreaks of xenophobia, the sentiment driving the regrettable boycott of the European Commission's migration and asylum policy mounted in large part by the Visegrad group countries, several of which have been major recipients of EU structural and investment funds (which, in the case of Poland, cover 60 % of public investment expenditure). The refusal of these states to help relieve the burden the influx of the millions of asylum seekers fleeing wars in the Middle East supposed for Greece and Italy constituted nothing less than a violation of the Geneva Convention on refugees.

In addition, we face an external threat of an economic nature championed by Donald Trump: protectionism. Nothing could be farther from the EU philosophy of trade.

Trade protectionism is but one more expression of populist nationalism, in this particular case being imposed by a third country.

This set of problems so counter to the idea of Europe could precipitate what could hurt the Union the most: divisions between Member States. A return to the Europe of Westphalia.

One cannot ignore the growing tendency of Member States to form "clubs" based on affinities that routinely come up with proposals that diverge from, or are occasionally incompatible with, the thrust of EU policy on economic matters, foreign affairs, migration and other issues. We have the Nordic countries (Sweden, Finland, Denmark), the Baltic countries (Estonia, Latvia, Lithuania), the Visegrad countries (the Czech Republic, Hungary, Slovakia, Poland), the Central European countries (Germany, Austria, The Netherlands), the Southern or Mediterranean countries (France, Spain, Italy, Greece, Malta, Cyprus, Portugal) and so on.

There is nevertheless a flipside to the coin, which is the undeniable desire on the part of European citizens to remain in the Union and the euro and their satisfaction with being a part of the European project. On the average, over 70 % of the citizens of EU countries hold firm to these convictions. We must not forget that the majority parties in leading Member States (Germany and France most notably in terms of visibility, but Spain and Italy as well) are staunchly pro-European. That unquestionable progress has been made in policy areas such as security and defence and international cooperation and development. That there has been a firm consensus about how to face the challenge of Brexit. And that the European Central Bank is a powerful Institution that conveyed a crucial sense of security during the first few years of the crisis. Despite these certainties, it remains clear that the European project will flounder if we attempt to tackle the challenges of globalisation within the narrow confines of state

or national arenas rather than at the European level. While emerging players the size of Russia and China and superpowers such as the United States may have the luxury of taking a solo approach, this is not a viable option for smaller countries such as those that make up Europe.

In spite of the resurgence of nationalism, the future of Europe and, by extension, EU Member States, hinges upon a mutual willingness to take the steps necessary to prosper in the age of globalism. The EU needs reforms. It is this route forward that must be taken up at the next European Council meeting scheduled for June.

What kind of reforms? Those most urgently required fall into four fundamental areas addressed in the chapters and final recommendations of this report. The first and most important is the reform of the euro needed to give European countries the security and solidarity they lacked when the worst financial crisis in our history hit in 2007-2008. Mid-term actions on this issue must include (in spite of German resistance) the creation of some type of Eurobond and short-term measures the institution of a fund or budget line specifically earmarked for crisis management and two instruments required for banking union: a common resolution fund and a European deposit guarantee fund. The formula for Member State contributions to this fund envisaged by the IMF is fairly realistic: 0.35 % of each country's GDP towards a collective reserve of 40 billon euros.

Economic reform must include the admittedly difficult tasks of achieving fiscal harmonisation, imposing direct taxation on multinational tech companies and implementing stronger measures against tax havens (on which progress has been made in the form of a Commission list of countries falling into that category).

The second area requiring attention is Social Europe, which has yet to figure on the EU policy agenda. The establishment of a long-awaited harmonised European minimum wage, a harmonised pension scheme and a European Pillar of Social Rights is needed to guarantee the further legitimisation of the European project. The scope of what was discussed at the Gothenburg summit must be substantially broadened.

In concert with this social pillar, the EU must develop a European asylum policy (lacking to date) based on solidarity rather than national self-interest. The refusal of the Visegrad countries to comply with the refugee distribution policy devised by the Commission led to an asylum outsourcing agreement with Turkey, an unsafe third country. Germany, which admitted a million asylum seekers in the space of a single year (2016), has been the only country to demonstrate generosity on a meaningful scale.

The fourth and very important area of reform – security and defence following the UK's withdrawal from the Union – is an issue on which the

remaining 27 Member States agree to a greater extent. The recent implementation of permanent structured cooperation (PESCO) represents a key step towards an essential goal: "strategic autonomy", which will entail the establishment of a European command centre equipped to facilitate the planning of executive and non-executive civilian and military missions.

In sum, the Union faces a range of challenges in 2018, the most daunting of which is the troubling rise of nationalism and exclusionary powers with a distinctly anti-European streak.

In order to counteract this tendency and enter the 2019 election season on the best possible footing, the Union – in other words, its Member States – must broaden their horizons and move beyond the current situation fraught with nationalist and protectionist tendencies and narrow self-interests. Pursuing a genuine European project is by far the best alternative.

The states on the future of Europe

José Candela and Carlos Carnero

The "future of Europe," as the political, not legal, expression it is, can have multiple meanings. Here we refer above all to the meaning derived from the main texts to have emerged in 2017 from the European Parliament, the European Commission and, particularly, since we are talking about states, from the European Council.

The limited value of the debate among the states

After Brexit, the debate on the future of Europe in the European Council began in March 2017, against the backdrop of the celebration of the 60th anniversary of the European Communities. The European Council is likely to take the first decisions arising from that debate now, in 2018.

The Parliament, the Commission and the European Council approached the debate in different ways. Consequently, the political agendas of the European Commission and the European Council (lately called the Leaders' Agenda) are different.

The Parliament was the first to speak, with an overall long-term view that inspired the adoption of two related resolutions in 2017: one on the shape of the Union (institutional matters, governance)[1] and another on its policies (particularly economic and monetary policy, the single market, budget policy, social policy and the Union's external action)[2].

The two resolutions also had something to say about two principal questions, namely, who should take part in the debate and how to take the relevant decisions. Since the Parliament did not exclude a new reform of the treaties, in one of those resolutions it proposed that the debate on the future of Europe should take place with-

---

[1] *European Parliament resolution of 16 February 2017 on possible evolutions of and adjustments to the current institutional set-up of the European Union.* Available at: http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P8-TA-2017-0048&language=EN&ring=A8-2016-0390

[2] *European Parliament resolution of 16 February 2017 on improving the functioning of the European Union building on the potential of the Lisbon Treaty.* Available at: http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P8-TA-2017-0049&language=EN&ring=A8-2016-0386

in a Convention[3] (the decision-taking procedure of greatest intensity and democratic legitimacy in the Union)[4] to be convened in the context of the 60th anniversary.

The methodological key to the Parliament's proposal can be found in point 1 of the institutional resolution: "The Parliament considers that the time of crisis management by means of ad hoc and incremental decisions has passed, as it only leads to measures that are often too little, too late; is convinced that it is now time for a profound reflection on how to address the shortcomings of the governance of the European Union by undertaking a comprehensive, in-depth review of the Lisbon Treaty; considers that short and medium term solutions can be realised by exploiting the existing Treaties to their full potential in the meantime".

The Parliament, then, got the ball rolling on discussing[5] the future of Europe, combining the debate on the form of the Union with the debate on the content of the Union, two spheres that European political leaders cannot separate if they wish to act honestly. What's more, the Parliament acted in line with the idea that, given the essentially democratic nature of the Union's political life, the participants in the debate must be all the political subjects that to a greater or lesser degree are affected by the decision-taking process and by the consequences of that process: institutions and states as the main players in participatory democracy and civil society as a player in participatory democracy. The Parliament's initiative was to be expected, given its more democratic and plural nature, despite having a similar correlation of forces to the rest of the institutions.

The European Commission divided its contribution to the debate into two moments over the course of 2017.

On the one hand, it published six reflection papers: the *White paper on the future of Europe*, adopted on 1 March 2017[6] and five communications[7] on:

– Developing the social dimension of Europe.[8]
– Deepening the Economic and Monetary Union, on the basis of the Five Presidents' Report of June 2015.[9]

---

[3] *European Parliament resolution of 16 February 2017 on possible evolutions of and adjustments to the current institutional set-up of the European Union*, point 85: The European Parliament "Is of the opinion that the 60th anniversary of the Treaty of Rome would be an appropriate moment to start a reflection on the future of the European Union and agree on a vision for the current and future generations of European citizens leading to a Convention with the purpose of making the European Union ready for the decades ahead". Available at: http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P8-TA-2017-0048&language=EN&ring=A8-2016-0390

[4] For our part and for some time, we have also championed the need for and timeliness of a European Convention. See: Fundación Alternativas, *Informes sobre el estado de la Unión europea 2015*, available at: http://www.fundacionalternativas.org/public/storage/publicaciones_archivos/655ee7c92074c0f5782dc4ebc23c7713.pdf; and *2017*, available at: http://www.fundacionalternativas.org/public/storage/publicaciones_archivos/e3f1cb45c21e4eb19b419a481a46131f.pdf, pages 127 and 120, respectively.

[5] As Antonio Tajani, the current President of the European Parliament, reminded the Heads of State and Government during their meeting in October 2017. See: European Parliament, *Outcome of European Council meeting of 19-20 October 2017*, in: Post European Council Briefing - October 2017

[6] European Commission: *White paper on the future of Europe*, 2017. Available at: https://ec.europa.eu/commission/sites/beta-political/files/white_paper_on_the_future_of_europe_en.pdf

[7] *Ibidem*, page 26. The stance of the states on each one of these sectorial issues is addressed throughout this report on the state of the EU.

[8] COM(2017)206 of 26 April 2017. Available at: https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-social-dimension-europe_en.pdf

[9] COM(2017)291 of 31 May 2017. Available at: https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-emu_en.pdf

- Harnessing globalisation.[10]
- The future of European defence.[11]
- The future of EU finances.[12]

On the other, the Commission described its own vision of the future of Europe in the *State of the Union address* that, like every year, its president gave to the European Parliament.[13]

Ruling out a reform of the treaties from the outset, the *White paper* opened up a period of reflection and political scenarios for the EU27 around 2025 that the Commission wanted to see discussed in "states, regions and cities" throughout the Union between 2017 and 2018, so that the Heads of State and Government could, "at a meeting of the European Council to be held on 30 March 2019, in Sibiu, Romania, take the first decisions that would describe the state in which the Union should find itself in 2025".[14]

The debate on the five political scenarios described in the *White paper*[15] broke up into multiple platforms in 2017 and was low-intensity in civil society (in the sphere of the so-called *Citizens' Dialogues*[16]) and in the states (only some Foreign Ministries gave priority to the debate and only some national Parliaments included it on their agendas[17]). It will actually be in 2018 when civil society participation will have the chance to move up a gear.

Always without amending the Treaties, the states constructed a practical agenda of ad hoc and incremental decisions in 2017, rather than a debate.

The European Council, then, had one single discussion on the five scenarios in the Commission's *White paper* at the informal meeting in Brussels on 10 March 2017. At the end of the meeting, European Council president Donald Tusk summed up the results of the discussion as follows: "As you know, today the EU27 met ahead of the 60th anniversary of the Treaty of Rome. We had an honest and constructive discussion about our common future, which focused on what should be the main elements of the Rome Declaration. It is clear from the debate that the unity of the 27 will be our most precious asset. Our last meeting in Malta, subsequent statements by some Member States and the European Commission's *White paper* leave us in no doubt that *the idea of a multi-*

---

[10] COM(2017)240 of 10 May 2017. Available a:: https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-globalisation_en.pdf

[11] COM(2017)315 of 7 June 2017. Available at: https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-defence_en.pdf

[12] COM(2017)358 of 28 June 2017. Available at: https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-eu-finances_en.pdf

[13] Juncker, J. C.: *State of the Union Address,* 13 September 2017. Available at: http://europa.eu/rapid/press-release_SPEECH-17-3165_en.htm

[14] *Ibidem*. We must point out that unlike the explicit references to this special European Council meeting of March 2019 both in the *State of the Union address* of 13 September 2017 (available at: http://europa.eu/rapid/press-release_SPEECH-17-3165_en.htm) and in the Tallin Road Map (see: European Council, *Roadmap for a More United, Stronger and More Democratic Union*, Tallin 29 September 2017, available at: https://ec.europa.eu/commission/sites/beta-political/files/roadmap-factsheet-tallinn_en.pdf), the reference does not appear in the so-called *Leaders' Agenda* in its October 2017 version. (See: European Council, *Leaders' Agenda*: http://www.consilium.europa.eu/media/21594/leaders-agenda.pdf). However, that document states: "This Leaders' Agenda is a living document that will be updated and amended as required."

[15] See the description of the five scenarios in: European Commission: *White Paper on the Future of Europe*, 2017. Available at: https://ec.europa.eu/commission/sites/beta-political/files/white_paper_on_the_future_of_europe_en.pdf, page 29.

[16] See: https://ec.europa.eu/info/events/citizens-dialogues_en

[17] See, by the way, Kreilinger, Valentin: "A more democratic European Union. Propositions and scope for political action", *op. cit.*, page 20. Available at: http://institutdelors.eu/wp-content/uploads/2018/01/amoredemocraticeuropeanunion-kreilinger-jdib-jan18.pdf

speed Europe will be one of the discussions ahead of the Rome anniversary. I understand the reasons for this. *Some expect systemic changes that would loosen intra-EU ties and strengthen the role of nations in relation to the community. Others, quite the opposite, want new and deeper dimensions of integration, even if they would apply only to some Member States.* Such a possibility is indeed foreseen in the treaties currently in force. However, considering the interests of the community of 27 countries in the context of the upcoming Brexit negotiations, as well as the long-term strategic interests of the EU, I will be urging everyone to strive towards maintaining political unity among the 27. This is why, when discussing the various scenarios for Europe, our main objective should be to strengthen mutual trust and unity among the 27. After today's debate, I can openly say that all 27 leaders agree with this objective. This was an optimistic discussion about our common future, with a positive approach from all sides, without any exception".[18]

Currently, then, there are two large groups of states with two different general visions of the future of Europe: the nationalist group (those who "expect systemic changes that would loosen intra-EU ties and strengthen the role of nations in relation to the community") and the Europeanist group (those who "quite the opposite, want new and deeper dimensions of integration, even if they would apply only to some Member States").[19]

There are three important points to highlight from the text. First, the now longstanding idea of a *multi-speed Europe*[20] has dominated the current debate within the European Council from the start; second, as we can read in President Tusk's text, the two groups of states have conflicting expressions: "… others, *quite the opposite*, want new and deeper dimensions of integration…"[21], and third, at least in Tusk's official presentation, over and above those differences they all had a positive approach, which allows us to look ahead to the outcome of the debate with certain optimism, despite the fact that it has been inadequate and, as usual in European Council debates, it was still affected by a large lack of transparency that prevents us from knowing which Heads of State or Government are in the first group outlined by Tusk and which are in the second.

If this informal debate at the European Council of March 2017 about the issues raised by the European Commission's *White paper* were the first and only one to take place, we should be sorry because the essential issue implicitly raised by the *White paper* is nothing short of European political union. The issue re-

---

[18] Available at: http://www.consilium.europa.eu/es/press/press-releases/2017/03/10/tusk-remarks-informal-meeting-12717/. The italics are ours.

[19] We propose this classification knowing that political classifications are generally reductionist, but they simplify understanding of more or less complex historical processes, as is the case of European integration.

[20] A clear indication of the origins of this idea is to be found in the theory of the *differentiated integration of Europe* put into practice since the outset of European construction, though its implementation has been much more important since the Treaties of Maastricht and Amsterdam. See on the subject: Ponzano, Paulo: "L'intégration différenciée au sein de liUnion Européenne et la constitutionnalisation de la zone euro". *Revue GRASPE*, no. 26, pages 38-48. Available at: http://graspe.eu/document/grasp26.pdf. As far as European dignitaries are concerned, Jacques Delors above all defended the value of this theory since the start of this century. For more details, see: http://institutdelors.eu and, particularly: Bertoncini, Yves: *L'intégration différenciée dans l'Union Européenne: une légitimité à géométrie variable*, available at: http://www.institutdelors.eu/wp-content/uploads/2018/01/integrationdifferenciee-bertoncini-ijd-feb17.pdf

[21] See above, footnote 18. The italics are ours.

quires constant deliberation (and not only after Brexit) and clear answers, even if they are not unanimous in each of the (progressive or regressive) phases of the integration process[22].

So, let us suppose that as well as that informal mini-debate, the European Council members were called upon to choose one of the five scenarios described by the Commission in its *White paper* on the future of Europe.

Unless Scenario 1 prevailed, that is to say: "Carrying on"[23], at the moment of truth the five scenarios in the *White paper* on the Future of Europe would probably come down to two: Scenario 3 ("Those who want more do more") and Scenario 4 ("Doing less more efficiently").

No member of the European Council to date has championed Scenario 2, that is to say, "Nothing but the single market"[24] as the sole option, not even the Head of Government of the most Eurosceptic state out of the veterans, the United Kingdom[25].

Scenario 5, that is to say, "Doing much more together" (and the maximalist -in a good way- idealism inspiring it), appears to have been dropped by all the leaders now, even by the most Europeanist[26]. Indeed, to date no Head of State or Government nor any party leader has clearly championed it.

We must remember, as the Commission does in the *White paper*, that the scenarios overlap and, therefore, they are neither mutually exclusive nor comprehensive.

In any case, save a major electoral upheaval (highly unlikely now that we overcame the threats from Europhobic parties and movements that stood in the elections of the two main states of the Union, Germany and France, as well as in the Netherlands and Austria, in 2017),

– If we follow what we could call the ideological criterion of the stance on Europe (more Europeanist or more nationalist) of the current members of the European Council.

– Bearing mind the results of legislative or presidential[27] elections and the respective changes of government.

– Bearing in mind the previously mentioned debate at the European Council of 10 March 2017.

– And, lastly, the statements or initiatives of Heads of State or Government after that date, by means of a classification that is necessarily reductionist[28] yet consistent with

---

[22] With the first discussion on the Multiannual Financial Framework 2021-2027, at the informal European Council meeting of 23 February 2018, it became clear that some members of the European Council appeared to have indicated the need to conclude the discussion on the scenarios of the future of Europe before deciding on the Union's budget.

[23] See: *White paper on the future of Europe*, page 16.

[24] *Ibid.*, page. 18.

[25] See David Cameron's letter to Donald Tusk of 10 November 2015. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/475679/Donald_Tusk_letter.pdf

[26] Jean-Claude Juncker's phrase: "Il faut cesser de parler des États Unis d'Europe" (lecture at the Jacques Delors Institute, Paris, April 2016) is a symbol of the current retreat of the European federalist discourse. However, in his *State of the Union address* of September 2017, Juncker offered what he calls a "sixth scenario" whose description has proactive features comparable with those of Scenario 5 of the Commission's White Paper.

[27] In 2018, there are presidential elections in Ireland, Finland, Czech Republic and Cyprus and legislative elections in Italy, Sweden, Hungary, Slovenia and Latvia.

[28] However, this reduction of the diversity (or wealth) of positions in the European Council is consistent with the only "official" classification of the stances adopted by the states on the future of Europe, namely the one that Donald Tusk described in March 2017. See above, page 4.

Donald Tusk's summary, we can distinguish two groups of states.

First, a group of 20 states that would be inclined to choose a model of integration like Scenario 3, that is: "Those who want more do more"[29], in the belief that this scenario sums up better than any other the idea of a multi-speed Europe. In this group, we could include France, Germany, Italy, Spain, Portugal, Ireland, Belgium, Luxembourg, Austria, Lithuania, Estonia, Sweden, Finland, Greece, Malta, Cyprus, Bulgaria, Romania, Slovenia and Croatia. It includes the four countries that carry most political weight in the Union – namely Germany, France, Italy and Spain – by number of votes in the Council and because in total they make up over 50 % of the Union's population.

In France, the *Initiative for Europe* taken by President Emmanuel Macron in September 2017[30] is currently the state initiative in favour of the creation of a "hard core" of states that champion a multi-speed Europe at least: "Europe is already moving at various speeds. So let's not be afraid to say so and to want it!" "As we constantly accommodate the driving ambition of some and respect the speed of each one, we can cultivate the desire to push ahead and Europe will progress to everyone's benefit."[31]

So, if France has once again led the defence of the European integration process, following the difficult but promising government agreement between the Christian Democrat party and the Social Democrats, finally approved on 4 March 2018, Germany is now in a position to actively join the French initiative by defending Scenario 3, at least. Berlin could also review the dominant economic ideology of austerity in its European policy and, in parallel, the prevailing one within the European Council for a decade.

In this group of states, as we said before, the case of Italy is a special one following the victory in the legislative elections of 4 March 2018 of parties and movements that maintain a Europhobic line.

Second, the group of seven states that would rather opt for a model of functioning of the Union matching Scenario 4, that is to say: "Doing less more efficiently"[32]. In this group, we could place the Visegrad Group (Poland, Hungary, the Czech Republic, and Slovakia), the Netherlands, Denmark, and Latvia.

Within that group of states, the important Visegrad Group (with 25 years of history behind it), which is not exactly Europeanist right now given the attitudes and political action of its members in sensitive spheres for Europe such as the rule of law or immigration, represents a significant remnant of Euroscepticism, particularly in its two main members: Poland and Hungary.

However, while separately the Heads of State or Government of the States that make it up may have their own individual views (for instance, during the recent presidential election campaign in the Czech Republic the re-elected Miloš Zeman explicitly declared himself a feder-

---

[29] See: *White paper on the future of Europe*, *op. cit.*, page 20.
[30] See: speech of 26 September 2017 at the Sorbonne: *Initiative pour l'Europe. Une Europe souveraine, unie, démocratique*. Available at: http://www.elysee.fr/declarations/article/initiative-pour-l-europe-discours-d-emmanuel-macron-pour-une-europe-souveraine-unie-democratique/
[31] *Ibid.*, pages 14 and 9, respectively. Our translation. Note the similarity of Macron's speech to the summary that President Tusk made of the first, informal and, so far, only substantial debate by the European Council on the functioning of the European Union in relation to the future of Europe.

---

[32] See: European Commission, *White paper on the future of Europe*, *op. cit.*, page 22.

alist[33]), in their statements or declarations as an organised group they tread a non-conformist line with regard to the traditionally more Europeanist tendency (headed by France and Germany). For example, the press release following the meeting of the Visegrad Group on 2 March 2017, just a few weeks before the European Council meeting that was to celebrate the 60th anniversary of the communities[34] -unanimous declaration of Europeanist faith included- and with the *White paper on the Future of Europe* already out there, contained a more or less implicit expression in favour of limiting Europe to the single market: "We want reforms, we want to enhance democratic and state control over the decision-taking processes in the Union. At the same time, we want clear equality of treatment by the Union of the different interests of each Member State and, in the future, the maintenance of the single market and the Schengen area."[35]

To complete the summary of the position of the states on the future of Europe, in **Chart 1** we recall the ideological orientation of the current members of the European Council and describe what kind of Union functioning they would prefer, also taking into account their different attitudes towards Europe (more Europeanist or more nationalist).

The deliberative potential of the *White paper* has been wasted by the states and by civil society

The debate on the future of Europe in 2017, then, was low-intensity -both among states and in civil society- and short-lived, largely because of the whole series of upheavals and emergencies that flooded the European agenda as a result of the global economic and security crisis.

Yet from the strict point of view of the principle of legitimacy, a debate on the future of Europe (if the political will encouraging it is to have it address unity and not -or not only- diversity) must be unitary and focused in a supranational space (as the European Commission and Parliament wisely saw in 2001, when it devised the "Convention on the Future of Europe," which was capable of drafting a Constitution for Europe), regardless of its degree of effectiveness, that is to say regardless of the calculation of risk.[36]

In a very honest exercise in deliberative democracy, the five scenarios in the *White paper* started an adequate debate on the Union's decision-taking system. Incidentally, we must acknowledge the merit of the Commission and its President for the political effort involved in the very preparation of the *White paper* for the following reason. Juncker had already raised

---

[33] See for example the final debate of the second round of the presidential elections of 27 January 2017 between Miloš Zeman and Jiři Drahoš. However, it is usually the Prime Minister and not the President of the Republic who defines European policy and takes part in the European Council meetings and there are not infrequent differences over European affairs between the two dignitaries.

[34] See the *Declaration of Rome of the Leaders of the 27 Member States and of the European Council, the European Parliament and the European Commission,* Available at: https://europa.eu/european-union/eu60_en

[35] Statement to the press by Polish Prime Minister Beata Szydlo, 2 March 2017, following the Visegrad Group meeting, retrieved from Visegrad Group statement. Our translation.

[36] The global debates on the future of the Union that, while they did not go by that name, suggested changes both in the structure and in the functioning of the Union as a whole warrant being described as historic milestones of European integration. For example, the First Convention, which gave rise to the Draft Treaty of 1984 and the previously mentioned Second Convention (the *Convention on the Future of Europe*) that finished its work in 2003, or the initiative of the first Delors Commission that led to the Maastricht Treaty, adopted in 1992, which consisted of holding of two connected and parallel intergovernmental conferences: one on the Economic and Monetary Union and one on the European Political Union.

Chart 1. Ideological orientation, stance on Europe and hypothetical choice of way of functioning of the EU in the European Council (situation on 5/3/2018)

Member States	Party or coalition in government (*)	Ideological orientation of Head of State (*)	Ideological orientation of Head of Government (*)	Usual representative of state at European Council meetings (**)	Stance of usual representative of state at European Council meetings (***)	Preferred way of functioning of the EU for the usual representative of the state at European Council meetings (1)	Presidential or legislative elections to be held in 2018
Germany	PP + S&D	S&D (Frank-Walter STEINMEIER)	PP (Angela MERKEL)	HG	E	3	-
Austria	PP + EN	G (Alexander VAN DER BELLEN)	PP (Sebastian KURZ)	HG	E	3	-
Belgium	PP+ LD	-	LD (Charles MICHEL)	HG	E	3	-
Bulgaria	PP	PS (Rumen RADEV)	PP (Boyko BORISOV)	HS	E	3	-
Cyprus	PP	PP (Nikos ANASTASIADIS)	PP (Nikos ANASTASIADIS)	HS	E	3	Presidential elections 4/2/18
Croacia	PP	PP (Kolinda GRABAR-KITAROVIĆ)	PP (Andrej PLENKOVIĆ)	HS	E	3	-
Denmark	LD	-	LD (Lars LØKKE RASMUSSEN)	HG	N	4	-
Slovakia	S&D	IN (Adrej KISKA)	S&D (Robert FICO)	HG	N	4	-
Slovenia	S&D	S&D (Borut PAHOR)	S&D (Miro CERAR)	HG	E	3	Legislative elections 07/18
Spain	PP	-	PP (Mariano RAJOY)	HG	E	3	-
Estonia	PP + LD + S&D	PP (Kersti KALJULAID)	LD (Jüri RATAS)	HS	E	3	-
Finland	PP + LD	PP (Sauli NIINISTÖ)	LD (Juha SIPILÄ)	HS	E	3	Presidential elections 28/1/18
France	S&D	S&D (Emmanuel MACRON)	S&D (Edouard PHILIPPE)	HS	E	3	-
Greece	UL + CR	PP (Prokopis PAVLOPOULOS)	UL (Alexis TSIPRAS)	HG	E	3	-
Hungary	PP	PP (János ÁDER)	PP (Viktor ORBÁN)	HG	N	4	Legislative elections 8/4/18
Ireland	PP	S&D (Michael HIGGINS)	PP (Leo VARADKAR)	HG	E	3	Presidential elections 10/18
Italy	S&D	S&D (Sergio MATTARELLA)	S&D (Paolo GENTILONI)	HG	E	3	Legislative elections 4/3/18
Latvia	LD	LD (Raimonds VĒJONIS)	LD (Māris KUĆINSKIS)	HG	N	4	Legislative elections 6/10/18
Lithuania	LD + S&D	IN (Dalia GRYBAUSKAITÉ)	LD (Saulius SKVERNELIS)	HS	E	3	-
Luxembourg	LD + S&D + G	-	LD (Xavier BETTEL)	HG	E	3	-
Malta	S&D	S&D (Marie-Louise COLEIRO PRECA)	S&D (Joseph MUSCAT)	HG	E	3	-
Netherlands	LD	-	LD (Mark RUTTE)	HG	N	4	-
Poland	CR	CR (Andrzej DUDA)	CR (Mateusz MORAWIECKI)	HG	N	4	-
Portugal	S&D + UL	PP (Marcelo REBELO DE SOUSA)	S&D (António COSTA)	HG	E	3	-
Czech Republic	LD + S&D	S&D (Miloš ZEMAN)	LD (Andrej BABIŠ)	HG	N	4	Presidential elections 27/1/18
Romania	S&D + LD	PP (Klaus IOHANNIS)	S&D (Vasilica VIORICA DĂNCILĂ)	HS	E	3	-
Sweden	S&D	-	S&D (Stefan LÖFVEN)	HG	E	3	Legislative elections 9/9/18

*The abbreviations that appear in this column are the political groups of the European Parliament that the domestic parties to which the Heads of State or of Government belong have joined or will probably join, namely: EN: Europe of Nations and Freedoms Group, CR: European Conservatives and Reformists Group, PP: Group of the European People's Party, S&D: Group of the Progressive Alliance of Socialists and Democrats in the European Parliament, LD: Group of the Alliance of Liberals and Democrats for Europe, G: Group of the Greens/European Free Alliance and UL: Confederal Group of the European United Left/Nordic Green Left. The abbreviation IN stands for independent. The symbol - denotes monarchies.
** The abbreviations that appear in this column stand for: HS: Head of State, HG: Head of Government.
*** The abbreviations that appear in this column stand for: E: more Europeanist stance, N: more nationalist stance.
(1) According to the scenarios described in the *White paper on the future of Europe.*

political reflection about the future of Europe in his *State of the Union address* in 2016, but only referring to the Economic and Monetary Union (EMU).[37] It was the subsequent taking into consideration of Brexit and the Bratislava process that prompted the President of the Commission and his team to conceive a much broader debate than the one reduced to the EMU.[38] A product of that change was the *White paper* as we know it.[39]

The Commission's *White paper* clarifies the general debate on the future of Europe through simple language and a series of caveats about the effects that the choice of one or several of the scenarios described would have on the Union's policies.

As for the debate on the future of Europe in civil society, the Commission tried to show that the "Citizens' Dialogues" were important: "Over the last three years, as we promised, Members of the Commission have visited national Parliaments more than 650 times. They also debated in more than 300 interactive Citizens' Dialogues in more than 80 cities and towns across 27 Member States."[40]

However, the experience shows that only centralised, organised debate conducted at European level in institutions of the Union or in ad hoc conventions minimally manages to keep the attention of citizens and the media throughout Europe in sync and allows the political messages and the debate itself to involve the greatest number of stakeholders. The local, regional or state debates carried out during the constitutional Convention (2002-2003) took place as a result of its staging. The political initiative of the Union (consisting of calling and holding a Convention) prompted the debates inside the states.

In any case, the organisation of "democratic conventions" throughout Europe over the course of this year, presented by the French President in his *Initiative for Europe*[41] and backed by the President of the European Commission in his *State of the Union address*, could help to increase that democratic intensity.

We must also welcome announcements such as the one by Spanish Foreign Minister Alfonso Dastis on 31 January 2018, on the intention of his government to stage "citizens' votes" on the future of Europe.[42]

---

[37] Jean-Claude Juncker: "The Commission will set out such a vision for the future in a *White Paper* in March 2017, in time for the 60th anniversary of the Treaties of Rome. We will address how to strengthen and reform our Economic and Monetary Union. And we will also take into account the political and democratic challenges our Union of 27 will be facing in the future". See: *State of the Union address*, September 2016. Available at: http://europa.eu/rapid/press-release_SPEECH-16-3043_en.pdf.

[38] Brexit has prompted a timely reaction from the Commission, consisting of recognising the need to globalise the debate, while to a certain extent the Heads of State or Government have used it to deflect debates and overcome rough patches in domestic politics.

[39] *Cf.* Russack, Sophia, *How is Juncker's 'last-chance Commission' faring at mid-term?*, "European Policy Analysis" magazine from the Swedish Institute for European Policy Studies, June 2017, pages 6 and following; published by the CEPS (Centre for European Policy Studies). Available at: https://www.ceps.eu/system/files/SR_JunckerCommission_0.pdf. It is interesting to recall that during 2012 and 2013, acting on its own initiative, the Government of Germany called and encouraged a *Group for the Future of the European Union*, formed by all the Foreign Ministers and which initially meant to reflect on all the political issues of the first order, including institutional issues (!). The initiative, which ended in failure because of the absence of nearly all the Ministers invited, moved on to exclusively reference not to the EU, but to its Economic and Monetary Union. See, on the subject: https://www.osw.waw.pl/en/publikacje/analyses/2012-03-28/germany-westerwelle-initiates-a-meeting-group-future-european-union

[40] *Cf.* Juncker, J. C.: *State of the Union address,* 13 September 2017, *op. cit.*

[41] ee above, footnote 30.

[42] See the forum *Spain in Europe: a Future in Common*, organised by *El País* daily in Brussels on 31 January 2018. Available at: https://politica.elpais.com/politica/2018/01/31/actualidad/1517433352_304005.html

However, we also have to maintain a healthy scepticism, based on experience, about the real benefit for the Union of citizens' votes of a merely intrastate scope that are entirely non-binding on the state itself or on the Union.

The states and certain important institutional issues

It is worth noting that three important institutional issues have entered the debate on the future of Europe since 2017 and two of them were already addressed at the first European Council meeting of 2018.

We are talking about transnational lists for the European elections, the issue of so-called "lead candidates" (*Spitzenkandidaten*) and merging the posts of President of the European Council and President of the European Commission.[43]

Note that the first two issues are urgent in that in theory they could affect the organisation of the elections to the European Parliament of 2019 and the election of the next European Commission President, respectively. However, given the division that the two issues have caused within the European Parliament and Council themselves, they are not expected to be resolved in the current parliamentary term at least.

However, the issue of merging the presidencies does not appear urgent in itself and, what's more, given its major importance, it is surprising how it was raised and by who, namely the President of the Commission in a *State of the Union*

address and in the following terms: "More democracy means more efficiency. Europe would function better if we were to merge the Presidents of the European Council and the European Commission. … Europe would be easier to understand if one captain was steering the ship. Having a single President would simply better reflect the true nature of our European Union as both a union of states and a union of citizens".[44] It is also striking that the idea should be justified by a reference to the efficiency of the Union, with no further arguments. And the absence of a reference to the legitimacy of the Union is even more surprising, as the merger would mean scrapping 60 years' validity of the Union's principle of institutional balance overnight[45], largely invalidating the healthy principle of the separation of powers and, particularly, jeopardising the independence of the Commission, enshrined in the treaties as the institution that guarantees the Union's general interest.

In any event, the idea is not new. It was already discussed during the Convention on the Future of Europe in 2003, with the creation of the figure of a permanent President of the European Council, and was ultimately rejected and excluded from the Constitution for Europe project. The arguments against it at the time remain valid against the arguments in favour of such a merger (such as those employed by Juncker) and refer above all, as far as the efficiency of the Union is concerned, to the negative consequences that the assumption of executive and legislative responsibilities by one single person would entail and with, regard to

---

[43] For a more detailed examination of these questions, see: Kreilinger, Valentin: *A More Democratic European Union. Propositions and Scope for Political Action*, Policy Paper no. 212, 5 January 2018, Jacques Delors Institute (Berlin), pages 10 to 17. Available at: http://institutdelors.eu/wp-content/uploads/2018/01/amoredemocraticeuropeanunion-kreilinger-jdib-jan18.pdf

[44] Juncker, J. C.: *State of the Union Address,* 13 September 2017, *op. cit.*

[45] The principle of institutional balance was created by the European Court of Justice in 1958, in the Meroni ruling. Said principle forbids any interference by a Union institution in the powers conferred on another.

legitimacy, to the difficulty in devising an effective mechanism of parliamentary censure.[46]

Anyway, this is an institutional matter of the first order and the European Council should not address it until after an appropriate debate in the Parliament, not forgetting that such an institutional modification would probably require a reform of the treaties.

The other two issues mentioned, namely, possible transnational lists and the way in which the EU appoints senior officials, including the "lead candidates" (*Spitzenkandidaten*), were included on the agenda of the informal European Council meeting of 23 February 2018, but addressing the former has been postponed *sine die*.

As for the "lead candidates," the European Council has been unenthusiastic about the proposal of the European Parliament (backed by the President of the Commission) of repeating in 2019 the procedure applied following the European elections of 2014 (election as President of the Commission of the candidate to receive most votes in the Parliament). Indeed, the European Council has said that it cannot guarantee in advance that it will propose one of the lead candidates for President of the Commission and recalled that the Treaty is very clear on the autonomous power of the European Council to designate the candidate, taking into consideration the European elections and having maintained the appropriate consultations.

Finally, regarding Juncker's proposal of merging the two presidencies, the European Council

refused to deal with the matter. Donald Tusk himself made it clear: "Jean-Claude also presented the idea of a merger of our two posts, but there was no appetite to take this forward. Above all, because it would substantially reduce the role of Member States in the EU".[47]

Conclusion

In 2017, while the economic, social and migration crisis, the crisis of political representation, nationalisms and Brexit may have partly legitimised the pragmatic attitude of the states, which turned their attention to specific issues of a more or less urgent nature, both the states individually and the European Council devoted a debate of limited value to the underlying problem – the Union's model of political functioning – and squandered the deliberative potential of the Commission's *White paper* on the Future of Europe.

The model of a *multi-speed Europe* received greatest support from the states, over the rest of the models put to debate.

While that model is not ideal for the more Europeanists and it means a slowdown in the process of European integration, it could render arguments aimed at halting the advance towards union or at triggering exit from the Union, following the British example, with little justification.

The "future of Europe" that will be shaped by the decisions that the states have to take as of 2018 on each of the sectorial issues or policies considered priority by the States is in all

---

[46] For an examination of the possible reasons for this surprising proposal from Juncker and on the negative effects of the merger of the two presidencies, see: Dauvergne, Alain, *Un chapeau pour deux têtes: une simplification compliquée*. Available at: http://institutdelors.eu/wp-content/uploads/2018/01/unchapeaupourdeuxttes-dauvergne-tribune-sept17.pdf

[47] Available at: http://www.consilium.europa.eu/en/press/press-releases/2018/02/23/remarks-by-president-donald-tusk-following-the-informal-meeting-of-the-27-heads-of-state-or-government-on-23-february-2018/

likelihood an uncertain future, undefinable in terms of unity of political action and far removed from the community method, given that the political agendas of the European Commission and the European Council are currently different.[48]

However, the current overwhelming majority of Heads of State and of Government with a more Europeanist than nationalist stance allows us to keep believing that it is possible to revive the process of integration towards a European Political Union.

---

[48] On the important issue of the growing deterioration of the community method, the following contribution from the European Parliament is very timely: "The Parliament deplores the fact that every time the European Council decides to apply intergovernmental methods and to bypass the 'Community or Union method' as defined in the Treaties, this not only leads to less effective policy-making but also contributes to a growing lack of transparency, democratic accountability and control; the Parliament considers that a differentiated path is conceivable only as a temporary step on the way towards more effective and integrated EU policy making. It considers that the 'Union method' is the only democratic method for legislating which ensures that all interests, especially the common European interest, are taken into account; understands by 'Union method' the legislative procedure in which the Commission, as part of its competence as the executive, initiates legislation, Parliament and the Council representing respectively citizens and the states decide in codecision by majority voting while unanimity obligations in the latter become the absolute exceptions, and the Court of Justice oversees and provides ultimate judicial control; insists that even in cases of urgency the 'Union method' should be respected." See: *European Parliament resolution of 16 February 2017 on possible evolutions of and adjustments to the current institutional set-up of the European Union* points 6 and 7: http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P8-TA-2017-0048&language=EN&ring=A8-2016-0390

Portugal, culture and development

Guilherme d'Oliveira Martins

The specific historical and geographical context of Portugal

When we speak of Portugal, we have to understand its cultural specificity as the product of the crossroads between a complex historical legacy and the geographical context of the Iberian Peninsula. This creates the dialogue between the Atlantic and the Mediterranean, as the geographer Orlando Ribeiro reminded us. It is a genuine continent in miniature, marked by the contrast between the highlands and lowlands, between the coastal areas and the interior, between the cities and the country. "Sierra and riverside, countryside and hillside, mountain and valley, highland and lowland: in the minds of the people who created and use these designations, they express the contrast determined by elevation and the resulting particularities of the climate, of the economy and of the population." From the Douro and the Minho to the plains of the south and the Algarve, taking in the northern interior, formed by cold lands and warm lands, there is a little of everything in this "garden by the sea" or, as Camões famously put it, "where the land ends and the sea begins." Or, in another more contemporary expression, "That beach enraptured and bare /

Where I become one with the sea, the wind and the moon" (Sophia de Mello Breyner Andresen).

It was from here that the Portuguese set sail for the Atlantic islands, for the coast of Africa, for the Americas and the Indies.

Miguel de Unamuno once said, "For Portugal, the sun never rises: it dies always in the sea that was the theatre of its deeds and the cradle and tomb of its glories… Portugal seems to be the home of sad loves and great shipwrecks". In fact, it may be said that, thanks to the will of the Portuguese people, our long Western coastline has been responsible for our independence since the 12th century and for our having the oldest border in Europe, since the 13th century.

The character and idiosyncrasy of the Portuguese people

As well as a varied physical space, the Portuguese cultural place is formed by a melting pot built up over the centuries thanks to multiple influences, from the peoples who came from Central Europe and those who came from the Mediterranean to our own internal migrations.

The language is one of them and if Fernando Pessoa, through his heteronym Bernardo Soares,

said, "my homeland is the Portuguese language", the truth is that the language became the tongue spoken on every continent, especially South America (Brazil) and Africa.

The philosopher Eduardo Lourenço used the metaphor of an island to describe Portugal, as if the country were an Ithaca to which travellers returned like Ulysses, the symbol of an adventurous wanderlust that could characterize the Portuguese.

On the economic and social plane, Portugal has felt the confrontation between scarcity and desire. It took to the Atlantic for lack of cereals and gold and took to emigration for want of sustenance. Yet it also fell into the habit of living beyond its means with the lucrative trade from Asia in the 16th century and the gold from Brazil in the 18th century.

There has always been the dilemma here between "anchorage and transport", as the thinker Antonio Sergio put it, between creating a solid and stable European base, or simply enjoying commercial movement.

There has also been a confrontation between centralism and municipalism (promoted by and allied with central power), of the messianism of the state and the ancestral weight of individualism, of a certain improvisation, of rashness, of an excess of imagination, of the supposed "gentle ways", and even "the very fear of existing", according to the thinker and essayist José Gil. In this context, we cannot forget, for example, that the referendum of 1998 called to decide on dividing the country into autonomous regions returned a clear rejection of that formula.

A huge capacity to adapt coexists with a frequent recourse to the short term and with excessive faith in good luck and in fate or destiny.

In any case, thinking in a European context, by having joined the European Community

without renouncing its bond with the global world, particularly the Portuguese-speaking countries, the democratic Portugal after the Carnation Revolution of April 1974 has occupied a place on the international stage marked by history. It rests above all on a vocation for stabilisation and taking on a role of fostering dialogue.

A positive European integration

The participation of Portugal and Spain in European construction has been an experience of unequivocally positive aspects. However, those aspects must be understood and explored.

Lorenzo Natali, the European Commissioner who played a decisive role in the enlargement of the European Communities, laid down in 1985 and carried out in 1986, said on several occasions that the membership of the Iberian countries would mark the start of a new phase of European construction.

In fact, the history of the Peninsula in its projection across the global world on all continents has enabled making the most of all the potentialities of an open integration - still far from achieving or consolidating all its virtues -, preventing the European project from proceeding in a closed manner, focusing only on a logic of self-satisfaction.

While it is true that we have seen contradictory signals, aggravated by the crisis of 2008, open European integration is still relevant for Portugal and retains a clear and necessary currency. Indeed, the relations of the Portuguese and Spanish economies with the economies of the emerging countries warrant special attention, which will depend in the future on the capacity for innovation and the synergies that may be created between them.

The evolution and changes in the Portuguese economy

The last 20 years of the Portuguese economy were marked by integration into the euro zone as one of the founding countries. The years immediately prior to that and in preparation for joining the Economic and Monetary Union were marked by the government of Cavaco Silva (PSD), who had an absolute majority in Parliament (1987-1995) after two years of minority government (1985-1987). With Mário Soares as President of the Republic and the reform of the Constitution to make it compatible with the underlying economic principles of European integration (the reform of 1989) – particularly as far as economic freedom, free competition, was concerned, in the context of economic and social cohesion – it became possible to meet the conditions for a long period of political stability that enabled very significant progress in terms of convergence, meeting the goals laid down in Maastricht.

In 1995, the victory of António Guterres (PS) allowed a rotation of power without interrupting the political stability essential to integration into the euro zone. Despite not having an absolute majority in Parliament, the government managed to guarantee the stability for meeting the criteria laid down by the European Union. The resignation of the government over the Socialist Party's defeat in the local elections of 2001 led to general elections being called in 2002, which in turn led to a coalition government between the right and centre, PSD and CDS, headed by José Manuel Durão Barroso.

Following, Durão Barroso's election as President of the European Commission in 2004, he was replaced as head of the government by Pedro Santana Lopes, in the same coalition. However, owing to internal problems of the government, President Jorge Sampaio was forced to dissolve Parliament and call early general elections in 2005. The Socialist Party won an absolute majority and José Sócrates was appointed Prime Minister.

After initially coming close to meeting the criteria of European integration in the budgetary sphere, as of autumn 2008 the international financial crisis triggered by subprime mortgages imported from the United States took a severe toll.

The political and economic effects and consequences of the crisis of 2008

Signs of economic weakening were already perceptible in 2002. They had an effect on one another and became evident in a drop in tax revenues and in an increase in the budget deficit, with the resulting growth of public debt.

In 2009, the Socialist Party won the elections, but failed to secure a parliamentary majority, forcing the government into a complicated management of expectations and election promises in the face of a drop in output and the grave effects of the financial crisis. That would lead the government to bow to market pressure and seek a bailout from the International Monetary Fund, the European Central Bank and the European Commission.

General elections were called in 2011, which were won by the PSD led by Pedro Passos Coelho. However, he needed to enter into a coalition with the CDS of Paulo Portas. The new government was forced to undertake a tough adjustment programme and a serious policy of austerity imposed by the so-called Troika (IMF, ECB and European Commission). The 2011-2015 term of office would be marked by that bailout and by the introduction of the fiscal measures required by the Troika, fundamentally

based on four pillars: structural reforms, control of public spending, raising tax revenues and the reduction of the public debt.

The political effects of the crisis would condition and mark the elections of 2015, despite the fact that, as in Ireland, it was already on the way to easing gradually, as Portugal exited the bailout without the need for complementary precautionary measures. We must underscore the positive reaction of all the economic players, the business community and trade unions, which enabled the increase in savings, in investment, in exports and the rise in GDP at that time.

While Passos Coelho's PSD was the party to receive most votes, it did not win an absolute majority, not even with the support of the CDS, after a brief and vain bid to secure the term of office. That would lead to an unprecedented situation, with a parliamentary solution led by the second party, the Socialists. António Costa (PS) was appointed Prime Minister thanks to the support of the Communist Party (PCP) and the Left Bloc (BE), which was a first. Given the special and novel situation, it was dubbed *geringonça*, a term in popular Portuguese for something that appears doomed to fail, but which actually works in the end.

The consolidation of Portuguese democracy

In short, we can describe recent years in Portugal, first, as a period of consolidation of democracy and, second, as one of realization – thanks to European integration – of a development programme that has enabled notable economic and social convergence in the early years of the 21st century.

There were 10 years of centre-right government (1985-1995) under Cavaco Silva, eight of which with an absolute majority, followed by

seven years of centre-left rule (1995-2002) under António Guterres, during which time it was possible to join the euro zone and meet the previously mentioned Maastricht criteria.

The first 17 years of European integration were years of economic growth, making the most of EU funds and low interest rates. The following decade was less stable, growth slowed, or slipped into recession, with rotation of power between the centre-right and the left.

The necessary changes in the Portuguese political institutions

We must recall that the Constitution of 1976 underwent profound changes on two occasions, in 1982 and 1989, above all to reinforce the social market economy and entry into Europe. It also underwent changes to define the unitary state with just two autonomous regions, Madeira and the Azores. The system is a parliamentary one with a President elected for five years by direct universal suffrage. The President has significant moderating power, but no executive functions. The President has only representative functions, with power to guarantee national independence and the unity of the state and as the regulator of the correct functioning of the institutions. The President's powers include the authority to dissolve Parliament, appoint and dismiss the Prime Minister and to veto laws of the Assembly of the Republic (Parliament) and government decrees.

This wise arrangement of representative and moderating powers has meant that all the Presidents since 1976 - Ramalho Eanes, Mário Soares, Jorge Sampaio, Cavaco Silva and now Marcelo Rebelo de Sousa - have been called upon to play a true role as a *protective barrier* against certain parliamentary situations or regarding government solutions.

That *barrier* is an essential element for facilitating the stability and sustainability of the system, from a perspective of solidarity and cooperation among the different sovereign bodies. The coexistence between presidential and parliamentary majorities of different persuasions has passed off without drama in several political cycles.

The current situation of a centre-right President with a centre-left (PS) government without a parliamentary majority, but with the guarantee of the support of the forces to its left is an unprecedented example that confirms the success of this constitutional solution. Perhaps it is one of the reasons why no xenophobic or nationalist minorities have emerged in Portugal.

The economic recovery under way

On the economic plane, the last two years brought recovery following deep recession. Despite the decline in domestic output, we have felt the positive effects of the structural measures introduced, particularly with regard to getting the public finances and banking system back on a sound footing, the more flexible regulation of the labour market and the improvement in levels of training and education.

However, reducing the public debt, increasing investment, improving productivity and export growth are still the fundamental targets to secure economic, financial and social stability.

Reducing the budget deficit helped us leave excessive deficits behind in June 2017. In 2016, the deficit had stood at 2.1 % of GDP, falling to 1.4 % of GDP. Public debt that had amounted to 130 % of GDP in 2016 fell to 126 %, 242 billion euros less. GDP grew by 2.7 % in total volume in 2017, 1.1 % more than in the previous year, that is to say, an extra 193 billion euros, according to the National Statistics Institute.

And that was because of an increase in investment, though external demand was slightly negative, as exports rose a little less than the imports of goods and services.

Lastly, we cannot forget the low birth rate and ageing population that are causing difficulties as far as the sustainability of the social security system is concerned, since the number of contributors to the system is growing less than the number of retirees. African, Brazilian and Eastern European immigration has proven relatively useful to cover labour needs.

The problem of education and training

The level of professional qualification of the working population remains a fundamental concern. The *Education for All* programme was a major challenge and required a huge effort, yet in spite of the progress made, with the raising of compulsory school attendance to 12 years and the emphasis on professional training, Portugal still has a long way to go in that area.

Only 43 % of the population aged between 24 and 65 has completed the secondary education cycle, in stark contrast to the OECD average, which stands at 76 %. Even in terms of primary education (nine years of schooling), only 64 % of the population completed that cycle, below all the other OECD countries with the exception of Mexico and Turkey.

It is true, in any case, that of all the OECD members, after South Korea, Portugal is the country that has grown most in the field of education. Indeed, while in the 55-64 age group just 23 % have secondary education, the percentage jumps to 65 % among those aged between 25 and 34. The new generations, then, are entering the labour market with many more professional qualifications than older people

have. It is an upward trend and it will have a positive effect on productivity.

In fact, the study of the profile of compulsory education students, coordinated by the author, said, "what distinguishes development from backwardness is learning. Learning to know, learning to do, learning to live together in society and learning to be are essential. This means placing lifelong education, learning on an ongoing basis, at the heart of Portuguese society".

If preschool education was prioritised in the 1990s, today the challenge is secondary education. Yet it should not depend on whether studies are pursued to a higher level or not. It should also serve to facilitate professional motivation, labour flexibility and to prepare workers for ongoing evaluation and retraining that has positive effects on personal development.

The need to boost participatory democracy in the European Union

The European debate is going through difficult and uncertain times. Many consequences of the crisis still persist and are being overcome only slowly.

There are worrying signs of a certain chronic illness that is threatening to turn the European Union into an irrelevant and subordinate institution in a world of much more diffuse polarities and many uncertainties and dangers.

They range from the growing influence of the new Asian powers to the uncontrollable situation in the Middle East, taking in the irrationality of terror or the lack of the capability to establish and improve dialogue between different cultures.

We are lacking a shared European political will capable of responding to an equation that has at least three unknown quantities:
– How to give citizens a prominent and real, active voice in defining common goals through effective mediating institutions?
– How to link economics and politics, giving greater capacity and a greater active role to the European Union in the balance and regulation of the international scene?
– How to guarantee sustainable development based on knowledge, training, social cohesion and a better quality of life?

We cannot forget that these questions, which are essential to citizens, to the development of their daily lives and to their feeing integrated, require real and consistent answers. The quality of democracy, then, depends on real civic participation, on greater social cohesion and on sustainability.

Hence, especially for our country, we have to reinforce the principle of subsidiarity, of decentralization and deconcentration of the decision-making process and of a strategic planning that is structured and coordinated with the European Union.

To speak today of a democratic society means seeking new forms of legitimisation of political, national and European action, always based on the three traditional principles: popular sovereignty, on the separation and interdependency of powers and on political pluralism.

The vote is not enough. It is necessary, certainly, but it must go hand-in-hand with governance controlled by effective accountability. That is our challenge for these times. Portugal is destined to defend those principles in Europe in the interests of development and respect for fundamental rights.

Lines of conflict on EU reform in Germany

Björn Hacker

Ten years have passed since the American investment bank Lehman Brothers went bankrupt, triggering the global financial and economic crisis in 2008. This was not the only great crisis for Europe. The European Union (EU) stumbled into the euro crisis in 2009, 2015 saw the start of what has come to be known as the refugee crisis, and since 2016 there has been ongoing crisis management to handle Brexit.

The last ten years of crisis have made it very clear that the architecture of European integration is incomplete: the EU was unable to come up with an immediate and sustainable answer to any of these challenges. The Lisbon Treaty toolbox was only properly equipped for designing the Brexit process. In the political areas of economic and monetary union and migration, however, ad hoc management began. In the choir of the European institutions and Member-State governments, some were louder and more efficient than others, and this crisis management was strongly shaped by the German government. While the European Commission has undisputed leadership in Brexit negations with Great Britain at EU-level, Berlin has played a significant role in steering political reactions on the euro crisis and the refugee crisis. This was not always a success in terms of content. Germany was too insensitive to the demands of other states, and tried to impose the course it deemed best for itself as a model for its neighbours. However, in terms of power politics it is worth pointing out that Germany's hegemonic role in Europe worked amazingly well in the euro crisis, while external factors and domestic politics put a brake on it during the refugee crisis.

As a phase of comprehensive EU reform begins, with an eye to the 2019 European elections, where does Germany position itself to provide a lasting solution to the deficits in the EU response to crises? This text will indicate new and old lines of conflict that split Germany and the continent.

More or less integration?

Respect and approval for the EU have suffered greatly from the duration and number of crises in Europe, and more so from the policies put in place to deal with them. These policies were initially inadequate and in many ways misguided, but they were later billed as the only alternative. Across the continent, the axis of conflict

between supporters and opponents of European integration has become more significant. In the course of the integration process there have never been quiet periods, and there have always been interest groups that have opposed European policy – you only have to look at the controversial introduction of the single currency, the discussions about the Constitutional Treaty or the protests against the Bolkestein directive on the free movement of services. Nevertheless, all these transnational controversies focused on finding a consensus path for reform. Over the last decade, however, there has been a noticeable tendency for dissatisfaction with particular political weak points at a European level to lead to a general rejection of further integration. For a long time the number of people favouring a rollback of integration was insignificantly small. The electoral success of populist parties in most Member States has meant that rejection of the EU or parts of its integration structure has become more widespread.

While politicians in many Member States have long had to deal with populist right-wing parties and their defensive position against Europe on a daily basis, Germany remained an exception for a long time. Apart from briefly holding seats in regional and state parliaments, far-right parties had not managed to enter mainstream political arenas before 2014. The political discourse in Europe was correspondingly pro-European. It was only since 2014 that *Alternative für Deutschland* (AfD; Alternative for Germany), which was founded the previous year, finally managed to establish itself in all state parliaments except for Hessen and Bavaria (which have elections coming up in autumn 2018) and the European Parliament. It also entered the German federal parliament in 2017 with 12.6 % of the votes. The AfD often criticises the pro-European line of other parties, particularly the

parties of government. It was founded in 2013 in large part because of the growing protest against Chancellor Angela Merkel's dominant management of the euro crisis. Dissatisfaction with the Chancellor's line on migration policy further boosted the party.

Since then, there have been two political camps in Germany separated by the line of conflict: "more or less Europe". The side supporting Europe includes the governing parties – the conservative CDU and CSU and the social democratic SPD, and some parties of opposition – the Free Liberals (FDP), the Greens and the socialist *Die Linke* party. They are all open to the principle of deepening EU integration. They believe Germany has a particular responsibility for the progress of the integration process, and they frequently argue that European cooperation is necessary on the basis of historical evidence. In this camp there is an assumption that extensive EU reform is needed, so people are open to debate on the issue. However not all the political actors in these parties share the creed so beloved of the media: that we must necessarily welcome French President Emmanuel Macron's bid to "refound Europe". As well, the proposed reform steps published by the European Commission in the White Paper on EU reform since 2017 are heavily criticised by some.

This pro-European camp is opposed by the Eurosceptic AfD, which strongly advocates abolition of the single currency, and closed borders. The party was founded during the euro crisis as a conglomeration of liberal and conservative critics of the euro rescue fund bailout loans for EU Member States hit by the crisis, but increasingly nationalist voices gained the upper hand. The AfD stands out from all other parties in the German federal parliament for its increasingly radical positions. When it was founded, the party warned against a further transfer of sovereignty

to the EU, a softening of ordoliberal principles of stability, and the transfer of German tax money to other states in the Eurozone. Since then the party has held all manner of positions in opposition to the current level of integration, including: exclusion of individual countries from the monetary union; Germany's exit from this union; a division of the currency area into a northern and southern Eurozone; parallel currencies; and winding up the single currency. Thus the AfD rejects any progressive reform of the Eurozone architecture. On migration, the AfD is the only party to propose the extreme measure of unilaterally closing borders to prevent immigration. It argues that only highly qualified migration to Germany should be allowed, and only on the basis of economic need. The right to asylum should be highly restricted, and cooperation with other states on this issue should focus solely on protecting the external borders of the EU.

Although the distinction between these two camps is clear, one should not overlook the fact that even within the pro-European parties, there are currents of dissatisfaction with the way that the euro crisis and the refugee crisis have developed. Growing unease with the EU among large parts of the population, reflected in the electoral success of right-wing populists, has pushed political discourse in Germany as a whole to the right over recent years. It has moved increasingly from a focus on the benefits of the Union, towards questions of maximising national benefits and self-determination. This was already evident at the start of the euro crisis, as there were individual critics in the CDU (Wolfgang Bosbach), the CSU (Peter Gauweiler), and the FDP (Frank Schäffler); these MPs gained media attention for their opposition to the Chancellor and their positions that went against the majority view in their parliamentary groups.

As the crisis went on, critical positions gained more widespread support. Thus there was backing for a Greek exit from the currency union, at least on a temporary basis, from several conservative politicians such as the current Minister President of Bavaria, Markus Söder, and the former federal Finance Minister, Wolfgang Schäuble. The extent to which the Bavarian CSU took on AfD positions is particularly striking. This was even more evident on migration and integration than reform of the currency union. In order to "close the right flank", CSU head and federal Interior Minister, Horst Seehofer, surprised the Chancellor among others by making regular calls for caps on asylum-seeker numbers, stricter implementation of deportation, and an ongoing exclusion of family reunion. He also alleged that Islam does not belong in Germany.

The popularity of the right has also left its mark on other parties. Christian Lindner, head of the Free Liberals (FDP), has experienced this since the federal election: his party, which was once the most pro-European party in Germany (just think of the former Foreign Ministers Hans-Dietrich Genscher and Klaus Kinkel), has been influenced by a trend towards national liberalism. An increased focus on competition has led to greater calls for rejecting solidarity with neighbouring states to help them overcome the crisis, and for limits on refugees' right to remain. The left-wing *Die Linke* party is concerned about excessive demands on the poor and those on low incomes due to increasing migration and integration requirements. Its fundamentalist wing, under parliamentary group chair Sahra Wagenknecht would like to limit immigration to Germany. Furthermore, Wagenknecht has already repeatedly called for the Eurozone to be abolished.

Faith in markets or political design?

The opposition between "more" and "less" Europe, as discussed in the political arenas of many Member States and brought under the spotlight in the 2017 French presidential elections, hides conflict lines that are far more significant when considering the future of the EU. Arguing "for" or "against" European integration reveals little about concrete political programmes. Representatives of European multinationals may lobby for a deepening of the EU, but what they want is generally a Europe with market liberalism. A right-wing party like the AfD in Germany may embrace the same market liberalism, but it would think it could only survive within the borders of a state. The more marked the political and public opposition between "pro-Europeans" and "Eurosceptics", the less clear the arguments become. Critiques of the prevailing mode of integration and crisis management are often incorrectly branded anti-European and nationalist. Support for a reform programme and further development of the EU, on the other hand, is prematurely interpreted as an attempt to establish a European super-state that would involve giving up national sovereignty.

If people do not argue on the basis of cultural identity or national feeling, as has become increasingly fashionable due to pressure from right-wing populists, the question of distribution of functions between the EU and Member States is a functional one. If common public goods exist or are generated in Europe, why shouldn't regulation and governance be at EU level? The principle of subsidiarity, which self-proclaimed defenders of national interests are so fond of citing, always works in two directions. On one hand, if it makes political sense to handle something at the level of a Member State level and its authorities, it is kept at that

level. A new bypass is a case for a local magistrate and the local authority; organising a health system is the task of a national parliament and a national health ministry. On the other hand, correctly applied subsidiarity also means that all areas that a Member State cannot regulate alone, due to cross-border externalities or common requirements, are handled or at least coordinated at supranational level. This applies for trade policy in the internal market and control of migration in the EU.

The big conflict regarding the future development of the EU goes beyond a simple question of being for or against the integration project. The main line of demarcation for many political conflicts actually relates to economics. There is a theoretical disagreement between a belief in a union of states that automatically makes optimal use of the benefits of market integration on the one hand, and a belief in the need for political intervention and design to correct market failures on the other.

Thus the ongoing debate about reform of the currency union, which started amid the euro crisis in 2011, reveals two central and diametrically opposed economic paradigms, which have prevented agreement thus far. This conflict exists between the Member States of the Union, and also inside many national political arenas. Germany's ruling coalition of Christian Democrats and Social Democrats contains both supporters of a stability union and of a fiscal union; the vast majority, including many Social Democrats, support a stability union. Both concepts are explained into detail in the following two sections.

A stability union based on faith in the market

In the political debate on the restructuring of the currency union, those who advocate a stability

union on the basis of ordoliberal ideas stress the overarching importance of internal currency stability (inflation) and external currency stability (exchange rate) as the state-sponsored foundation for efficient markets, which generate growth and prosperity. So as not to endanger this, fiscal policy for individual states in a currency union should have clear limits. Finally, it is very important that incentives for incorrect national policy are eliminated as far as possible, to minimise the risk of moral hazard.

This understanding of the functioning of a currency union can be applied to an analysis of the euro crisis. Thus advocates of a stability union stress that the debt and deficit limits of the Maastricht Treaty and the Stability and Growth Pact were not fully observed. A constant theme is the alleged negligent policy of the crisis states before the financial crisis, during which competitiveness was lost, credit-financed consumer and property bubbles were allowed to form, and there was a delay in structural reform of the labour market and long-term stabilisation of state finances. Essentially, incorrect state-level policy within the institutional framework of the currency union is said to have caused the crisis. Non-compliance with the required stability policy therefore led necessarily to the self-inflicted economic crisis.

From this perspective, in a currency union with efficient markets and free movement of capital but restricted mobility of labour as a production factor, the only variable for regaining competitiveness must be a national price reduction through wage cuts. Foreign trade imbalances, the key indicator in the euro crisis, are also interpreted in this light. Countries with a deficit, which import more goods than they export, had for years tolerated elevated wages and rising inflation, thus allowing their competitiveness to be eroded. They could only finance their unsustainable excessive consumption and high standard of living through foreign debt.

In line with their views, proponents of a stability union as a solution therefore demand that the Maastricht criteria should be more strictly monitored and strengthened through national "debt brakes", as stipulated in the Fiscal Compact, and greater and more direct intervention capabilities for the currency union to enforce national structural reforms in line with the German model. To be consistent with this line of thought, all conceivable mechanisms either to cushion these adjustments by increasing unit labour costs in the solvent countries or to alleviate them through temporary transfers should be rejected, as they would once again imply moral hazard. If individual countries get into difficulties despite these strengthened rules and direct intervention measures, there should now be sufficient instruments in the European Stability Mechanism (ESM) to prevent illiquidity and to enforce the due reforms and cuts through loan conditions, if need be. Some supporters of these ideas even think that a state insolvency code is necessary, to make the no-bailout rule credible again, and to eliminate a key source of moral hazard.

A fiscal union based on political design

In the debate about the correct structure and control of a currency union, supporters of the stability variant are in opposition to the advocates of a fiscal union. This position is based on a Keynesian belief in the need for state stabilisation of demand when markets are in crisis, and a rejection of the assumption that lower wages in this situation would lead to greater supply, which would in turn lead to greater demand. However if adjustments to interest rates and exchange

rates are needed to stabilise the economy in case of market failure, giving up these instruments in a currency union seems less attractive. Upon entering a currency union, independence of monetary policy is lost, and state deficits cannot be financed independently with the help of an own central bank, so the liquidity risks of individual states can lead to solvency crises.

However the idea of a currency union became more attractive in the 1980's, when people weighed up the macroeconomic costs of the monetary union against the benefits of ridding oneself of currency market speculation in Europe and an end to the monetary dominance of the Deutschmark in the European monetary system. Nonetheless, the fact that the European states were still so far from constituting an optimal currency area is a clear indication that fiscal instruments need to be able to handle the challenge of regional shocks.

This belief that the currency union also functions as an economic policy project enjoyed a renaissance among proponents of a fiscal union during the euro crisis. Since the introduction of the euro, the European Central Bank (ECB) has not been in a position to implement a monetary policy for all countries involved, due to heterogeneous economic development. At the same time, the common coordinating instruments for economic policy, as agreed in Maastricht and subsequently, proved to be toothless. The joint institutions also proved unable or unwilling to take effective action against the asymmetries that regularly arose. The only relevant economic policy coordination of the Eurozone relates to Member States' deficits and debt levels. According to wage policy, adjustment to asymmetric shocks is left to individual states; however once there are differences in inflation levels, these can be amplified pro-cyclically by the one-size-fits-all interest rate policy of the ECB and

unregulated international capital flows. This leads to a divergence in labour unit costs and current account balances across Member States.

Therefore, all proposals from the proponents of a fiscal union assume the need for closer harmonisation of economic policy. This camp cannot understand the asymmetry of euro crisis management, which blamed the crisis directly on states with high budget deficits, high levels of debt, and negative current account balances. Supporters of a fiscal union believe that crisis management policy focusing on austerity and accepting deflation has not taken on board the lessons of the Great Depression of the 1930s.

However the details of specific proposals for forced fiscal policy integration in the Eurozone vary greatly. The key concept is integration of liability for state debt at a European level, so EU Member States are not subsequently divided by different credit ratings in financial markets. Furthermore, implementing an automatic stabiliser dependent on economic trends at a European level – like e.g. a European unemployment insurance scheme – should balance out inadequate adaptation to asymmetric shocks due to insufficient mobility of labour, and replace internal depreciation due to falling wages and prices, which has been found to be counter-productive. Furthermore, there is a demand for an explicit political union, at least in the medium to long term. The single currency should be viewed as a common public good in this context, and there should be a government with parliamentary responsibility for the Eurozone with the right to tax and spend money.

Markets and policy in the migration question

The conflict line between faith in the market and in political design also exists in other subject

areas. Given the increasing number of refugees arriving in Germany and the de facto exclusion of the EU Dublin Regulation in 2015, it is undeniable that economic questions are also discussed in the context of migration. However the response to these questions has either been apocalyptic predictions that the labour market and social security systems could not cope, or unrealistic optimism. While the AfD managed to address many citizens who doubted Angela Merkel's assertion that "We can do it", in 2015 and 2016 politicians, economists and journalists were vying with each other to say how much refugees could contribute to an increase in GDP through an increased demand for goods and services from asylum seekers themselves and through the states providing infrastructure. Furthermore, there was much speculation about whether increased immigration rates could be just what was needed to tackle the looming lack of skilled labour in a growing economy and the social security system, in view of demographic change.

It only became clear in 2017 that many of the assumptions made had been too optimistic. It can easily take 20 years to learn German, get basic and further training, get integrated in the labour market, and work one's way up from the low-wage sector to the median wage for employees. In any case, positive fiscal effects are only to be expected if extensive investment is made to integrate immigrants. The federal government has implemented many individual measures, but so far it has failed to set up a broad integration programme that expands the range of opportunities to learn German and acquire other skills, and dovetails with the professional training system. Under particular pressure from the CSU, the new governing coalition is focusing on deterrence rather than expanding integration measures.

The background to this is clear. On one hand, additional integration measures are very costly, and the coalition members are united in their goal of balancing the federal budget, or even reaching budget surpluses in the best-case scenario, in accordance with the "debt brake" placed in the constitution in 2009. On his own admission, Finance Minister Olaf Scholz (SPD), would like to observe the economically questionable policy of "breaking even" ("Schwarze Null") espoused by his predecessor, former Finance Minister Schäuble (CDU). Moreover, some sectors of the population have shown their built-up displeasure with political neglect over the last three years, by using the AfD and to some extent *Die Linke* as conduits into national political arenas.

This particularly applies to the working lower-middle class, which is afraid of losing economic and social status. These people have long looked on in frustration as the achievements of the welfare state and levels of public infrastructure are pushed back in the face of pressure from global competition, and wages stagnate in real terms - particularly in the east of the country and in the former industrial metropolises of the Rhine and the Ruhr. Faith in political plans to deal with the new challenges of increasing global interdependence has been waning since the second term of the SPD-Green coalition, 2002-2005, when former Chancellor Gerhard Schröder's Agenda 2010 was implemented, if not earlier. This approach has given way to a programme of adjustments to adapt to the market forces of globalisation. Competition from other locations was countered with low corporate taxes, unemployment was countered by building up the low-wage sector, and empty state coffers were dealt with by reducing social services and privatising or not renewing infrastructure. Emphasis was placed on individual

responsibility rather than state responsibility. Education was meant to be the key to a better life, and everyone was supposed to forge their own good fortune – those who could not meet the new demands of flexibility, mobility and self-suffi-ciency could not count on much support in the form of de-commodification. This policy became successful thanks to a one-sided, export-focused economic model, which appeared to take advan-tage of the benefits of globalisation, as all three domestic economic sectors – private households, companies and the state – became net savers, while products were sold abroad on credit.

The other side of this model manifests itself economically in various ways. German internal demand has been widely ignored for a long time, there is an increase in precarious working conditions, and there is insufficient government revenue. Public infrastructure has been neglect-ed due to a lack of investment in municipalities, and public facilities such as nurseries, schools, swimming baths and libraries are being closed or not being renewed. Germany has also become a country in which the gap in income and assets has grown wider and wider. What the euro crisis revealed above all else was the unsustainability of the import deficit model, which literally ex-ports unemployment to other European states, as their current account balances go further into the red and they become increasingly dependent on Germany as a creditor. Nonetheless this poli-cy was and is maintained.

However, the increased levels of immigration meant a political obligation to accept, absorb and integrate new arrivals. Many members of the lower middle class, who did not believe they were in a secure position, considered that this treatment of immigrants was not fair to them. All the more so when refugees were premature-ly housed in mass residences, which were more often located in middle-class suburbs than in

upmarket urban neighbourhoods. The main reason for this dissatisfaction, though, was that the government was not prepared to discard ordoliberal principles despite the exceptional situation. It opted for piecemeal measures rath-er than starting a comprehensive programme of investment for integration and infrastructure, which would have eased social integration both for refugees *and* for people who feel neglected by politics. Instead, the majority of parties in Germany implied that existing social services, infrastructure and educational facilities would have to be shared out among more people. The "culture of welcome" was, in itself, a positive phenomenon, but it was blown up in the media during the first months of increased immigra-tion to such an extent that the economic divid-ing line between a state-run community effort and a simple plea for individual responsibilities became blurred. On one hand it became associ-ated with an integration and investment pro-gramme and on the other with a call for refu-gees and members of the public in the host society to take on responsibility for becoming integrated and earning a living. While the latter option prevailed, it was possible to persist with the free-market TINA principle ("there is no al-ternative").

Conflict lines and the Grand Coalition

Of course the governing conservative and social democratic parties do not want to leave it up to far-right and far-left political actors to cater to those who are dissatisfied. Naturally the new coalition of Christian Democrats and Social Democrats would not want to leave itself open to the accusation of having rejected Emmanuel Macron's invitation to revive the Franco-German engine of EU integration. The coalition has big

plans for Europe. The plans in the coalition agreement are in many respects significantly different from previous statements and domestic German debates about the EU.

Thus the coalition wants to leave behind the well-worn debate about Germany being a net contributor, and strengthen the European Union financially, even if that means higher contributions. On one hand it will be necessary to make up for UK contributions to the EU budget when they stop, and on the other hand more funds should be available for new Community tasks, although cuts are likely. One policy that is not described in detail is provision of funds "for economic stabilisation and social convergence and to support structural reforms in the Eurozone" as a starting point for an "investment budget" that is to be established later for the currency union. The prospect of an EU budget for the euro states (i.e. "fiscal capacity") allowed fiscal union supporters in the SPD to prevail, as this could be used to form the nucleus of an automatic stabiliser. On the other side, supporters of a stability union with rewards for structural reform managed to revive the idea of a competitiveness instrument, which was hotly debated in 2013 with the aim to enforce structural reforms by new reform obligations. They plan to implement this through a policy also favoured by the coalition: developing the ESM into a European monetary fund.

From the perspective of a fiscal union, it is also desirable to have closer economic coordination of the euro states, including further harmonisation of rules to avoid tax dumping, tax fraud and tax evasion, and to align corporate tax rates. A European social pact should also be concluded, to develop unified requirements for minimum wage systems and social security provision, and to prevent wage and social dumping. In comparison with the plans of previous German governments, these proposals could certainly lead to a progressive move away from the former economic policy line, and come closer to meeting the demands of France, Italy and Spain. However, the stability-oriented hawks have also managed to ensure that the coalition agreement still states that in any reform of the currency union, the Stability and Growth Pact must continue to be the "compass", and risk and responsibility must still be linked to each other.

All three coalition partners agree that the EU should play a central role in regulating and controlling migration policy. There is support for the creation of a European asylum system, with a fair mechanism for distribution among EU states, and ensuring common standards for asylum procedures. Protection of the EU's external borders should be extended. Regarding the economic line of conflict discussed above, the coalition would like to make individual improvements to integration measures, in line with the principle of "rights and responsibilities". More funds are promised for federal states and municipalities. However there is no prospect of a broad integration programme. The Growth and Stability Pact, the debt brake and avoiding new public sector debt are concepts that are held sacrosanct by the new government, which at the same time also aims to exploit the budget surplus to invest in education, childcare, house construction and care.

Nonetheless, it is doubtful that this will be sufficient to quieten the public's concerns about competition and a drop in living standards due to migration, or to go beyond paper-based reform compromises for the Eurozone. However, more positively, many small steps could certainly result in significant progress in integration.

Macron's goal for the EU: make Europeans proud again

Sébastien Maillard

Ever since his election, the new French President has become the EU's main political leader. At a time when the European integration process remains challenged, his initiatives aim firstly to change the mindset towards the EU by pushing forward a "Europe that protects" agenda and by developing a positive tone on Europe at large in order to oppose the rise of nationalism

Emmanuel Macron's European policy did not start once he was elected President of France last May. It started during his campaign itself which, by its unusually outspoken pro-EU stance, paved the way for a willing European policy spelled out in his Sorbonne speech on September 26. Aware that the European integration process has been seriously damaged since the French referendum on the Constitutional Treaty in 2005 and by a severe crisis series (bank, sovereign debt, refugees, Brexit), Emmanuel Macron measures what his victory against Marine Le Pen has meant for the very existence of the EU. Without his election, European integration was in a dead end. But relief is not enough and business cannot be back as usual in Brussels. By pushing forward a "Europe that protects" (*L'Europe qui protège*) agenda, the new French President hopes to reconcile public opinions with European construction and bring up some concrete results before the next European elections in May 2019.

An ambitious "Europe that protects" agenda

In that perspective, his first political battle on the European front has been on the revision of the posted workers directive. His capacity to reduce the length of authorized posted work, hallmarked in an agreement set last October, is more politically symbolic than practically useful but it addresses a strong concern, widely spread in France, against social dumping. The agreement, which captured successful and exaggerated media attention, meant to show French public opinion the new President's direct influence on European matters. His speech at the European summit in Göteburg (Sweden) the following month offered him another opportunity to throw out ideas on how to relaunch social convergence in the EU. The Elysée is now considering linking future European structural funds to social convergence criterias and to anti-social dumping measures.

After social dumping, his new fight in this "Europe that protects" battle is going to be against fiscal dumping, supporting ways to tax the digital industry – the so-called GAFA. The French government welcomes the Commission's proposal made in March 2018. A visit of Macron next year to Ireland could be used as a way to put political pressure on this GAFA-friendly country and show public opinion a willingness to act on this fiscal issue pointed out as a failure of EU integration.

Another field where the French President wants to give "Europe that protects" some teeth is migration. Until now, his policy on this matter has been articulated mostly domestically. Macron has openly acknowledged the results of the latest Italian elections as a warning signal for a clear EU response able to demonstrate that Europe can keep the in-coming flows under control. The Elysée is in a favour of revising the Dublin regulation for a better burden-sharing of asylum-seekers across the EU.

"Europe that protects" also means developing the common Defence policy. With the United Kingdom about to leave the EU, France understands it must play a new leading role in this field since it will become *de facto* the sole EU Member State with nuclear weapons and holding a permanent seat at the UN Security Council. With the fight against terrorism to carry out in African countries of the Sahel, and an unpredictable American defence policy towards Europe, the French president launched his European intervention initiative in his Sorbonne speech, aside from the newly established Permanent structured cooperation on defence and security (PESCO). This unexpected French initiative has since created misunderstanding among other EU countries and officials, questioning how – and why – it will differ from PESCO. In France, the fear is that a PESCO, joined today by up to 25 EU

Member States of the EU, may become too large to be efficient. Paris hopes that building a European intervention in its own right, outside the EU and open to the UK, will prove by 2024 that it can deliver real protection to the Europeans.

Apart from defence, Macron's approach to security is also economic. He supports the idea of screening foreign direct investment, put forward by the Juncker Commission, in order for Europeans to secure national interests and respond to less open environments. When travelling to China last January, he tried to act not only as the French President but to present himself as Europe's foremost leader, requesting "reciprocity" in the opening of domestic markets.

Inside Europe, Emmanuel Macron wants to provide more economic protection and empowerment through the euro, the EU's most integrated achievement yet. Bercy, place of the French Finance ministry where the President originally comes from, has developed ideas to create a euro zone budget meant to be a stabilizer in case of shocks on a country's economy. Macron is also in favour of creating a finance minister for the euro-zone and a parliament for the monetary union, reviving an old Franco-German dispute on the kind of economic governance to be attached to the single currency.

Restore France's influence while addressing French concerns

In pursuing this broad and ambitious "Europe that protects" agenda, France knows it does not meet expectations among many European leaders, including Germany. But Macron seems to favour deeper integration over unity at all costs, concrete results than wide but mild compromises. Macron's Europe is inevitably multi-speed.

His proposals rely firstly on the traditional Franco-German axis, which he wants to strengthen in order to give his ideas the needed political momentum. Unlike his two predecessors, Nicolas Sarkozy and François Hollande, his approach is not to attract partners against Germany but to side with Germany. He has displayed the most Germanophile government France has ever had. His prime minister, Edouard Philippe, his finance minister, Bruno Le Maire, and his Sherpa for foreign affairs, Philippe Etienne, are all fluent in German, as was his first defence minister, Sylvie Goulard.

To gain trust from Germany – and EU members at large –, he has insisted on finally respecting the 3 % of GDP public deficit threshold. Thus his national fiscal policy and, more broadly, his internal structural reforms of the French economy, such as the one of the labour market last Fall, must also be analysed from a European perspective, as a way to earn respect from Berlin – and Brussels – in order to regain the political influence France had lost over the past years. His quest to restore his country's reputation in Europe is a milestone of his European policy and has been facilitated, at this stage, by a positive global economical and financial environment that provide him with convincing figures.

But to echo Macron's famous *en même temps* (at the same time), his European policy must also be understood from a domestic political perspective. His personal investment last summer on the posted work issue sets a clear example. Macron travelled to Salzburg (Austria) to meet leaders from neighbouring Slovakia and Czech Republic to get their needed political support on this social reform, while openly and harshly criticizing the Polish government. From a diplomatic point of view, he managed to weaken the so-called Visegrad countries (Czech Republic, Hungary, Poland, Slovakia) by dividing them. But from a domestic political view, he touched on entrenched French sentiments, which seem to have never fully accepted the great EU enlargement to the East of 2004 and still fear the famous "Polish plumber". He also positioned himself against the Polish government at a moment when its reforms on the judiciary are criticized, even more among left-wingers. Macron did so while, at home, his liberal labour reform was unpopular among the same voters. In a nutshell, he balanced his "right-wing" policy at home with a "left-wing" policy in Europe.

For domestic reasons, he can even refuse the outcome of a European agreement, despite his pro-EU positioning, as happened on the glyphosate issue. Although a majority of ministers of agriculture of the EU authorized this herbicide, with suspected carcinogenic potential, for another five years, on November 27th, Emmanuel Macron tweeted on that same day, after the EU vote, that France would unilaterally ban glyphosate within three years at the latest. Divisions within his government on this hot button issue reflect the ones that the French executive has on agriculture at large. He is giving the impression in Brussels that, unlike his predecessors such as Chirac and Hollande, Paris has not yet completely settled its position on the Common agricultural policy that it has always supported – and benefited from – until now. The upcoming discussion on the next multiannual financial framework (EU's budget for 2021-2027) will serve as a live test to watch whether Macron supports new funding priorities for Europe, according to his "Europe that protects" agenda or sticks to traditional French positions.

Acting in a weakened outside and internal environment

But whatever his ambitions and priorities, the French President's European policy is weakened by two factors, one external, the other internal. The external one is the current political environment he encounters. The Sorbonne speech had been specially delivered right after the German elections as to influence the next governing coalition in Berlin and get the Franco-German engine kick-starting. The Elysée had not foreseen – as elsewhere – that the new German government would take six months to be in place, delaying its plans to reform Europe. Although France prefers working with the "grand coalition" finally sealed rather than the earlier one that included the liberal FDP, it cannot rely on a Franco-German axis as strong as hoped for. Macron's Sorbonne speech still has not received a full German reply. He partners with a weakened Chancellor and a divided SPD. Yet he needs both.

The Elysée is more worried by the political situation in Italy, following the elections of March 4th. It will also there not be able to rely much on this founding Member State of European integration and traditional ally. The same weakness is witnessed regarding Spain, whose political attention is captured by the situation in Catalonia. Macron cannot rely more on Scandinavian countries who do not fully taste his social agenda and even less his ambitions for the eurozone. Same for Eastern European countries, with whom the French President wants to battle over democratic values. According to high level sources in Brussels, France was the strongest supporter of the Commission's initiative to put unprecedent pressure on Warsaw under article 7 procedure. In this European political context, where the UK is completely absorbed by Brexit, President

Macron stands as the EU's main leader but, *en même temps*, as the only one. A position that may force him to lower down his ambitions for Europe. The history of European integration teaches that, to be successful, a European policy must be supported by a small but committed and willing coalition, never by one leader alone. Mitterrand acted along with Helmut Kohl, Jacques Delors at the Commission, and other pro-Eu leaders, such as Felipe González.

The other less known factor weakening Macron's European policy is internal. The young President heads a state whose administration is much less pro-European than himself. Ideas and projects that he launches are not always enriched and supported as they should be by the country's high civil service. For instance, his willingness to facilitate and to encourage mobility for high school students, according to the Erasmus model, or to develop European labelled universities, have not been followed up by initiatives from the relevant French ministries, that are needed to carry out such ideas in Brussels. And politically, his party has not yet its own supporters and proper MEPs in the European parliament. European elections in May 2019 could bring the first "En Marche" deputies to Strasbourg and perhaps its own new political group, necessary to sustain Macron's European policy.

Developing a pro-EU style and wording

These elections will be the first the French President faces since the legislative ones that just followed his own last year. They are strategic not only from a purely partisan perspective but also to reform the EU, according to his views as laid out in the Sorbonne speech. His biggest challenge is to reverse the tide of nationalism spread throughout Europe in order for the next

European Parliament not to be overtaken by it. Macron's European policy is to be understood in this mid-term perspective.

Through his European policy, he does not only want to deliver some results of what a "Europe that protects" brings but, more deeply, also address the existential crisis the EU is going through. To reverse the tide of nationalism and various sorts of populism, who have taken a hostile stance towards the EU, his position to take on purpose an opposite tone, as developed during his presidential campaign. He is not ashamed of the EU, neither negative, defensive or silent about it but, on the contrary, he shows himself proud of it. He considers the best way to contain anti-EU sentiments from spreading is to be pro-EU in a very offensive manner. This is what makes Macron's European policy unique in the history of the French presidents since the beginning of the European construction.

His policy therefore also focuses on symbols, wording, slogans such as *Bruxelles, c'est nous* (Brussels means all of us). It was his personal idea to play the EU's *Hymn to Joy* on the eve of his election at the Louvre plaza in Paris. He also announced last October that France would officially recognize the EU flag, whose presence in the National Assembly (the French lower house) was mocked by his main political opponent, Jean-Luc Mélenchon. For his first speech on Europe, before the Sorbonne, he chose the scenic view of Athens, best-known symbol of democracy, in order to show that democratic values are on the side of EU contenders, not among the nationalists. When using the word sovereignty on EU matters, he challenges those who claim it to be only national.

But Macron's main offensive before the European elections is yet to come. His idea of launching "citizens' consultations" this year in all willing EU states – 26 total as today – is

meant to popularize EU affairs, who have become regarded as reserved, understandable and designed for the elite. This one-of-a-kind democratic debate is an attempt to find a third way between closed-doors Brussels diplomatic negotiations and referendums, most often used for internal political purposes. The aim here is to have a bottom-up approach on European affairs and make it an issue for an open debate, without clearly stating how its unpredictable outcome will be used. It will anyhow set the framework of the campaign for the European elections following. The success of what was first drafted as "democratic conventions" depends on how seriously they will be considered by its participants. The challenge for the French president is to "demacronize" the process, suspected of being conducted for himself.

The fact his other idea of creating transnational lists to elect MEPs had not been "demacronized" enough before it was submitted to the European Parliament on February 7 explains why it was defeated by French right-wing MEPs from the European Popular Party. But one can bet the Elysée will try again in 2024 to create such transnational lists, which are thought as a way to Europeanize more the election of the European Parliament. This idea as well as the "citizens' consultations" are part of Macron's experiences he wishes to carry out in order to change the mindset and attitude of Europeans towards the EU.

Emmanuel Macron is passionate when it comes to Europe. He will deliver more speeches throughout his mandate. His objective is to deliver some concrete results showing that Europe – or at least some countries within the EU – protects ordinary citizens worried about the pace of globalisation and of migration and *en même temps* addressing the need to foster a sense of European identity and belonging to a common

set of values. If popular enough, the citizens' consultations which will address all those sometimes sensitive issues could help president Macron find the political momentum he needs to reform the EU and that the political situation in various countries lacks to provide him. But the process may also fell.

His ambition for Europe may also suffer from a new Est-West divide that the debate on migration, on the respect of state of law and on the EU's future could deepen if mishandled. This is the greatest geopolitical challenge ahead not only for himself but for the sake of the whole EU.

Spring 2018 Brexit negotiations: progress and future prospects

Mercedes Guinea Llorente

The status of Brexit negotiations as of spring 2018

The political process commonly referred to as Brexit, a euphemism for the withdrawal of the United Kingdom (UK) from the European Union (EU) popularised by the press, will undoubtedly be one of the most important and disruptive factors in European politics in 2018[1]. This text, which is meant to be a follow-up to a chapter contained last year's State of the Union report, provides an overview of progress made relative to negotiations on the UK's withdrawal from the EU up to the spring 2018 and a brief sum-

mary of what remains to be accomplished during the months ahead[2].

We will approach this analysis of the negotiations underway from the perspective of the impact of constitutional politics on the EU, which is to say, in terms of changes within its current structure about to take place within the context of the withdrawal of one of its Member States. It should be noted that the scope of this discussion will be limited to withdrawal – the process by which the EU and the UK will determine, by mutual consensus in accordance with Article 50 of the TEU, the form and substance of the UK's exit from the Union and the framework for legal and political relations between the EU and the UK following this rupture. As such, it will not approach the topic from the viewpoint of the reduction of the EU (i.e., the impact of the

---

[1] Brexit, a neologism combining the words "Britain" and "exit" made popular by the press, refers to the UK's withdrawal from the European Union, an event that has not yet taken place but is expected to become official on 29 March 2019 according to Greenwich Mean (London) Time and 30 March 2019 according to Central Eastern European Time (observed in Brussels, the city in which core EU institutions or located, and the reference date adopted by the European Council).

[2] See: Guinea Llorente, M.: "El *brexit*: las negociaciones de retirada del Reino Unido de la Unión Europea", in: López Garrido, D. (Dir.), *Informe sobre el estado de la Unión Europea 2017. Relanzar Europa,* Madrid, Fundación Alternativas, 2017, pp. 105-114.

UK's withdrawal on the EU as an inverse constitutional political process diametrically opposed to the process of EU enlargement).

As stated on innumerable occasions, much of the complexity of the negotiations now underway stems from their novelty: both of the parties involved are immersed in a process fraught with uncertainties and consequences that neither has had to deal with before. Given the brevity of Article 50 of the TEU, which focuses strictly on procedural aspects of negotiations on the conditions of a Member State's withdrawal and is admittedly ambiguous on certain points, negotiations are being conducted on the basis of European Council guidelines and experience accumulated along the way. As these talks have progressed, they have proved to have numerous aspects in common with the two other EU constitutional processes: enlargement and deepening, the most important of which is the limited scope of changes they allow and the fact not everything being open to negotiation.

Optimal management of the Brexit process: a matter of survival for the EU

It is abundantly clear to everyone involved that the UK's withdrawal is of enormous importance to the EU and its Member States, including Spain, for a number of reasons. Two are particularly worth mentioning for the insight they provide into various aspects of the negotiation process.

The first is that the victory of the Brexit camp in the 2016 referendum has plunged the Union into a four-pronged existential crisis: it has not only deflated the mythical narrative of the irreversibility and perceived value of integration, but also brutally demonstrated that citizens are

quite capable of turning their backs on the EU if it doesn't live up to its promises, brought us face to face with the destructive power of populism and politics grounded in the manipulation of public emotions rather than rational analysis and, last but not least, has established a dangerous precedent, which, if not adequately addressed, could lead to an exodus of other Member States and the unravelling or dilution of European integration. Optimal management of the Brexit process on the part of EU institutions and Member States alike will therefore be key to ensuring the survival of the European integration project.

The second reason is that the UK's withdrawal from the EU, however it eventually plays out, has, and will continue to have, wide-sweeping commercial, economic and political consequences for the Union as a whole and each of its Member States. This has become patently clear from the institutional restructuring already underway at the European level and in a number of Member States in preparation for, and in anticipation of, the changes that Brexit will suppose[3].

The immediate issue of concern is the economic cost of separation, which will affect the UK most at the outset but will also have greater or lesser consequences for remaining Member States as well[4]. The price all will pay will greatly depend on whether withdrawal takes place by

---

[3] EU negotiator Michel Barnier has openly acknowledged to the press that the EU is drawing up plans for a no-deal scenario in which Great Britain leaves the Union without an agreement. Zalan, E.: "EU preparing for Brexit failure, Barnier says", *Politico,* 13 November 2018, https://euobserver.com/uk-referendum/139842 (Retrieved 2 April 2018).

[4] Regarding this question, see: Sampson, T.: "Brexit: The Economics of International Disintegration", *Journal of Economic Perspectives,* vol. 31, No. 4, 2017, pp. 163-184.

means of a friendly, consensual agreement or in an atmosphere of conflict often referred to as a cliff-edge scenario. Although direct costs related to economic activity that will no longer take place or will contract due to price increases will inevitably be high, one must also consider indirect costs associated with such things as the creation of new entities, structures and administrative procedures, the relocation of agencies and the burden of coping with additional red tape. The economic burden Brexit supposes for the EU will not be limited to the cost of establishing a new relationship framework with the UK but also entail a number of challenges that will need to be dealt with over time such as lower operating budgets, the qualitative impact on different policies (of major importance in the case of the CFSP) and the necessity of renegotiating numerous trade agreements.

Regardless of the final conditions under which Brexit eventually occurs, both parties will inevitably end up paying a price, a reality that distinguishes the negotiations now underway from others and places them in a unique category. The unpalatable task facing negotiators is to manage a separation, or disintegration if you will, that implies losses for both parties involved and benefits for none. Their shared objective is therefore minimising what each stands to lose by implementing what the European chief negotiator has publicly referred to as a "damage control policy"[5]. This characteristic of the process significantly lowers its chances of success given that negotiators are generally willing to make painful concessions when they perceive the possibility of some sort of pay back further down the line but are much less disposed to do so in the absence of such a perspective. The only thing that could possibly motivate the parties engaged in these negotiations to work together in a spirit of cooperation is a mutual fear of the abyss that looms before them, or, in other words, a common awareness that the failure to reach an exit agreement will result in enormous economic and political losses on both sides of the English Channel.

Negotiations on the withdrawal of the United Kingdom from the European Union: progress achieved during phase I (July-December 2017)

The process of UK withdrawal from the EU formally began on 29 March 2017 with British Prime Minister Teresa May's written notification to the European Council in accordance with Article 50 of the TEU[6]. This act set the Brexit clock ticking and inaugurated the two-year period allowed for the negotiation of a "withdrawal agreement", which under the conditions laid out in the TEU must take "the framework for the future relationship" between the UK and the EU into account. According to this timetable, Brexit will become a reality on 30 March 2019 notwithstanding a unanimous decision on the part of

---

[5] European Council President Donald Tusk and Chief European negotiator Michel Barnier have stated on a number of public occasions that Europe's main objective is "damage control". For an example, see: Tusk, D.: *Remarks following the UK notification,* Brussels, 29 March 2017, (Press Release 160/17).

[6] May, T.: *Letter to Donald Tusk triggering Article 50,* London, 29th March 2017.

the European Council and the consent of the UK government to extend the negotiating period[7].

European institutions started preparing for the decision-making required under the application of Article 50 well before the trigger date with an eye to undertaking effective negotiations as soon as possible. Michel Barnier, whom the Commission had appointed chief negotiator during the summer of 2016, lost no time in putting together a solid team known as Task Force 50, and consultations with EU institutions and key Member States were conducted for the purpose of establishing a European negotiating position. On the basis of this inter-institutional groundwork, the European Council adopted a set of general guidelines for Brexit negotiations on 29 April 2017[8].

As Article 50 of the TEU contained only generic and somewhat ambiguous provisions for the withdrawal of a Member State, the bulk of initial EU negotiation guidelines issued by the European Council were devoted to procedural issues and the rest to objectives and points to be negotiated. All of this material formed an *acquis constitutionnel,* a corpus of basic principles shared by two other EU institutions (the European Parliament and the European Commission), the purpose of which was to "preserve the interests of the Union", which in the context of the negotiations to follow would mean protecting the EU from the risk of disintegration by focusing heavily on damage control.

The EU negotiating strategy was based upon four basic principles conceived to strengthen the EU's bargaining position and ensure unity and cohesion between Member States and EU institutions throughout the lengthy process. These were:

1. All negotiation would be conducted exclusively through one officially designated institutional channel as contemplated in Article 50 (a role assumed by the Commission-appointed negotiator Michel Barnier). No bilateral negotiation, direct negotiation between the UK and individual Member States or minilateral negotiation on the part of groups of States was to be allowed[9].

2. Unilateral withdrawal of notification on the part of the UK would not be impossible but the possibility of reversing the process would remain open under mutual agreement, the approval of which would depend on the

---

[7] Council guidelines for the application of Article 50 of the Treaty stipulated that "the date of entry into force of the withdrawal agreement should be at the latest 00:00 Central European (Brussels) time 30 March 2019". The Commission's recommendation for a Council decision furthermore states that regardless of whether or not such an agreement is reached and enters into force, all Union Treaties will cease to apply to the United Kingdom and its withdrawal will become effective as of that hour and date. See: Council of the European Union, *Annex of Council decision (UE, Euratom) 2017/... authorising the opening of negotiations with the United Kingdom of Great Britain and Northern Ireland for an agreement setting out the arrangements for its withdrawal from the European Union* Brussels, 22 May 2017, (XT 21016/17 ADD 1 REV 2), pt. 8; European Commission, *Recommendation for a Council Decision authorising the Commission to open negotiations on an agreement with the United Kingdom of Great Britain and Northern Ireland setting out the arrangements for its withdrawal from the European Union,* Brussels, 3rd May 2017, (COM(2017) 218 final), p. 2.

[8] As per Article 50, the member of the European Council representing the UK is barred from participating in discussions related to the withdrawal process, in which only the heads of state or government representing the 27 remaining Member States will have the right to take part. European Council (Art. 50) *Guidelines following the United Kingdom's notification under Article 50 TUE,* Brussels, 29 April 2017 (EUCO XT 20004/17).

[9] The governments of various individual Member States have reportedly turned down attempts on the part of the UK diplomatic corps to open bilateral negotiations, reminding these contacts that the Commission is the Union's sole negotiator on withdrawal.

European Council. Should the UK desire to withdraw its notification and reverse the process, the Council would impose strict conditions ensuring that this decision would not be used to gain political advantages detrimental of the interests of the EU.

3. Negotiation of the terms of withdrawal would be separated from negotiations concerning the framework for the future relationship between the EU and the UK. These negotiation processes would lead to two different agreements: one related to withdrawal and the other to the relationship between the two parties following separation. As a mixed treaty, the latter would need to be ratified at the national level by all Member States. The overriding priorities were to ensure legal certainty and work towards a separation agreement that provided the best possible outcomes for both parties, an approach intended to take the wind out of the sails of the British government's initial stance that walking away from the negotiating table without an agreement on its future relationship with the EU was preferable to striking an agreement that fell short of the British public's expectations[10].

4. The agreement was to be a package deal in line with the EU's established custom of working towards comprehensive constitutional and policy agreements based on the principle that "nothing is settled until everything is settled". Agreements on individual elements were to be considered provisional and contingent upon final consensus on the agreement as a whole.

_____

[10] During the early stages of negotiation, Prime Minister May publicly stated on various occasions that "*no-deal is better than a bad deal*". May, T. (UK Prime Minister), *Speech on the Government's Negotiating Objectives for Exiting the EU,* Lancaster House, London, 17 January 2017.

The rest of the principles laid out in the Commission's general guidelines concerned a common bargaining position on the substance of negotiations. These points were articulated to establish a series of red lines meant to avoid concessions that could possibly undermine the European model of integration. This strategy called for:

1. Striking a balance between rights and obligations and ensuring a level playing field for negotiation on concessions anchored in the principle of reciprocity.

2. Preserving the integrity of the four freedoms of the EU single market. This issue was important given the UK government's ambition to fulfil its post-referendum pledge to the British public to restrict the free movement of EU citizens in and out of UK territory while maintaining its right to enjoy the free movement of the other three elements covered by the single market concept: goods, services and capital. The European objective was to protect the integrity of its internal market by binding economic benefits to the acceptance and fulfilment of all aspects of the single market framework, including the free movement of persons the UK wished to avoid.

3. Getting the message across that non-members cannot have the same rights as members and enjoy the same benefits members enjoy. Given pretensions within the Brexit camp that it would be possible for the UK to have its cake and eat it, it was once again important to make it clear that the UK's withdrawal from the Union would entail the loss of advantages that membership supposed. Any concession on this point would mean the end of European integration as many other Member States would inevitably be tempted to follow the UK's lead and third countries would also demand to renegotiate their standing agreements with the EU.

4. Preserving the Union's autonomy as regards its decision-making as well as the competence of the Court of Justice of the European Union. This principle reflected the need to maintain the unity and integrity of EU and avoid concessions that might allow a third country to rupture that cohesion. Negotiators were particularly anxious to prevent non-Member States from playing a role in institutional decision-making processes and to preserve the EU Court of Justice's monopoly on the interpretation and application of EU law.

These principles, which appeared in the negotiation guidelines approved by the Council on 22 May 2017, formed the basis of the EU negotiator's mandate[11]. Each laid out in detail the issues to be covered in the negotiation agenda and that needed to be addressed on the final withdrawal treaty.

European institutions were thus prepared to begin the phase I of the negotiations. This would nevertheless happen later than expected due to Teresa May's decision to call a snap general election on 8 June 2017 in a bid to strengthen her political position at home before embarking upon negotiations. May, who was picked by her party to be Prime Minister in July 2016 following the resignation of David Cameron, saw an early election as a means of gaining a healthy majority in the House of Commons in favour of withdrawal and shoring up her negotiating position with the EU. Her intentions were frustrated by the results, which left her short of a parliamentary majority, forced her to form a minority government with the support of the Northern Ireland Democratic Unionist Party and substantially weakened her government's negotiating position with the British Parliament and the EU alike[12].

Withdrawal negotiations, which did not get officially underway until July 2017, began with a series of four-day sessions held in Brussels spaced approximately a month apart. First on the agenda were issues related to withdrawal that the European Council had determined needed to be addressed during phase I, which included the rights of EU citizens in the UK and UK citizens in the EU, the settlement of outstanding financial commitments assumed by the UK as a member of the EU (popularly referred to as the "Brexit bill"), the future status of the border between Ireland and Northern Ireland, the governance of the agreement and a range of other technical matters. It was established that the European Council would assess what had been achieved during these sessions in October and decide whether to give the green light to move on to phase II of the negotiations on the basis of progress made.

Negotiations conducted that summer and fall produced little in the way of progress but a fair amount of mutual sniping consisting mainly of European charges that British negotiators had come to the table unprepared and British counter charges of European inflexibility. Theresa May attempted to break the deadlock by giving a speech in Florence in September meant to provide new impulse for the process[13].

---

[11] Council of the European Union, *Annex of Council decision (UE, Euratom) 2017/... authorising the opening of negotiations with the United Kingdom of Great Britain…*, op. cit.

[12] Under May's leadership, the Conservative Party won 318 of the 650 seats contested, 12 fewer than it had won in the previous general election held in 2015. Having lost her absolute majority, in order to remain Prime Minister, May was forced to strike an agreement on 26 June 2017 with the Democratic Unionist Party of Northern Ireland, which supported a "hard Brexit" solution.

[13] May, T.:, *A New Era of Cooperation and Partnership between the UK and the EU,* Florence, 22 September 2017.

Her presentation offered few novelties apart from the abandonment of her former no-deal stance and a request for a "period of implementation" following the UK's departure from the EU that would allow the business community and other stakeholders to adapt to the new situation. The European Council was nevertheless unable to certify sufficient progress on all points in its October assessment, in which it announced that it would postpone its decision regarding the opening of phase II negotiations until its December session but conveyed positive signals to the UK and called for more progress on points that needed to be resolved in order to begin discussions concerning the future relationship between the UK and the EU as soon as possible[14].

The assessment was followed by a flurry of intense diplomatic activity between London and Brussels focused on reaching consensus on three critical issues that needed to be resolved in order to move on to phase II: citizens' rights, the Brexit bill and the Northern Irish border. An eleventh-hour agreement between the two parties reached in December was recorded in a Joint Report[15]. The final challenge was coming up with an alternative to the term "regulatory alignment" that would make the wording of the compromise on the Irish border acceptable to DUP MPs, whose continued support in the House of Commons was crucial to May.

When it met in December, the European Council accepted the Commission's proposal to declare that sufficient progress had been made to move on to phase II[16]. European leaders could easily be viewed as having been exceedingly benevolent in declaring themselves satisfied with a number of consensuses so fragile that they would inevitably need to be reworked further down the line[17]. Their support for May could well have been motivated by a desire to avoid a government crisis in the UK that would further heighten the atmosphere of crisis looming over Europe as a whole. The Council also agreed to May's request for a transition period and gave the Commission the mandate to negotiate this point during phase II, during the course of which political agreements would be translated into legal commitments and discussions required to reach agreement of certain other issues of separation would take place. It nevertheless underscored that further negotiations would be contingent upon commitments being fully respected[18] and announced it would adopt guidelines for negotiations on the framework of future relationship in March 2018.

The results of phase I were clearly asymmetrical with the European Union maintaining the upper hand throughout the entire process. UK negotiators were forced to abandon their initial stances and accept EU positions on one point after another, from the order in which issues would be addressed to the substance of the principal points of withdrawal and to assimilate

---

[14] European Council (Art. 50), *Conclusions.* Brussels, 20 October 2017, (EUCO XT 20014/17), pts. 2 and 3.

[15] Negotiators of the European Union and the United Kingdom Government: *Joint Report on progress during phase 1 of negotiations under article 50 TEU on the United Kingdom's orderly withdrawal from the European Union,* Brussels, 8 December 2017, (TF50 (2017) 19).

[16] European Council (Art. 50): *Guidelines,* 15 December 2017, (EUCO XT 20011/17).

[17] Duff, A.: "Associate or dissociate: it's make your mind up time", *Policy Network,* 29 December 2017.

[18] The addition of this point was a consequence of a series of unfortunate remarks made by UK Brexit Secretary David Davis days earlier that framed the December agreement as nothing more than "a statement of intent". Eder, F.: "EU toughens Brexit resolution after David Davis interview", *Politico,* 12 December 2017, https://www.politico.eu/article/eu-toughens-brexit-resolution-after-david-davis-interview/ (retrieved 2 April 2018).

the reality that withdrawal will suppose the UK's total exclusion from the Single Market and EU Customs Union. Although the EU could be said to have enjoyed an initial advantage in terms of structural bargaining power, ongoing challenges to May's leadership within the Conservation Party and in the British Parliament as well as divisions within her cabinet regarding the future relationship between the UK and the EU, all of which impeded UK negotiators from defining and maintaining coherent positions, also contributed to this outcome. The EU, on the other hand, was able to count on a high level of unity and cohesion between Member States, which in order to sustain the momentum, it will need to maintain throughout the rest of the process.

Phase II: drafting the withdrawal treaty and negotiating a transition period

Following the December Council meeting, preparations got underway for the second phase of negotiations, which will entail the drafting of the withdrawal treaty set to enter into effect on 30 March 30, 2019, the provisions it must contain for the transition period and a joint declaration on future relations. The need to accomplish these tasks within a short period of time places everyone involved under intense pressure to produce results. In order to ensure there is time for the agreement to be approved by EU institutions and ratified by the UK, negotiations must conclude by October 2018. This means that negotiators have only seven months to finish their work.

The European Council adopted a new set of guidelines in December that complemented those established in April 2017 and rounded out an *acquis constitutionnel* for negotiation on

outstanding issues.[19] These included the following stipulations:

1. The transition period to begin the day the withdrawal treaty enters into effect must be clearly defined and limited in time. During this allotted time, the UK, as a third country, must respect the whole of the EU acquis and fulfil all legal obligations incumbent upon Member States, including those approved during the period of transition. It will, however, lose its right to participate in EU institutions the moment the withdrawal agreement enters into effect.

2. An agreement on the future relationship can only be finalised and concluded once the United Kingdom has become a third country. Point nine of the Council guidelines issued in December states that the understanding reached on this point should be "elaborated in a political declaration" based on a general consensus and "referred to in the withdrawal agreement". This being the case, negotiations are actually playing out in three phases rather than two, an assumption I have applied to this analysis: the first (concluded in December) devoted to issues related to withdrawal, the second devoted to tidying up unfinished business on withdrawal and the negotiation of a transition period during which the UK will remain a member of the EU, and a third dealing with a future relationship. Although ideas concerning the third may be exchanged prior to the UK's withdrawal, EU negotiators are not expecting major movement on the future relationship until the UK officially becomes a third country.

---

[19] European Council (Art. 50), *Guidelines,* 15 December 2017, (EUCO XT 20011/17).

3. Going forward, the European Council will "ensure a balance of rights and obligations, preserve a level playing field, avoid upsetting existing relations with third countries and guarantee respect for all other principles set out in its guidelines of 29 April 2017, in particular the need to preserve the integrity and proper functioning of the Single Market". This fecund, complex statement provides a preliminary glimpse of issues to be negotiated in the context of the future relationship between the UK and the EU. Of particular interest is a new red line nestled in this sentence alongside guidelines established in 2017, which is the need to avoid upsetting existing relations with third countries. Its addition reflects concern regarding the possibility (already raised by a number of the Union's preferential trading partners) that conceding the UK privileged trading status could unleash a torrent of requests from third countries to renegotiate their existing agreements[20]. To wit, the EU will enter this phase of negotiations with two bottom lines: preserving the current European model of integration and maintaining its relationships with third countries.

On 29 January 2018 the Council adopted new guidelines Barnier's team are to follow during negotiations on the transition period[21]. These include the Commission's proposal that transition should terminate in December 2020 in parallel with the end of EU's current seven-year budget and other provisions concerning rights and obligations during this period. Barnier presented a position paper in February that set out transition conditions based on the Council's guidelines[22]. This document would form part of a more comprehensive draft withdrawal agreement presented by the Commission on 28 February that articulated political agreements reached in legal terms and proposed wording for points yet to be fully resolved[23]. From this point on, negotiation would be conducted on the basis of this text. Barnier's initiative placed the EU in a superior negotiating position from the outset by establishing the terms upon which discussions would focus.

In spite of initial indications that the process could be rocky, negotiations on the transition

---

[20] One example is CETA, the contents of which many experts believe will need to be renegotiated immediately as a consequence of the UK's withdrawal from the Union. Neuwahl, N., "CETA as a Potential Model for (Post-Brexit) UK-EU Relations", *European Foreign Affairs Review,* vol. 22, no. 3, 2017, pp. 279-301, p. 300.

[21] Council of the European Union, *Annex to the Council Decision supplementing the Council Decision of 22 May 2017 authorising the opening of the negotiations with the United Kingdom of Great Britain and Northern Ireland for an agreement setting out the arrangements for its withdrawal from the European Union - Supplementary directives for the negotiation of an agreement with the United Kingdom of Great Britain and Northern Ireland setting out the arrangements for its withdrawal from the European Union, Brussels*, 29 January 2018, (XT 21004/18).

[22] European Commission (Task Force Art. 50): *Position Paper "Transitional Arrangements in the Withdrawal Agreement",* Brussels, 7 February 2018, (TF50 (2018) 30).

[23] European Commission (Task Force Art. 50): *Draft Withdrawal Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community*, Brussels, 28 February 2018, (TF50 (2018) 33).

period required less time than initially anticipated[24]. The UK negotiating team's concession, practically without conditions, to EU demands revealed its urgent need to deliver a transition agreement as soon as possible so as to prevent businesses from making contingency plans involving the transfer of operations out of the UK.

The Commission's 19 March announcement that an agreement had been reached on transition and other important aspects of the withdrawal agreement signified a great step forward that generated a wave of optimism[25]. Solid agreement has now been reached on issues such as citizens' rights, UK financial liabilities related to withdrawal, the greater part of provisions related to the process of separation, the circulation of goods in the Single Market, customs procedures, budgetary considerations, intellectual property, data protection and the UK's withdrawal from Euratom. Minor pending technical issues apart, agreement has yet to be reached on two highly central political issues: the governance of the agreement (institutional

procedures for interpreting and applying the final agreement and resolving related disputes) and the open question as to how the border between the two Irelands is to be handled.

The issue of governance has been partially resolved thanks to the British acceptance of the EU proposal to create a joint committee charged with ensuring the good functioning of the agreement, dealing with unforeseen situations that may arise, deciding whether it is necessary to incorporate future amendments as provided for in the withdrawal agreement and resolve potential conflicts between the signatory parties. One stumbling block to further progress yet to be overcome is British negotiators' insistence that the UK will leave the jurisdiction of the European Court of Justice upon its withdrawal from the EU, a possibility that the EU will not, and cannot, accept. The Irish border question having been somewhat fudged in December, the "regulatory alignment" the UK agreed to in order to avoid a hard border must now be clearly defined. This is a politically delicate and legally irresolvable issue given that the only theoretically admissible way to avoid the imposition of a hard border between the two Irelands going forward is for the UK to remain a part of the EU Customs Union, an option that the UK government has dismissed out of hand. The UK argues that it is impossible to tackle this matter without linking it to the framework for future economic relations.

Future relations: what does the UK want and what can the EU offer?

As noted previously, the goal of phase II negotiations is to make the progress on future relations needed to prepare a political declaration by March 2019. The EU has taken a firm position

[24] The Commission's articulation of conditions for the transition period dismayed certain members of the British government worried that the UK would become a "vassal state" forced to apply the complete spectrum of EU regulation without exception or right to participate in EU policymaking. In order to close the agreement, EU negotiators offered their counterparts the possibility of consultation on issues of particular importance to the UK during the period in question.

[25] The document released by the Commission 19 March was a "coloured" version of the agreement in which text agreed at the negotiator's level were highlighted in green, texts agreed in terms of policy objectives that required editing or clarifications were highlighted in yellow and texts proposed by the Union but still under discussion were left unhighlighted. (Task Force Art. 50): *Draft Withdrawal Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community highlighting the progress made (coloured version) in the negotiation round with the UK of 16-19 March 2018*, Brussels, 19 March 2018, (TF50 (2018) 35).

that no agreement on future relations is to be signed until the UK officially becomes a third country. Separating the UK's exit from the EU from what are expected to be tricky negotiations over future relations is seen as a means of ensuring its "orderly withdrawal" from the Union.

The EU has insisted from the beginning of the process that, Brexit being a national decision, it is up to the British government to present a proposal for future relations[26]. Initial statements by British officials indicated that May's government believed the UK could retain its current privileged status in the EU internal market while reclaiming sovereignty over national borders and legislative and judicial matters, ceasing to contribute to the EU budget and enjoying the freedom to negotiate its own trade agreements with third countries. The articulation of the EU negotiating position on future relations disabused them of this notion and forced them to assimilate the reality that national sovereignty in these areas would only be possible at the heavy price of leaving the Single Market and EU Customs Union.

In her notification letter and subsequent Lancaster House and Florence speeches Theresa May repeatedly stressed her intention to work towards a "new deep and special relationship" with the EU based on a "comprehensive, bold and ambitious free trade agreement"[27]. This vague if grandiloquent statement did little to conceal acute differences of opinion within her

cabinet concerning the UK's future relationship with the EU that remained unresolved until February 2018. May set out the British position in two successive speeches. The first, delivered on 17 February 2018 at the Munich Security Conference, was devoted to cooperation on security and defence issues and the second, given at Mansion House on 2 March, outlined her vision of a future economic and trade partnership.

During her speech in Munich, May acknowledged the deep existing interdependence between the UK and the EU regarding security and proposed striking an unparalleled agreement grander in scale than any previous third country security agreement negotiated by the Union that would make it possible for the two to maintain current levels of operational cooperation on law enforcement and judicial matters such as the European arrest warrant, data exchange and joint investigation[28]. In terms of cooperation on external security, she offered to enter into a three-level strategic partnership to function in tandem with NATO. At the first or diplomatic level, this would entail establishing channels for regular consultation, coordination and joint sanctions. At the operational level, she suggested that mechanisms be developed for coordinating field operations related to both crisis management situations and development programmes. The third leg of her proposal concerned cooperation on the further development of joint defence, cyber and space capacities.

The long and detailed proposal for an economic and trade partnership laid out by May at Mansion House represented a substantial change of tack in her government's negotiating position for being its first public acknowledgement of the

---

[26] Juncker, J. C.: *Speech to the plenary session of the European Parliament on the result of the referendum in the United Kingdom,* Brussels, 28 June 2016, (SPEECH 16/2353).

[27] See respectively: May, T.: *Letter to Donald Tusk triggering Article 50,* London, 29th March 2017; *Speech on the Government's Negotiating Objectives for Exiting the EU,* Lancaster House, London, 17 January 2017; *A New Era of Cooperation and Partnership between the UK and the EU,* Florence, 22 September 2017.

[28] May, T.: *Speech at the 2018 Munich Security Conference,* Munich, 17 February 2018.

grave consequences Brexit would have for the British people[29]. She openly accepted the fact that a reduction in trade was inevitable and that judicial and legislative sovereignty would not be possible if the UK wished to retain its current favourable trading status with the EU in key areas. This was tantamount to an admission on her part that the politics and economics of Brexit were not compatible.

May informed her Mansion House audience that she was eager to forge an agreement on future relations that ensured broad mutual access to markets and fair and open competition, willing to make a commitment to maintain UK regulation in alignment with EU regulation going forward and interested in establishing reliable, transparent mechanisms to verify compliance with commitments and resolve disputes. The PM stated that she wanted "the broadest and deepest possible partnership covering more sectors… than any Free Trade Agreement anywhere in the World" and that such a deal should be innovative rather than "off the shelf". In addition to citing mutual interests, she underscored the advantage of both parties starting out with identical regulatory standards, a parity she pledged the UK would work to maintain going forward.

May's proposal is focused on ensuring that the EU-UK border is as frictionless as possible. To this end, she has ruled out the introduction of tariffs and quotas, supports a comprehensive system of mutual recognition and pledges to match EU regulatory standards in areas of trade of interest to the UK. She recognised in her Mansion House speech that any parliamentary decision to diverge from this framework would

be taken with the full understanding of its possible impact on the UK's Single Market status and expressed a keen interest in the UK maintaining a presence in EU agencies critical to the chemical, pharmaceutical industries and the European Aviation Security Agency. Regarding external commercial relations, she envisaged two options. The first was a customs partnership with a mechanism allowing the UK to apply its own tariffs and trade policy for goods entering its market while applying EU tariffs and rules of origin for goods passing through its territory *en route* to EU countries. The second option would be a streamlined arrangement based on a range of agreed-upon measures intended to minimise frictions to trade. May also stated the UK would work with the EU to manage shared fishing stocks sustainably and agreed to reciprocal access to fisheries.

The prime minister was in favour of pursuing a free trade agreement substantially broader in scope than others currently in vigour. In line with the UK's interests as a major exporter of services, May suggested that new barriers be introduced only when absolutely necessary in order to avoid discrimination against foreign service suppliers and called for mutual recognition of qualifications and the development of a mutually agreed-upon labour mobility framework that permitted businesses and self-employed professionals to offer services on both sides of the Channel. She also mentioned two sectors of vital interest to the UK usually given short shrift in free trade agreements that she would like to see covered under the pending future relationship agreement –broadcasting and financial services. Other areas in which she thought cooperation would be possible were energy, transport, digital technology, law, science, education and culture. All things considered, May's presentation at Mansion House offered a

---

[29] May, T.: *Speech on our future economic partnership with the European Union,* Mansion House, London, 2 March 2018.

detailed and ambitious vision framed from a far more pragmatic perspective than her previous speeches, which had focused exclusively on British domestic politics.

The European Council adopted additional guidelines for negotiation on the future relationship at its spring meeting[30], during which it reiterated previously established red lines, characterised the UK's potential loss of preferential access to the Single Market as a problem of its own making and noted that the EU was willing to adapt its position should the British stance evolve in a constructive direction. It also reaffirmed its determination to forge the closest partnership with the UK possible that covered trade and economic cooperation and joint efforts in other areas such as internal and external security, defence and foreign policy.

Regarding a future economic and commercial relationship, the European Council affirmed its readiness to work towards "a balanced, ambitious and wide-ranging free trade agreement" that provided a level playing field, reiterating, nonetheless, that such an agreement would not, under any circumstances, offer the same benefits as membership. The newest set of guidelines provides a list of provisions that should be included in the final document. In terms of trade in goods, the European Council envisions an exemption from tariffs and quantitative restrictions applicable to all sectors as well as appropriate rules of origin contingent on reciprocal access to fishing waters and resources. Customs cooperation should preserve the regulatory and jurisdictional autonomy of both parties and the integrity of the EU Customs Union. In addition to calling for disciplines on technical

barriers to trade and phytosanitary measures and a framework for voluntary cooperation, the European Council stipulates that the provision of services and the rights of establishment of service providers should be governed by host state rules and that the final agreement should include provisions covering access to public procurement markets, investments, the protection of intellectual property rights and other matters of interest to the EU.

In addition to close cooperation on global issues such as climate change, sustainable development and cross-border pollution, new European Council guidelines call for ambitious provisions on movement of natural persons based on reciprocity and non-discrimination among Member States, the coordination of social security and recognition of professional qualifications. Another area the European Council would like to explore is judicial cooperation on issues of matrimonial and parental responsibility and related matters.

Cooperation could also be extended to transport services, and UK participation as a third country in EU research and innovation, educational and cultural programmes. According to the European Council, the pending agreement on future relations must provide solid guarantees aimed at preventing any unfair competitive advantage the UK could gain by undercutting levels of protection with respect to competition and state aid, taxation and environmental regulation and measures. Avoiding such problems would require establishing mechanisms designed to ensure domestic implementation and enforcement and facilitate the resolution of disputes as well as Union autonomous remedies commensurate with the scope of the economic interconnectedness between the UK and the EU. The European Council has also taken a particularly firm position on financial ser-

---

[30] European Council (Art. 50), *Guidelines,* Brussels, 23 March 2018, (EUCO XT 20001/18).

vices, requiring that any future framework must safeguard financial stability in the Union and respect its regulatory and supervisory regime and standards and their implementation.

In relation to home security issues, the European Council expressed its readiness to establish agreements on the effective exchange of information, operational cooperation between police authorities and judicial cooperation in criminal matters with built-in safeguards that ensure fundamental human rights are fully respected and effective enforcement and dispute settlement mechanisms. It is also looking to establish cooperation in areas such as foreign, security and defence policy. Keeping in mind the UK's future status as a third country, the European Council notes that appropriate dialogue, consultation, coordination, exchange of information and cooperation mechanisms as well as a security of information agreement would need to be negotiated to this end. Last, but not least, the European Council notes that any agreement on the future relationship between the UK and the European Union must contain provisions for management and supervision and dispute settlement and enforcement (including sanctions and cross-retaliation mechanisms) that take into account the content and depth of the relationship, the need to ensure effectiveness and legal certainty and the requirements of the autonomy of the EU legal order, including the role of the Court of Justice of the European Union.

The negotiating positions of the two parties have now been made clear, albeit in general terms. As we have seen, some of them are quite close but much remains to be done on others. It is logical to assume that negotiation and consensus will be easier on intergovernmental issues than on community issues. What should not be forgotten as negotiations begin once more is that the party with the most to lose should talks break down and trade relations end up governed by WTO rules is the UK.

The preservation of the standing relationship between the UK and the EU now depends on the strength of the UK's commitment to maintain regulatory convergence. Divergence will mean the loss of its current level of access to the Single Market. The pendulum swing between regulatory convergence and divergence will be determined by which force proves stronger – the UK's desire for greater political sovereignty or its economic interest in continuing to play by the current rules. A key and especially delicate point yet to be negotiated is the governance of the agreement. Provisions on this topic would serve as a guarantee that the UK would uphold its commitment to convergence going forward, something only independent entities not subject to political pressure can ensure.

The EU in the wake of Brexit. Results of a representative survey conducted in eight EU countries

Jérémie Gagné and Richard Hilmer

Introductory remarks

For the European Union, the last ten years have been characterised by a series of crises. A certain climax to this "cruel decade for Europe" (E. Macron) was the decision by United Kingdom in a referendum to leave the EU.

It would appear, however, that preparations for Brexit negotiations have already led to a new spirit of togetherness among the remaining member countries. Yet the question arises as to the extent to which they can expect support from their respective populations. After all, the Brexit result was not least a *citizens'* vote against the fundamental principles of the EU such as free movement of workers, and a vote in favour of re-establishing national control, above all over national borders.

These themes have also played a dominant role in other EU countries in the recent past, as a representative survey carried out in eight EU countries in autumn 2015 upon the commission

of the Friedrich-Ebert-Stiftung has demonstrated. It therefore made good sense to repeat this study in order to determine how citizens in other EU states were reacting to the Brexit. In addition to questions already posed in 2015, new questions were included to determine whether Brexit was having more of a negative impact on European integration or whether it might even contribute to an improvement in the image of the EU and strengthen the will to integrate.

Just as in 2015, surveys were carried out in the four founding states of Germany, France, Italy and the Netherlands, as well as in Spain, Sweden, the Czech Republic and Slovakia. Each national sample comprised 1000 computer-assisted telephone interviews in the Western European countries, and 500 interviews in the two Eastern European countries. The target group was persons eligible to vote.

Interviews for this second study were performed between 5 and 22 May in Germany, between 17 May and 10 June 2017 in the remaining

countries – i.e. following the second round of the French presidential election.

Attitudes towards the EU following Brexit

In the 45 years of its EU membership, the United Kingdom has repeatedly proven to be a difficult partner. Many associate its membership down to the present day with the legendary demand voiced by Prime Minister Margaret Thatcher: "I want my money back".

For this reason, it is perhaps unsurprising that some EU citizens are feeling relieved in the wake of Brexit, viewing it as strengthening the EU (**Chart 1**). Such optimism is widespread in the southern countries of Spain (23 %), France (19 %) and Italy (18 %). Nonetheless, pluralities (at least) in all countries do fear that the exit of the United Kingdom will tend to weaken the EU. Pessimism is strongest in Slovakia (51 %)

and Sweden (48 %). Germany assumes a position in the middle: 41 % believe that Brexit will turn out negative, with only a minority of 12 % expecting positive effects. If one includes citizens who do not expect a major impact in either direction (40 %), however, the reaction in Germany, with 52 % not expecting any disadvantages, turns out relatively optimistic. The Dutch are also reacting in a remarkably serene manner to the planned exit of the U.K., traditionally their close ally. Here as well, a cautious optimism prevails that the impact of Brexit will be limited (40 %) or that it will even be to the advantage of the EU (11 %).

Gap between figures shown and 100 % is the equivalent of categories "do not know, prefer not to say". Basis: eligible voters in the individual countries.

In response to Brexit and other challenges, such as the new foreign policy agenda of the USA under Donald Trump, EU institutions have
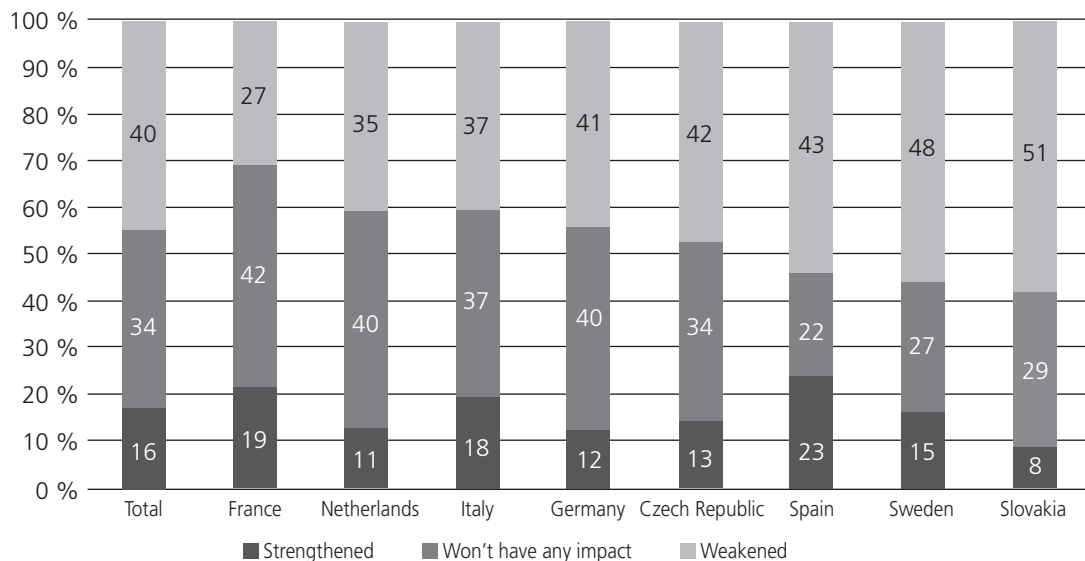
Gap between figures shown and 100 percent is the equivalent of categories "do not know", "prefer not to say".
Basis: eligible voters in the individual countries.
Source: *policy matters.*

Chart 1. Question: The British decided to leave the EU. What would you say: Will the EU be strengthened, weakened or will the leaving of Britain not have any considerable impact?

called upon the Member States to show more cohesion. Some countries, above all France and Germany, have responded with a stronger reaffirmation of the EU. In this, they have the majority of their respective populations on their side: eight out of ten Germans and six out of ten French are in favour of strengthening cooperation. So are clear majorities in Spain, Italy and Slovakia. Meanwhile, support is significantly weaker in the Netherlands and Sweden. In the Czech Republic, finally, more citizens are actually in favour of greater national autonomy than more cooperation (47 to 40 %).

Basic attitudes towards the EU

In the autumn of 2015, as the refugee crisis was unfolding, basic attitudes towards the EU were rather sceptical: only somewhat more than one-fourth (28 %) of citizens in the eight countries surveyed believed that EU membership was to the advantage of their country. One-third associated it with disadvantages. Another considered advantages and disadvantages to be roughly in balance. Attitudes in individual countries differed greatly, however. In five countries – France, the Netherlands, Italy, Sweden and the Czech Republic – a plurality of citizens assumed negative effects. This sceptical attitude was particularly salient in the Czech Republic at 44 %, where by comparison only 13 % saw net advantages. In Slovakia, positive and negative views on EU membership were roughly equal. Solely the attitudes of Germans and – particularly – Spaniards displayed more optimism than pessimism back then.

In early 2017, only one and a half years later, a completely different picture emerges: EU membership is assessed as significantly more positive. Across countries, the percentage of

optimists has risen from 28 to 44 %, with only 22 % now fearing disadvantages (2015: 34 %). There may be a causal link between this mood swing and Brexit. Until recently, access to the EU seemed tantamount to membership with no option to leave. Making membership seem more precarious, Brexit has apparently led to a more focused analysis of the pros and cons of EU membership. In all eight countries, there has been a significant increase in the share of favourable views. At present, six of the eight countries consider membership as positive. This was only the case in three countries in 2015. Views differ considerably between individual countries, however. Germans display the most positive balance: here the percentage of optimists has doubled from 34 to 64 % (**Chart 2**).

A comparably positive development has taken place in Slovakia, where the share of membership supporters has surged from 26 to 52 %. Attitudes in Spain, where six out of ten citizens hold the view that the benefits of EU membership outweigh the disadvantages, are even more marked. The citizens of Sweden, the Netherlands and France now also see significantly greater advantages than disadvantages in EU membership.

Discernible doubt remains in Italy, where citizens see advantages and disadvantages on even keel. Current ambiguity does not equal fundamental rejection of EU membership as such, however, as two-thirds of Italians call for a strengthening of integration. The Czech Republic is the only country that views membership as rather disadvantageous. Yet even in this country traditionally EU-skeptical, a slight shift can be observed: the share of optimists has doubled from 13 to 25 %.

There is a widespread image of the EU as an elite project from which lower classes profit little, resulting in these strata being indifferent to
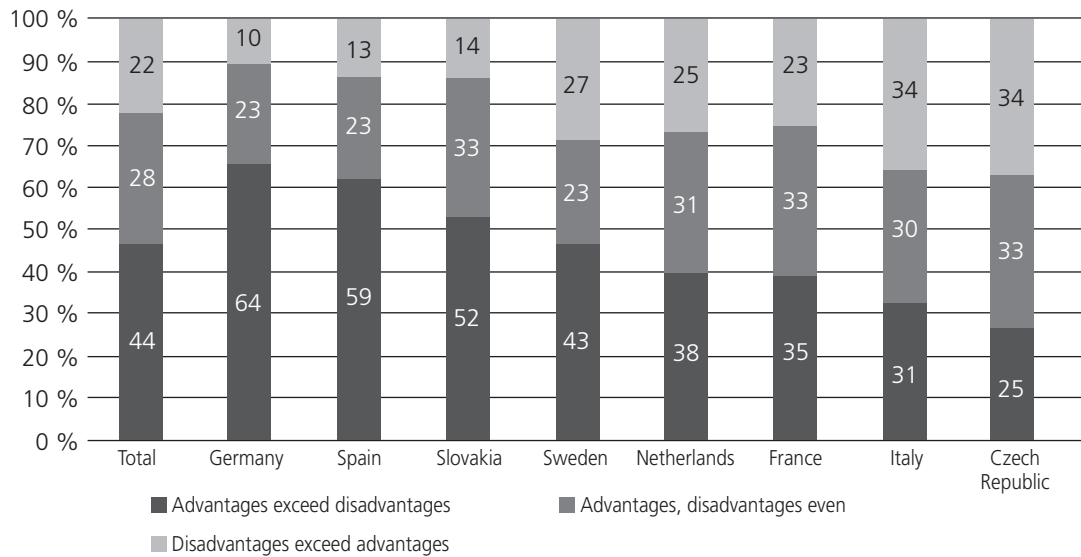
Gap between figures shown and 100 percent is the equivalent of categories "do not know", "prefer not to say".
Basis: eligible voters in the individual countries.
Source: *policy matters.*

Chart 2. Question: When thinking of your country's EU membership, would you say that advantages outweigh disadvantages, or that disadvantages outweigh advantages, or that advantages and disadvantages are even?

rejectionist with regard to integration. The findings in this study confirm that persons who consider themselves part of the upper strata are significantly more pro-EU than members of the lower classes. There are indications, however, that these contrasting assessments of the EU have abated somewhat. Since 2015, the basic attitude towards the EU has not only changed to the positive in upper classes in all eight countries, but among the lower classes as well. In some countries, like Germany and France, this shift has even been strongest in the lower classes.

As rich in facets as this change in the image of the EU to the positive would appear, it is also underscored by notions people associate with the Union. One of the most problematic findings in the 2015 survey was that a majority of citizens in all eight countries no longer associated the EU with growing, but rather declining,

prosperity. This negative assessment has now fundamentally changed: a majority of citizens in the eight countries (47 %) associate the EU with rising prosperity once again, while only 35 link it to declining prosperity (58 % in 2015).

This change in mood has manifested in all eight countries, although on significantly differing scales. The EU once again stands for mounting prosperity for clear majorities in Slovakia (68 %/up 32 %), in Spain (62 %/up 24 %) and in Germany (53 %/up 22 %). But also in Sweden, the Netherlands and France, the notion of Community once again conjures up associations of rising rather than decreasing prosperity. Even in the Czech Republic, the two views are roughly in balance. Only in economically struggling Italy does the majority continue to associate the EU with a drop in prosperity. What is worse: the view is widespread there

that other Member States – above all Germany – are even profiting at least indirectly from Italy's problems[1].

Currently, membership in the EU is also perceived much more as an opportunity than risk than was the case in 2015 (61 compared to 46 %). Back then four countries – the Netherlands, France, Sweden and the Czech Republic – tended to associate the Community with the term "risk". Now majorities in all countries (once again) agree that membership offers these EU countries more of an opportunity for betterment.

In five countries – Spain, Germany, Slovakia, the Netherlands and Sweden – the EU also tends to stand more for justice than injustice. Opinions are split in Italy, France and the Czech Republic. In six of the eight countries, however, members of the lower classes tend to associate the EU more with injustices.

The most important tasks of the EU

In September 2015, citizens considered coping with the refugee influx to be by far the EU's most important task. Since then the number of refugees has dropped significantly, but the issue still stands at the top of the list. In the current study – once again in response to the same open-ended question – 54 % across all countries viewed this to be the most important or second most important task facing the EU (down 9 percentage points). Combatting unemployment has also lost its sense of urgency, but at 28 % (down 9 percentage points) of mentions remains in second place. The topics of "strengthening the economy" and "reducing

debt" have also dropped in importance somewhat (respectively losing 3 percentage points).

Above all two tasks have gained importance in the last two years: first, fighting terrorism (up 9 %), which has moved to third place on the agenda. Second, a reduction in social injustice (up 8 %), which played scarcely any role at all in 2015, is now in seventh place (**Chart 3**).

There are some commonalities, but also significant differences in priorities across national borders, however. There is continued agreement that refugee policy has the highest priority in seven of the eight countries. The frequency of mentions varies significantly, however. In the Czech Republic and Slovakia, three out of four citizens place that topic in first place. This result is remarkable because neither country has accepted hardly any refugees to date, while both are resisting any EU-wide allocation of migrants.

The two Visegrád states are followed by Sweden in third place. There, more than half of persons surveyed assign top priority, and another 18 % second highest priority, to the topic of refugee policy. Sweden is the only country where this topic has gained in importance (up 6 %), suggesting that it is being discussed in an increasingly controversial manner. Italy, which at present has to cope with the largest number of refugees, is only in fifth place (60 %), which is probably primarily due to the fact that Rome is currently struggling with a whole host of serious problems.

The topic of "refugees" has lost significantly in terms of salience in four out of the eight countries, among them France (down 10 %), the Netherlands (down 16 %) and above all in Germany (down 34 %).

Spain assumes a special position just like back in 2015. Then and now it is the only country in which refugee policy does not dominate the agenda, ranking fourth instead (17 %). As

---

[1] *Cf.* the FES study *Fremde Freunde*, 2017.

	First priority	Second priority	Total
1. Refugee policy	43	11	54
2. Fight against unemployment	10	18	28
3. Fight against terrorism	10	14	24
4. Boost the economy	10	12	22
5. Secure peace	5	7	12
6. Reduce sovereign debt/financial situation of Member States	4	6	10
7. Reduce social inequalities	3	6	9

■ First priority ■ Second priority
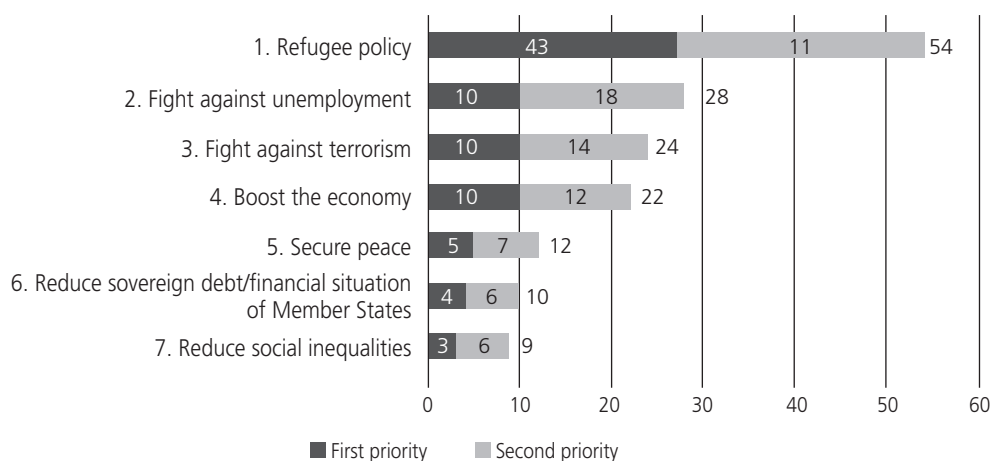
Figures in per cent. Multiple responses.
Basis: Eligible voters.
Source: *policy matters.*

Chart 3. Question: Which tasks should the European Union tackle most urgently?

in 2015, the Spanish primarily expect support from the EU in solving internal Spanish problems – such as, for instance, combatting unemployment. Although its explosiveness has tapered off (down 14 %), this topic is still in first place with 46 % of mentions. Comparable importance is assigned to the creation of new jobs in the two other Mediterranean countries – Italy and France. In both countries, this topic ranges behind refugee policy in second place, tendency declining. In the other five states as well, labour market policy has lost some of its urgency; in Germany and the Czech Republic this task is only in fifth place now.

The issue of "combatting terrorism" has developed diametrically opposed to "unemployment". Its relevance has risen in all eight countries. The fight against terrorism is now held to be the second most important task facing the EU in the Czech Republic, the Netherlands and Sweden.

In addition to the seven tasks mentioned as the most important in all the countries, there are some aspects specific to certain countries. Especially remarkable, for instance, is that in

Germany the open-ended question about the most important tasks of the EU prompted the response of "strengthening cohesion in the EU" as the third most frequently mentioned issue. This underscores the rise in importance of the EU from the German perspective mentioned at the outset.

Acceptance of measures promoting integration

In view of the growing sensitivity of citizens in all eight countries to the importance of the EU, the question arises as to how integration can be strengthened. To this end, respondents were read a list of measures in order to determine their acceptance. Support is highest for stronger efforts to secure EU external borders (79 %), followed in second place by a desire for greater monitoring of budgetary discipline of Member States (74 %). The launch of (nationally adjusted) minimum wages throughout the EU meets with comparable agreement.

Two proposals that would grant EU citizens a greater say also find wide support: the introduction of pan-European referendums on fundamental issues (69 %) as well as the direct election of the EU President (59 %). A majority of respondents also welcomes the step-by-step expansion of military capabilities of the EU (62 %) as well as higher contributions by affluent Member States for a "growth offensive" in southern and eastern Europe (56 %). The fact that there is a limit to this desire for more EU competencies is clearly illustrated, however, by another result: two-thirds favour a right on the part of national parliaments to object to and appeal EU decisions.

Almost all measures receive support from a majority in all countries – with one exception. A growth offensive in Southern and Eastern Europe tends to be rejected in the Netherlands (49 %), with (minority) opposition also being strong in thriving Germany (42 %) and Sweden (39 %).

National or European domain of responsibility

The 2015 study already explored citizens' preferences regarding national versus European control over certain policy domains. The result was a balance of policy areas under national and areas under EU control. Current findings on this question corroborate a stronger pro-European stance. Citizens tend to call for EU responsibility in eight out of a total of twelve fields: In foreign and security policy, taxation of multinational corporations, trade relations with the USA, data and consumer protection, immigration, energy supply and the legal status of same-sex domestic partnerships. A comparison of both studies indicates a slight increase in willingness to shift competencies in the direction of Brussels in five cases.

In some cases, there is largely agreement across all eight countries on a preference for European control. This especially goes for security and defence policy, where two-thirds of persons surveyed favour a shift in competencies. Resistance is strongest in neutral Sweden.

In other fields of policy as well, there are significant differences between countries, whereby the lines of conflict usually run between Eastern and Western Europe. Opinions differ most profoundly in the area of refugee policy. In five of the six western countries, citizens call for European solutions in the acceptance and integration of refugees. Germans and Italians, whose countries are currently bearing the main burden of immigration, demand a European solution most vehemently. In the Visegrád states of Slovakia and the Czech Republic, however, opposition to exactly this is clearly the majority stance (seven out of ten).

With regard to same-sex domestic partnerships as well, majorities in Slovakia and the Czech Republic favour national responsibility – evidence of the continuing cultural differences between eastern and western European states. With regard to energy issues, clear majorities of citizens in both countries prefer national arrangements even though both are highly dependent in terms of energy supply. On the other hand, especially Spain (67 %) and Italy (64 %) speak out in favour of a greater coordination of energy policy, and so do considerable majorities in the Netherlands (54 %), France (53 %) and Germany (52 %).

Responsibility in the area of combatting youth unemployment remains controversial. In some countries with high youth unemployment – Spain and Italy – majorities are in favour of European solutions, while the French tend to view this as a national task. Citizens in the Netherlands, Sweden and the Czech Republic

– countries in which this topic scarcely plays a role – also prefer national control. In Germany and Slovakia, on the other hand – both scarcely affected by youth unemployment – common efforts would find support. Thus, Germans seem aware that their own economic strength cannot last if important partner states are suffering.

Agreement to an expansion of EU competencies is rejected in some areas, however, especially with budget sovereignty and social systems. There is no majority in favour of an integration of financial policy in any of the eight countries. Reservations are greatest in the Czech Republic (80 %), Slovakia, Germany and France (each with over 70 %). Willingness to shift competencies is relatively strong in Italy (36 %) and above all in Spain (44 %). EU competencies regarding unemployment benefits would also meet with little support. In Spain only, a narrow majority can imagine a European solution for unemployment insurance.

There are similar findings with regard to pension policy. A clear majority are in favour of national control in six countries (between 58 and 67 %). Only majorities in Spain and Italy (at 53 %, respectively) can conceive of a transfer of competencies to the EU in this area.

Even in the area of budgetary and social policy, however, the willingness to seek European solutions has grown slightly in most countries. This explicitly does not apply to Germany, however, where opposition is greater and undiminished. Financial and social policy appear to still form Germany's borderlines when it comes to preserving one's own prosperity.

Acceptance of EU rules

Cohesion of the EU is not least based on various common rules. At the heart of these are democ-

racy, rule of law and adherence to human rights, but also the free movement of capital, services, goods and labour. The latter has repeatedly been at focus in debates that have taken on a new importance with Brexit. After all, freedom of labour was a reason for many British to vote "Leave".

Reassuringly, this example did not have a copycat effect elsewhere: at 57 %, the percentage of citizens in favour of worker mobility remains constant compared to 2015. Still, one-third state that EU Member States should be allowed to restrict the influx of workers from other EU states. Opinions differed significantly between countries here, however, although not precisely between countries of origin and countries of destination. Free movement of workers meets with majority support in Spain and Italy, Slovakia and the Czech Republic, but also in Germany, the main destination for EU jobseekers.

The high level of agreement with the free movement of workers does not include free access to social services in the country of destination, however. A majority across all countries (56 %) is in favour of benefits made contingent upon whether beneficiaries have worked for a longer period of time in the respective country. A clear majority in Italy (71 %) is, however, in favour of universal social benefits regardless of an individual's work history. Over half of all Spaniards surveyed (53 %) also share this view.

In the other six countries, clear majorities are in favour of linking social benefits to regular work. This attitude is particularly prevalent in Germany and the Netherlands.

Public demands for a common minimum social standard to apply throughout the EU[2] are

---

[2] This demand was most recently tabled by federal minister of Labour Andrea Nahles in an article for the FAZ.

omnipresent, not least in order to mitigate the incentive for migration within the EU. Yet opinions on this do differ considerably between countries. The introduction of minimum standards meets with considerable agreement in Italy (74 %), Spain (71 %) and Slovakia (60 %), whereas it meets with little enthusiasm in the Czech Republic (41 %), the Netherlands (38 %) and Sweden (33 %). Opinions are split in France and Germany.

Among the unwritten and highly controversial rules of the EU is the imperative to show solidarity between Member Countries, which also implies a financial transfer between prosperous and poorer countries. Here as well, views in the various countries diverge. Majorities in countries facing economic problems like Spain (60 %), Slovakia (59 %) and Italy (53 %) advocate financial support of poorer countries by richer ones. Yet so does a clear majority in Germany. On the other hand, majorities in the Czech Republic and the Netherlands (61 and 65 %, respectively) reject such an approach. Opinions are divided in Sweden and France.

Trust and confidence in Member States

The strength of the EU depends not least on trust between Member States. This goes not only for governments, but for populations as well. As France and Germany play a special role in the EU, trust of partner countries in these two nations, but also in their own country, was measured in 2017 and 2015. For reasons of comparison, trust and confidence in two additional important EU countries was also surveyed: Italy and Poland.

Findings in 2015 were very satisfactory from a German perspective: trust and confidence in Germany was relatively great across all seven countries (65 %), while Germans themselves trusted both their close ally France (59 %) and their own country (76 %) to a high extent.

France did not do so well. Although the French had roughly the same trust in the rising neighbour Germany as vice versa (60 %), trust of the seven partner countries in France turned out to be rather modest at 52 %. Attitudes of the French towards their own country also displayed self-doubt: Only around half had trust (53 %) in their own country.

Both figures improved significantly following the election of Emmanuel Macron. Now six out of ten citizens from the seven partner countries have trust and confidence in France, up eight percentage points. Germans rank highest with 74 % (up 15 percentage points). This increase is only surpassed by the Swedes (up 16 %), although at a significantly lower level (59 %). Most importantly, however, French citizens themselves have restored faith in their country (64 % / up 11 %).

As in 2015, two out of three citizens in the seven partner states continue to have trust and confidence in Germany. The relationship of the French to their neighbouring country has even improved (65 % / up five %). In addition, the self-image of Germans has improved, as Germany's role in the EU is now considered positive by 88 % of its own citizens. So much self-confidence can also arouse distrust, as seems to be the case among the Czech population, whose trust in their powerful neighbour has eroded perceptively (down 7 %). Germany seems to have made few friends in the Czech population with its liberal refugee policy.

With Brexit impending, Italy will automatically gain influence and importance as the new third-largest EU country. Thus, it is important to note that trust and confidence in this country has risen substantially (up 7 %). Improvement is

particularly salient in Germany (up 14 %) and Spain (up 10 %). At 35 %, the affirmation of faith across all countries remains at a relatively low level, however. Italians themselves shares this distrust: barely four out of ten are positive about their own country's role in the EU – the lowest level of self-perception out of all countries surveyed.

Poland displays even worse results with regard to its perception in other countries. Just as in 2015, only one in every five persons have a positive view of its role. Nor does Poland have a good image even among its eastern European partner countries: Only one out of four Slovaks and Czechs trust their neighbouring country. Moreover, trust in Poland has eroded in four out of the six western countries since the last parliamentary elections, from which the conservative rightist party Prawo i prawiedliwość (PiS) (in English: law and justice) emerged with an absolute majority.

Trust and confidence in political parties to represent the interests of one's own country

Trust and confidence in the EU depends not least on how well or poorly one considers the interest of one's own country represented in the Community. Here political parties and their leaders play a major role. As in 2015, it was enquired which party citizens believed to best represent the interests of their own country.

Viewed across all eight countries, the wide distribution of trust in various parties is striking. The previous dominance of the two major blocs of Conservatives and Social Democrats appears obsolete. Across all countries, 17 % place their trust and confidence in parties organized under the roof of the European People's Party (EPP),

Social Democratic parties obtain 16 %. Both figures only add up to one-third of citizens. Eight % place their trust in liberal parties, five % in parties along the left part of the spectrum, three % in parties from the parliamentary party group of European Conservatives and Reformers (ECR), and two % in green parties. The competence ascribed to other parties that are not part of the large party families is remarkably great at six %. Most mentions were for Macron's newly founded party La République en Marche (LREM).

It is interesting to note the large share of populist or right-wing populist parties (11 %). Compared to 2015 this means a growth of two % – not necessarily a "thumbs-up" for the stepped-up efforts of EU states to close ranks more tightly. One positive finding, however, is that the share of persons not placing their trust and confidence in any party has fallen from 19 to 13 %.

Conclusion

The EU has gone through a decade of external and internal crises, some of which remain unsolved. In addition, the first exit of a Member State and authoritarian tendencies in some eastern European states are casting serious doubts on the cohesion of the EU.

Ongoing challenges have an impact on citizens' opinion in eight European states. Coping with the refugee crisis continues to be seen as the most important task of the European Union, while unemployment, terrorism and threats to peace are further causes of concern. Large sections of the population also fear that Brexit could have a negative impact on the European Union.

Overall, however, the findings offer grounds for hope. Majorities in seven out of eight countries

advocate tighter cooperation among remaining Member States. In all countries today, significantly more citizens are convinced that EU membership is positive for their country. It is viewed once again as more of an opportunity than risk, and a majority believe that the EU meets its main purpose – bringing about prosperity. Apparently, Brexit and other challenges have made citizens more aware of the value that cooperation has to offer for their country, but also for them personally.

From a German perspective, the fact that above all Germans have developed a new sensitivity to the benefits that the country derives from EU membership is especially heartening. The conviction that it is time for more and not less common action is nowhere as pronounced as in the German population.

The willingness to shift more competencies to the European level has also risen in all countries. This goes in particular for foreign and security policy, yet also for the taxation of multinational corporations as well as trade relations with third countries. Significant differences remain with regard to responsibility for refugee policy.

Clear constraints on Europeanisation remain, however. This applies especially to budgetary sovereignty, but also to pension and unemployment insurance, which large majorities consider a national responsibility. Majorities in all eight countries furthermore call for the introduction of a right for their national parliaments to object to and appeal EU decisions. Additionally, clear majorities in all countries speak out in favour of referendums on important decisions – another "emergency brake".

Member States and EU values: the challenge of nationalism

José Enrique de Ayala

Over the past few months, the European Union (EU) has received positive news that has done much to allay some uncertainties it faced only a year ago. The victory of Europeanist Emmanuel Macron in the French presidential elections of May 2017 and the more recent renewal of the grand coalition between the CDU-CSU and the Social Democratic Party in Germany have set the stage for a probable re-launch of the European project and the implementation of much-needed reforms – particularly of an economic nature – at a time when Eurozone countries and the rest of their EU counterparts are rebounding from the recent protracted recession with an overall 2.5 % GDP growth rate for 2017.

Other major problems nevertheless continue to cast a shadow over Europe's common future. Although the EU and the United Kingdom have reached a transition agreement, many other aspects of Brexit such as the dilemma of how the Irish border should be handled have yet to be resolved and the impact of the UK's withdrawal from the Union must be absorbed. Acts of terrorism such as those perpetrated in Barcelona in August 2017 and Carcassonne in March 2018 continue to take place. Although third-party agreements have eased irregular migration to a certain extent, this problem is far from been solved. In the socio-economic arena, economic union (including banking union) must be completed and steps must be taken to close the gap the great recession has created between northern and southern Europe in terms of creditor and debtor states and correct the tremendous inequality that now exists in EU countries as a result of neoliberal policies that put the wealthy in a position to increase their fortunes substantially during the crisis while working and middle class people, in contrast, have seen their wages drop, their social rights cut back and their employment prospects become more precarious.

This rise in inequality and insecurity, the uncertainty and fear about the future that has taken hold in broad sectors of European society and the weakening of the social state are collectively to blame for the most serious problem the Union now faces: the rise of ultranationalist,

anti-European populist movements that pose a threat to the existence of the EU and the liberal democratic system based on the rule of law as a whole. Worst case scenarios of populist success at the polls have failed to materialise in the EU's largest states with the exception of Italy, where the victory of the Five Star Movement and the spectacular results of the League (formerly the Northern League) have given rise to the ominous possibility of a coalition government by two parties known for their frequent anti-European statements. There is no motive to be optimistic about the situation elsewhere either. Geert Wilder's Freedom Party came in second in the 2017 Dutch general elections with 13.1 % of the vote, while the leader of the far-right National Front, Marine Le Pen, captured 33.9 % of the votes in a runoff election against Emmanuel Macron in last May's French presidential elections. The extremist party Alternative for Germany, which won over five million votes (12.64 % of the total) in federal elections held in Germany in September, will be the main opposition party in the Bundestag. Populist and extreme right-wing parties such as the Danish People's Party, upon whose support the current ruling coalition government in Denmark depends, and ANEL, which has become Syriza's ruling coalition partner in Greece, have gained significant ground in other Member States as well. More often than not, the existence and relative success of such movements have a perverse influence on the discourses of right-wing, centre-right and even more liberal parties, whose rush to adopt of extremist positions in a bid to appeal to voters has led to an across-the-board erosion of the freedom of expression and other civil rights. Democracy is fragile and must be protected on a day-to-day basis. The traction these movements are gaining is leading to a banalisation of xenophobia and ultranationalism,

both of which are steadily seeping into the mainstream of European politics and becoming more and more publicly acceptable.

The case of Austria

Austria provides a case study of the extent to which extremist ideas have come to be considered normal and acceptable in Europe. The Austrian People's Party (ÖVP) won the Austrian general elections of October 2017 with 31.5 % of the popular vote, edging out both the Social Party, which received 26.9 %, and the far-right Freedom Party (FPÖ), which won a slightly lower 26 %. In December, Sebastian Kurz, the young leader of the ÖVP, formed a coalition government with FPÖ, whose leader Heinz-Christian Strache now serves as vice-chancellor and also heads up the country's Ministry of Civil Service and Sports. The openly xenophobic and Eurosceptic FPÖ currently controls all matters related to security (defence, interior and foreign affairs), with the exception of the bulk of the European agenda. The central platform of the coalition's programme and an issue that the FPÖ has deftly exploited is the perceived need to halt irregular migration, a topic of great concern in Austria given the country's proximity to the Balkan migration route.

Figures associated with the right-wing Movement for a Europe of Nations and Freedom such as Le Pen, Wilders and the Czech politician Tomio Okamura rushed to congratulate the FPÖ on its success. The reactions of Jean-Claude Juncker and Angela Merkel have been more muted, both stating they would judge the Austrian government "on its actions". A comparison of this response to the one that followed the FPÖ's first entry into the Austrian government in 2000, which prompted 14

European countries to adopt hard diplomatic sanctions against Vienna, provides a crystal-clear idea of how much perceptions have changed in Europe regarding this sort of political party.

The new Austrian government's proposal to grant Austrian passports to German speaking inhabitants of the Alto Adigio (South Tyrol), a northern Italian province Austria lost following its defeat in World War I, has not gone down well with either the Italian government or EU institutions horrified by the prospect of a revival of old ethnic and territorial disputes that the founding of the Union was meant put an end to. Austria could decide to collaborate more closely with the Visegrad Group – with which it shares interests on a number of issues such as emigration – in what would constitute a sui generis resurrection of the Austrian-Hungarian Empire with sufficient clout to give Brussels additional unwanted headaches.

The Visegrad Group: the case of Poland and Hungary

Although ultranationalist populism and Euroscepticism are pan-European phenomena, their success with electorates has been greatest in Eastern Europe, particularly in the countries pertaining to the Visegrad Group, a political bloc formed in 1991 by Poland, Hungary, the Czech Republic and Slovakia reminiscent of a traditional, fourteenth century alliance.

These countries have many things in common. The first is their posture towards the EU, which is positive as far as economic and trade issues go but marked by a strong resistance against anything they perceive as political intervention in domestic affairs or a loss of national sovereignty, an attitude that may well be related

to their fairly recent subjection to the Soviet Union and historical mistrust of Germany. Populist movements in these states do not feed off problems such as job insecurity or inequality but rather nationalist and identitarian sentiment, which runs higher in this region than elsewhere in Europe. One indication of where the power of such feelings can lead was the introduction of a law in Poland in February that made drawing associations between the Polish state or people and the extermination of Jews during World War II a punishable offense carrying a prison sentence up to three years, legislation that not only restricts free expression but also perpetuates a historical fallacy, given that although Germany may bear the principal responsibility for the Shoah, ample proof exists that certain Poles, just like certain citizens in other occupied European countries, collaborated in the extermination.

While the majority of the parties governing V4 countries would rather have a Union limited to a free trade area than a Union headed towards political union and are furthermore looking to recuperate a number of competences currently assumed by Brussels, the exit of the UK supposes the loss of a key major ally in the fight to bring the EU into closer alignment with their perceptions of how it should be. At the end of day, they are interested in enjoying the benefits of belonging to the EU but less eager to comply with certain obligations that membership entails.

This was made clear not so long ago by their repeated refusal to comply with refugee quotas set by Brussels, a posture that sparked irritation in Berlin, Paris and Rome and could very well provoke a serious crisis within the Union. The most extremist of these parties, such as the PiS in Poland and Fidesz in Hungary, stir up fantasies about a new Islamic invasion in a bid to at-

tract voters. Reality curiously contradicts the panic scenarios of Muslim migration they are hawking to their citizens. A recent study conducted by Pew Research indicates that 25.8 million Muslims currently reside in Europe, a figure that translates into 4.9 % of the overall population. An examination of variation within the Union reveals that Muslims account for 8.8 % of the population in France, 8.1 % in Sweden and 6.1 % in Germany – sharp contrast to demographic realities in Visegrad countries, in which they make up a mere 0.1 % of the population of Poland, 0.4 % of the population of Hungary, 0.2 % of the population of the Czech Republic and 0.1 % of the population of Slovakia. According to the most probable scenario presented in this study, Europe's Muslim population is projected to reach 58 million (11.2 %) by 2050. Should Europe continue to absorb sustained flows of migrants at 2016 levels, the projection rises to 75 million or 14 % by the same date. Even in the context of this least likely scenario, in which Muslims would represent 20 % or more of the populations of countries such as Germany, France and Sweden by 2050 should extraordinarily high levels of migration continue unabated, the same group would only constitute 0.2 % of the population in Poland, 0.7 % in Slovakia, 1.2 % in the Czech Republic and 4.5 % in Hungary.

The integration of Muslim communities into the fabric of European societies is a serious issue that must be addressed at the political, economic, social and cultural level in order to avoid divisions that could be very difficult to manage farther down the line. However, as we have had ample opportunity to observe, the partisan manipulation of the problem can end up having a far more negative impact than the problem itself.

The truth be told, the most serious problem in countries throughout this region is the authoritarian and anti-liberal drift of their governments

(particularly those in Warsaw and Budapest), which are negating the values that underpin and define the UE by putting fundamental principles of democracy such as the division of powers and free expression at risk. Although the ongoing conversion of full-fledged democratic states into illiberal democracies or majority autocracies along the lines of Vladimir Putin's Russia could pose an existential threat to the EU if not reversed in time, community institutions appear to be for the most part unprepared to tackle this problem in a decisive and effective manner.

Despite repeated warnings from the European Commission, Poland's governing far-right Law and Justice Party (directed from the shadows by parliamentary leader Jaroslaw Kaczynski) has approved 13 controversial laws since 2016 affecting the independence of the country's judicial system, the most recent of which, adopted in December 2017, placed the country's Supreme Court and National Council for the Judiciary under the direct political control of the Polish Parliament, and, by extension, the country's ruling party. This legislation, which has effectively suppressed the judicial independence and separation of powers essential to any functioning democracy, together with measures intended to limit the media's ability track and to cover government and parliamentary activity, have been considered anticonstitutional by the Polish Supreme Court, qualified as "the politicisation of justice" by the Council of Europe's Venice Commission and described as constituting part of a "systematic threat to the rule of law" by a spokesman for the European Council in representation of EU institutions.

None of these statements has had the slightest effect. Its patience worn thin, on 21 December 2017, the European Commission finally activated a mechanism contemplated in Article 7 of the Treaty of the European Union

(TEU) to respond to situations in which actions taken by Member States breach values such as respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights deemed fundamental to the Union in Article 2 of the Treaty. For the moment, the Commission has only considered measures contemplated in point 7.1 TEU, which requires a four-fifths majority to invoke and supposes no more than the issuance of recommendations to the state in question. The implementation of 7.2, which involves serious sanctions such as the loss of a country's vote in the Council and requires unanimity, is unlikely in the light of warnings from the Hungarian government that such a move would constitute an intromission in Poland's internal affairs it could not accept.

Since he assumed power in Budapest for the second time in 2010, Victor Orbán has managed to turn Hungary into a majority autocracy that has served as an inspiration for the ruling PiS government in Poland and various others in the region. Orbán, leader of Fidesz, an ultranationalist and anti-European party that won over 49 % of the vote and more than two thirds of the seats in the April general elections, has used the confessional, homophobic and illiberal constitution of 2011 to create a corrupt and well-entrenched authoritarian oligarchic regime that restricts free expression and controls the media, the country's judicial and educational systems and civil society organisations with a heavy hand, thereby hindering in practice any possibility of alternation of power. His invitation to ethnic Hungarians in regions of other countries such as Romania and Slovakia beyond the Hungarian borders established in the Trianon Treaty of 1920 to apply for double nationality and the right to vote in Hungarian elections also threatens to destabilise these other Member States.

The situation is not much better in the two other countries that make up the rest of the V4. Milos Zeman, a left-wing nationalist who has described Islam as "the enemy of civilisation", was re-elected as president of the Czech Republic in January. Billionaire businessman Andrej Babis currently occupies the post of prime minister as leader of Action of Dissatisfied Citizens (ANO), a populist party he founded in what might have been an attempt to emulate Orbán or politically outmanoeuvre the rising, even more right-wing, Freedom and Direct Democracy party founded by Tomio Okamura, a Czech of partial Japanese descent, which captured 10.6 % of the vote in the Hungary's October 2017 parliamentary elections. Slovakia's leftist-cum-populist prime minister Robert Fico, under whose mandate individual police files were created for the country's 400,000 Roma citizens, was recently forced to resign following the gang-style assassination of Jan Kuciak, a journalist who had been investigating ties between the Calabrian mafia and his government and close associates.

The EU cannot afford to harbour in its midst regimes that undermine the values and principles on which the European project has been built and constitute permanent nuclei of instability and conflict that periodically involves violence against ethnic minorities. Lamentably, as we have seen, the instruments at the Union's disposal to curb such drifts, which fundamentally boil down to the provisions contemplated in Article 7 of the Treaty, are limited and largely ineffective, in large part by the need for unanimity. Conflicting interests are also a factor. According to the *Frankfurter Allgemeine Zeitung*, Germany's total trade with V4 Group countries reached 256 billion euros in 2016. If we compare this figure to the 170 billion and 167 billion euros of trade it maintained with

China and France that year, it becomes clear that Berlin has no interest in destabilising its V4 neighbours, which also serve as sources of relatively cheap and qualified labour and whose market Germany considers of vital importance.

There is nevertheless an alternative means of applying pressure on these countries that could be much more effective than the provisions provided in Article 7, which is linking compliance to access to community funds. Discussion began in February on the EU multi-annual financial framework for 2020-2027, which will require annual cutbacks of somewhere between 12 and 13 billion euros to compensate for the shortfall caused by the UK's withdrawal from the Union. For the very first time, there is talk of plans for making Member States' receipt of EU funds contingent upon a range of factors. Although the first consideration will undoubtedly be the fulfilment of economic rules, compliance on political issues such as refugee quotas or even the rescission of laws and measures at odds with EU values or the rule of law could serve as a criterion as well. Despite the difficulty in implementing this concept, Merkel and Macron have both publically spoken of the possibility. Such criteria would be certain to have a substantial impact and provide effective leverage for dealing with countries that, as mentioned earlier, tend to regard the EU as a cash cow rather than a serious political project.

In any case, the above examples make it clear that the EU concerns itself far less with the political evolution of its Member States than it does with their economic evolution. It requires candidate countries to fulfil a series of conditions prior to entry – the Copenhagen criteria – that it subsequently supposes continue to be met without performing the slightest due diligence. Some sort of monitoring mechanism needs to be established to ensure these conditions are respected on an ongoing basis in order to avoid the type of undemocratic drift that is occurring now in a number of countries and prevent such lapses from converting into the sad state of affairs that we now have in Warsaw and Budapest.

Secessionist trends in Member States

Another disintegrative force clearly at odds with the values of unity and integration that characterise the European project is the separatism threatening the territorial integrity of a number of Member States. While the situation in Catalonia may have reached crisis proportions during the period covered by this report, there are other places in Europe where secessionist sentiment runs strong as well.

In September 2017, the autonomous government of Catalonia advocated the approval of laws contrary to the Spanish constitution by which it intended to achieve independence with neither the consent of Madrid nor the support of a majority of Catalan voters. This was followed by an illegal referendum bereft of democratic guarantees on 1 October, in which it is impossible to know for certain, but organisers claim 42 % of the electorate participated, that gave rise to fierce confrontations between pro-independence elements and law enforcement agents. On 27 October, the Catalan parliament approved a unilateral declaration of independence (UDI) by a slim majority of the chamber that represented less than 50 % of the voters. The Spanish government responded to this situation immediately, suspending Catalan autonomy, dismissing the standing Catalan government and taking legal action against those responsible, the majority of whom are now either in preventative detention in Spain or enmeshed in extradition processes in other European countries.

Various Catalan leaders involved have since qualified UDI as having been more rhetorical than factual given their lack of means to make it effective. It goes without saying that not a single country anywhere in the world has supported or recognised Catalonia's spurious declaration of independence and that Spain's partners in Europe, which consider it to be an advanced democracy that respects the rule of law, have naturally been even less disposed to do so. Leaders in every European capital including Berlin, Paris and London, as well as community leaders, presidents, the EU Parliament, the European Council and Commission Presidents, have affirmed their full support for the Spanish government and called for the conflict to be resolved by political means within a legal framework that respects the Spanish Constitution. Independence forces long insinuated that Catalonia would automatically become a full-fledged member of the European Union upon secession despite repeated reminders on the part of the Commission – the body charged with preserving the integrity of the Treaties – that according to the Prodi doctrine "a newly independent region would become, as a result of its independence, a third country in relation to the Union and all treaties would not apply to its territories from the first day of its independence" and any new state seeking membership would be required to submit its own application for membership, which would not become effective until approved by all Member States, including Spain.

While this groundswell of Catalan nationalism, like many other intra-European conflicts, may be rooted in historic disagreements, it is also a reflection of a more general wave of pro-sovereignty and identitarian thinking linked to a desire to safeguard local prerogatives and culture in an increasingly globalised world. It is also

a consequence of an economic crisis and protracted recession that has tempted certain regions to devise strategies – notable for their lack of solidarity with others – for moving ahead towards recovery as quickly as possible on their own. A few irresponsible, power-hungry political leaders are all it takes to get the ball rolling in the wrong direction.

It is interesting to note that although the Catalan independence movement includes left-wing parties such as Esquerra Republicana de Catalunya, the scant support the Catalan secession process has received from elsewhere has come almost entirely from right-wing parties and leaders such as Nigel Farage (former head of the UK Independence Party and front-line Brexit advocate), Geert Wilders (founder and leader of the Islamophobic Party of Freedom in the Netherlands), Heinz-Christian Strache (the leader of the extreme right-wing Freedom Party of Austria), Matteo Salvini (leader of the populist and xenophobic League in Italy) and Jens Eckleben (a founding member of the anti-European party Alternative for Germany). The separatist movement's friends in Belgium are limited to the pro-independence, nationalist New Flemish Alliance party, which harbours open racists such as Theo Francken, and the unconditional support of the extreme right-wing Flemish Interest party. The individuals and groups backing Catalan secession are essentially the same individuals and groups that supported Brexit and a few autocratic governments such as those in Warsaw and Budapest. Those bucking the tide towards further European integration, the suppression of borders and the convergence of values and interests of similar societies have much in common. In other words, support for exclusionary, disunifying identitarian nationalisms, whether at the national or regional level, is coming from the same quarters. The xenophobic

and supremacist demonstrations of the recently elected President of the Generalitat de Catalunya do nothing but confirm the connection between Catalan secessionism and European ultranationalist movements.

The Catalan question is an internal matter of Spain and has been acknowledged as such by European leaders as a gesture of respect for Madrid. The EU cannot logically mediate between a Member State and one of its parts unless the government of that country expressly calls upon it to do so. It is, nonetheless, a European problem. First of all because the Spanish constitution forms part of community acquis and hence its violation on the part of the autonomous government of Catalonia constitutes a violation of European law and the Treaties. Article 4.2 of the TUE states: "The Union shall respect… their essential state functions, including the territorial integrity of the state…". This is to say that the Treaty supports and embraces the constitutional legality of Member States as its own, to the effect that the EU must never take a neutral stance on questions of this nature but rather always clearly and firmly defend the legality of the state affected.

Furthermore, the spectre of secession is not confined to Catalonia. It is a problem that could easily spread throughout practically ever corner of the Union. Commission president Jean-Claude Juncker has made it clear that the European Union "does not need more cracks, more splits", and furthermore stated, "We shouldn't insert ourselves into what is an internal debate for Spain, but I wouldn't want the European Union to consist of 95 Member States". Many other regions could decide to follow Catalonia's example. Flanders in Belgium and the Basque Country in Spain would be the first likely candidates, but Corsica, Galicia, Szeklerland (a region of Romania heavily populated by people of Hungarian descent), or even

Bavaria or various regions of Italy might do the same. In short, the mere possibility constitutes a nightmare for a project based precisely on unity and the suppression of borders.

Nationalism in Corsica represents a significant challenge to a country as centralist as France. In the Corsican territorial election held in December 2017, a coalition between an autonomist party (Femu a Corsica) and a separatist party (Corsica Libera) won 57 % of the vote on a campaign platform calling for recognition of a special status for the island in the French constitution, equal status for the Corsican and French languages, greater fiscal autonomy, amnesty for "political" prisoners (serving sentences for acts of pro-independence terrorism), and a special resident status meant to dissuade outsiders from buying up local property – only the first of which has been conceded to date by Macron, who has publicly underscored the island and mainland's "unbreakable union in the Republic". Other recent initiatives such as the referendums held in Lombardy and the Veneto last October, both of which garnered very strong support, have focused more modestly on increasing regional competences and the groups that organised them are far from posing, at least at the moment, attacks on the territorial and constitutional integrity of the state as has occurred in Catalonia.

As the growing number of calls for greater regional autonomy being voiced throughout Europe could, at least in part, be satisfied by giving regions a broader range of opportunities to promote their interests and express their ideas within an EU framework, the Union should consider restructuring the European Committee of the Regions so as to give local and territorial entities a greater voice in decisions affecting them. Individual states can no longer be the sole protagonists in a political scenario in which regions

and cities are establishing connections on the basis of common interests and needs. This new reality should be analysed and be reflected in the context of EU decision-making.

European nationalisms in an international context

EU progress towards political unity, which would make it a major, autonomous power on a geopolitical plane, irritates certain extra-European powers such as Russia. Moscow's empathy with ultranationalist movements in Member States is calculated on the basis of their ability to debilitate the EU and the possibility of boosting its bargaining power with trading partners previously within its sphere of political influence. *Divide et Impera*. Some right-wing extremist EU heads of state such as Hungary's Victor Orbán are known for their openly pro-Putin sympathies, while others, for example in Poland, feel no affinity with Russia for historical reasons. There is ample proof of external interference in the Brexit referendum, recent elections in various EU countries and even in internal national issues like Catalan separatism on the part of Russian hacker collectives such as Sofacy Group (Fancy Bear) with more or less direct links to Russian intelligence services (including the Main Intelligence Directorate or GRU) whose activities have ranged from targeted cyber attacks to social media disinformation campaigns that circulated fake news stories favouring secessionist elements.

These groups are not alone. Opaque organisations such as the British-American consulting firm Cambridge Analytica, founded by American billionaire Robert Mercer and right-wing agitator

Steve Bannon (CEO of Donald Trump's president campaign), have employed what appear to be illegal tactics to influence the outcomes of the Brexit vote and elections in EU states such as the Czech Republic. Alt-right media outlets in the US such as Breitbart and Infowars have also stoked the conflict in Catalonia by disseminating fake news stories in favour of Catalan independence. The creation and development of a strong, cohesive and independent Europe goes down poorly with ultra-conservative elements in Washington as well. A telling sign of the anti-EU bias within this camp is the open support Donald Trump and fellow ultra-conservatives expressed for Brexit (an obviously debilitating turn of events for the Union) and their open encouragement for others to take the same path. Bannon devoted the better part of March to a whistle-stop tour of Europe during which he met with ultranationalists across the continent and headlined a conference marking the rebranding of France's right-wing National Front.

China, meanwhile, continues to pursue a subtler Trojan horse strategy of economic penetration that began with the purchase of a Greek port (El Piraeus) and continued with the creation of the 16+1 group as part of a project focused on "boosting trade and economic cooperation". The 16+1 framework, under which the 1 stands for China and the other 16 members represent a vast swath of Eastern Europe encompassing the Baltic states, the V4 and the eastern and western Balkans, includes 11 EU Member States that could be possibly be tempted to adopt certain positions within community institutions on issues related to China in exchange for Chinese investment in infrastructure at home.

Democracy, supranationality and sovereignty

Rodrik's trilemma, a well-known theory articulated by Harvard economics professor Dani Rodrik in his book *The Globalization Paradox*, addresses the quandary of societies attempting to simultaneously pursue economic globalisation, democratic politics and national sovereignty to their full extent in the age of globalisation, which is that the achievement of any two of these goals inevitably weakens their possibility of accomplishing the third. Applied in a completely theoretical context to the EU, we find ourselves forced to choose one of the three following paths: constructing a political, fully democratic Union and sacrificing some degree of national sovereignty; developing a framework of deep integration that allows for national sovereignty but implies sacrificing a certain degree of democracy in favour of intergovernmental institutions; or conserving full national sovereignty and democracy at a domestic level and settling for a low level of integration. We may assume that the first would be the preferred choice of Europhiles, the second more or less a reflection of where we stand now and the third the vision of the Union that has traditionally been defended by the UK and that certain Eastern European countries such as the V4 continue to support.

These are three politically valid options that can and should be debated and will receive greater or lesser support according to their relative capacity to resolve citizens' problems. If the EU had responded adequately to the crisis brought on by the great recession, we would not now be seeing the growing Euroscepticism and nationalism in various Member States that is enfeebling the project of the European construction.

What is clearly unacceptable is the use of demagoguery, fake news and the shameless manipulation of fundamental human emotions – including fear – to trigger xenophobia and outright racism and inciting hostility towards others by portraying them as the enemy or the source of all ills in order to achieve political objectives. This is happening now in Europe just like it did in the 1930s. It is a beast, which if allowed to grow, could become dangerous and get out of control.

All of us, as Europeans, must resist this neofascism contrary to the values on which the EU was founded that unchecked could suppose a lethal threat to European construction and even democracy. Community institutions, the Parliament, the Council and the Commission all have a special responsibility to tackle anti-democratic practices in the political as well as the economic sphere. They must also commit themselves fully, with all of the means at their disposal – which are bountiful – to the battle for the narrative, because the political future of Europe will greatly depend on the shape the European narrative takes. The decentralisation of information via social networks makes it much easier to spread falsehoods and manipulate public opinion, especially if the lies being circulated are not contested with the same energy and determination with which they were disseminated. The objective truth matters little or nothing in the digital world: the party that weaves the most persuasive narrative is the party people support, and support for a strong, united, democratic, fair and free Europe that believes in solidarity is well worth fighting for.

Proposals and prospects for the reform and completion of European monetary union

Manuel de la Rocha Vázquez

Almost two decades after the launch of the euro, it is clear that European economic and monetary union (EMU) has not fully achieved its main objectives in terms of sustainable growth, employment, social progress, cohesion and stability. Errors in the design of the single currency amplified the effects of the global economic crisis, incurring huge financial costs, causing social suffering and generating political tensions both within and between Member States.

These effects – combined with the impact of globalization, technological change and migratory flows – have caused massive discontent among many European citizens, who feel that the burden of the crisis has not been distributed fairly. Such sentiments have been a major factor in the rise of populist, xenophobic and anti-European forces across the continent, exacerbating political and social tensions and threatening the very existence of the EU. The result of the Brexit referendum in 2016 shook the EU to its core and requires a political response which does not only address institutional problems but also tackles the democratic deficit and social

imbalances. In this context, the task of completing, deepening and rebalancing EMU is arguably the most important item on Europe's long political agenda, and is essential if the EU is to maintain high growth rates over the long term and to deliver progress towards political and socioeconomic convergence.

Despite the rise in Euroscepticism in response to the crisis, support for the common currency has actually increased, and the Eurobarometer 87 survey (for which fieldwork was conducted in May 2017) recorded the highest level of support for the euro since 2013. This demonstrates the need to reform and strengthen monetary union, but without weakening or destroying it, as some populists have argued.

Throughout 2017, European leaders considered the future of the EU. The European Commission *White paper* and various discussion documents gave rise to a lively debate on the range of policy options and scenarios available, including the future shape of the eurozone.

The election of president Macron in France and the formation (after lengthy negotiations)

of a Grand Coalition between the Christian Democrats and the Social Democrats in Germany has created a new window of opportunity for serious discussion of the need to reform EMU and how this relates to EU institutions. The Paris-Berlin axis is likely to play a crucial role in designing the pathway towards completion of EMU, although there are substantial differences between the proposals being put forward in the two capitals.

The need to reform the euro

The incomplete nature of the architecture of EMU was widely recognized from the outset. The assumption was that the euro would bring the economies of the EU closer together, and this was what happened for several years, until the crisis struck and revealed the single currency's weakness. Since the start of the crisis, a series of reforms and initiatives have been approved and implemented, with the aim of strengthening EMU and expanding its toolkit for coping with future crises. However, these measures did not reflect an overall vision but were, rather, a response to specific circumstances. As a result, the architecture of EMU is somewhat chaotic, many weaknesses persist, and the whole project lacks democratic legitimacy.

There is little doubt that the current design is far from optimal, and an abundance of academic literature has identified the shortcomings of the eurozone's architecture and highlighted a number of major structural problems, including:

– Systemic deflationary bias, which depresses growth and leads to low rates of employment.
– Permanent under-investment, which is particularly alarming given the need for the economies of the eurozone to equip themselves to cope with the digital transition and to

move towards a sustainable economics based on renewable energy.
– Systemic internal macroeconomic and labour market imbalances, leading to rising inequality and divergence between countries, which in turn destabilizes the sociopolitical unity of the EMU project.
– Vulnerable banking and financial systems, which still pose systemic risks that have not been addressed.
– Democratic deficit due to an inter-governmental framework which, with limited transparency and weak accountability, feeds the populist narrative of Eurosceptic political parties.

These weaknesses, which have existed since the euro was launched, were magnified by the recession and – despite the reforms implemented to manage the crisis – still persist. Indeed, any package of reforms which fails to address these issues is doomed to failure.

This means that the ultimate objective of EMU cannot simply be to stabilize financial markets or to introduce more market discipline to control public spending, and we should remember that it was market failure not poor governance which provoked the global economic and financial crisis. That's why the long-term stability of the eurozone requires a better balance between economic and social outcomes. This also means consolidating the social dimension to ensure that full employment, cohesion and correcting imbalances continue to be key policy objectives in the eurozone. While the outcomes and objectives of the Gothenburg Social Summit in 2017 are a step in the right direction, they do not appear to be sufficient to shift the dominant paradigm, which prioritizes monetary stability over economic and social stability.

To summarize, correcting these imbalances will require reforms to the four pillars of the current architecture of EMU:

- The architecture of EMU should be designed to promote convergence and cohesion on the basis of levelling up, rather than undermining these goals. The problems of the growth and stability of the euro require the creation of counter-cyclical mechanisms and investment tools to guarantee rapid recovery from socioeconomic shocks. In other words, we need to use instruments at the regional level to address systemic regional risks (financial instability and fragmentation, low growth and investment, etc.) and this will, in itself, help to reduce these risks.

- We also need to reform European fiscal rules, articulated as part of the Stability and Growth Pact (SGP) – which is clearly deflationary and biased against countries with budget deficits. The new rules must be based on an aggregate fiscal position for the eurozone, one that recognizes the EU as a global player with an explicit commitment to promoting economic growth and is designed to enable a better distribution of fiscal efforts between individual countries and the eurozone as a whole.

- The governance of EMU must respect the basic principles of democracy, transparency and accountability. In other words, there should be greater integration between EMU bodies, EU institutions and elected bodies.

- EMU must be more closely aligned with economic and social outcomes, and this requires a strong social dimension to ensure that full employment remains a key policy goal, while also addressing social and labour market imbalances.

- EMU must be completed with clear progress towards the sharing of risk, drawing on solidarity and mutual trust to guarantee the stability of the financial and banking sector. This means completing banking union, establishing a fair capital markets union, and issuing joint debt.

Although the majority of countries agree on the final design of EMU, reform and deepening appear to have stalled as a result of disagreement regarding the route map. Structural differences between the countries of the eurozone persist, and Germany and the Netherlands (among others) seem unwilling to accept the mutualization of risk while the level of risk remains so high. In other words, part of the debate revolves around how to sequence the reduction and mutualization of risk. Should the EU first implement a fiscal union which would enable convergence between eurozone countries, or should the countries of the periphery implement the domestic reforms necessary for such convergence? Should EMU implement a European deposit guarantee system or do we need to reform financial systems before banking risks can be mutualized? Conservatives, particularly in Germany, are using this dichotomy as a pretext for failing to make further progress in deepening integration of the mechanisms required to share risks.

The reality, however, is that risk reduction has moved forward apace while risk mutualization has remained little more than an idea. Over recent years, most of the countries that have been worst hit by the crisis have done what was asked of them: Ireland and Portugal, for example, have returned to normality and are growing steadily; Italy has implemented unpopular reforms to its pension system and labour market; Spain has reformed its financial system and its labour market, and drastically reduced its deficit despite high levels of unemployment. If reducing and sharing risk are processes that need to take place in parallel, as the European Commission has argued, then it would appear to be time to make progress towards sharing

risk. For example, the design of the banking union includes risk reduction elements (single supervisory body) which are already in place, and shared risk elements (European deposit guarantee system) which have not yet been implemented. Moreover, the reality is that the countries of the eurozone already share risk, because this is systemic; what they do not share are the costs. Some of the structural problems mentioned above are systemic problems, affecting the whole eurozone, and thus can only be addressed through shared eurozone-wide public mechanisms, whose mere existence would reduce risk.

However, over the past year neoliberal economists have put forward a number of proposals which, while ostensibly defending stability and market discipline, conceal national interests and raise the risk of sovereign instability. Examples of this include the introduction of risk weightings for certain sovereign bonds on bank balance sheets, and the implementation of a debt restructuring mechanism which assumes that bondholders are capable of absorbing losses. The underlying philosophy is pernicious and poses a threat to the stability of the eurozone. According to this approach, the problems of the euro result from the markets' miscalculation of sovereign debt, which was classified as a risk-free asset, leading the banks to accumulate state bonds from countries with poor fiscal discipline. This failure in market discipline would explain not only Greece's fiscal problems but also their spread to other peripheral countries. In this view, the solution to this lack of discipline is to tighten the conditions under which national banks purchase sovereign debt and to create a debt restructuring mechanism, which would make it possible for state bonds to default.

The reality is that, if implemented, these proposals would massively undermine confidence in the markets and thus destabilize them, intensifying the existing problem of financial fragmentation and clearly penalizing certain southern European countries to the benefit of others. The negative experience of the Franco-German Agreement of October 2010 at Deauville, on the restructuring of Greek private debt, should serve as a lesson to us all. If these mechanisms had been in place during the crisis, the consequences for Spain and for Spanish banks would have been very damaging. To start with, it would have led to a huge increase in the cost of borrowing, both for the state and for private issuers (given the fact that rates for the former effectively set a floor for the latter), and hence would have caused higher public deficits. Moreover, it is almost certain that many more banks would have failed as a result of having large holdings of Spanish bonds. Clearly, then, such proposals undermine the internal solidarity and cohesion necessary to consolidate EMU, and do not offer a long-term solution to the problems of fiscal indiscipline or financial instability in the eurozone.

Outlook for 2018

The French presidential elections culminated with the victory of Emmanuel Macron, while the German general election ultimately produced another Grand Coalition between the CDU/CSU and the SPD, opening the doors to new efforts to deepen and reform EMU, which seemed unthinkable only a few months ago.

Shortly after taking office, Macron gave a keynote speech setting out his proposals for the eurozone. The centrepiece was the creation of a budget to support the euro, with three main functions:

– A major fund to support investment in the future.

– An emergency credit line to cope with financial crises (stabilization measures to prevent defaults).

– A fund to respond to economic crises (counter-cyclical stabilization measures).

Access to the eurozone budget would depend on compliance with fiscal rules and social and employment standards, in order to prevent social dumping. Macron also proposed the creation of a specific minister of Economy and Finance for the eurozone, who would be responsible for the euro budget, under the control of a special euro commission in the European Parliament. These are specific and highly innovative proposals which have been supported by other countries, such as Portugal, and are consistent with the ideas defended by the European Commission, among others.

Over the course of 2017, several members of the German government expressed their disagreement with Macron's ideas. The two principal points of conflict between Paris and Berlin related to:

– The size and scope of the eurozone budget.

– The role and mandate of the Eurozone Finance Minister.

The size and scope of the eurozone budget

The essence of Macron's proposal is to equip the countries of the eurozone with the capacity to raise money to fund a specific budget. This common budget should be sufficient to provide the basis of a solid investment strategy and to guarantee stability and swift recovery in the event of economic recession or financial crisis. President Macron was at pains to stress the need for greater financial solidarity.

On the German side, the initial reactions of Chancellor Merkel appeared positive, when she did not rule out the creation of a specific minister for the eurozone and signalled her acceptance of a modest budget or common fund to help the weakest economies to implement economic reforms. However, in essence, the German government takes the view that any potential budget should be seen exclusively as a means and an incentive to support and achieve these structural reforms. In this view, a substantial investment policy and an automatic stabilization function are not deemed to be acceptable options.

This divergence of opinions is also reflected in the debate as to whether the European Stability Mechanism should be transformed into a European Monetary Fund. The German view is that the EMF should be responsible for budgetary supervision, and that financial support should come with strict conditions; by contrast, the French see the EMF as something closer to a de facto budgetary authority for the eurozone.

The role and mandate of the eurozone Finance Minister

Both governments appear to support the idea of a dedicated eurozone minister, although the functions would probably differ depending on which design was adopted. Berlin has talked about a Minister of Finance chairing the Eurogroup, with substantial powers to coordinate economic and fiscal policies, and to ensure that fiscal rules are respected. However, both Macron and the current President of the European Commission, Jean Claude Juncker, argue for a "strong" minister, who is responsible not just for financial control but also for macro-economic management. This would make the minister responsible for managing the budget and investment required to ensure long-term growth.

In this respect, the results of the German general election could lead to a significant shift in that country's position. The agreement between the SPD and the CDU, subsequently ratified by the Social Democrat rank and file, describes a new financial architecture for the eurozone, in line with the reforms advocated by Macron to prevent and mitigate future financial crises. The agreement explicitly refers to strengthening the finances of the EU to enable it to perform tasks such as "providing specific financial resources to deliver economic stability and social convergence, and to support structural reforms in the eurozone, which may provide a starting point for a future budget for the eurozone. We are also open to the possibility of Germany contributing more to the European budget". Indeed, creating a budget for the eurozone is another of the French proposals: "The principle of mutual solidarity must also apply to the European budget, linked to risk and responsibility".

The fact that the next Minister of Finance will come from the SPD opens the door to the possibility that the changes set out in the agreement between the two parties will actually be advocated at Brussels, something that would have been completely unthinkable during the tenure of the previous minister, the hawkish Wolfgang Schäuble.

However, there are two important omissions from the agreement between the CDU/CSU and the SPD:
– The completion of banking union, through the creation of a European deposit guarantee system and public backing for the Single Resolution Mechanism.
– Progress towards debt mutualization.

These are important omissions because, as has already been noted, it is impossible to protect the eurozone from the risk of fragmentation and disintegration in the face of banking, financial and debt crises if there is no progress towards the sharing of risk in these areas.

European Commission proposals

At the start of December 2017, the European Commission published a series of communications setting out its detailed proposals for the reform and deepening of the eurozone.

Firstly, the Commission proposed transforming the inter-governmental European Stability Mechanism (ESM) into a European Monetary Fund (EMF), incorporating it into the *acquis communautaire* and making it accountable to the European Parliament.

Secondly, the Commission also proposed that the inter-governmental Treaty on Stability, Coordination and Governance, also known as the Fiscal Compact, be incorporated into the EU framework to deliver closer control over national budgets.

Thirdly, the Commission proposed creating a eurozone budget, ring-fenced from the EU budget and with three main objectives:
– To co-fund reforms to consolidate the internal market with short-term costs.
– To facilitate the entrance of additional countries into the eurozone.
– To directly stabilize the eurozone against future crises by providing automatic stabilization mechanisms.

In this respect, the Commission identified three potential options: unemployment insurance; a rainy-day fund; or a fund to maintain the level of public investment, to be paid for by regular contributions from the EU budget and/or from Member States. The document favoured the last of these three options, in line with the current version of the Juncker Plan.

Finally, the Commission proposed that, with effect from the next legislature, the eurozone commissioner should also be president of the Eurogroup. This super-commissioner would fill three institutional roles: being in charge of the EMF, the eurozone budget and budgetary coordination of Member States; assuming overall responsibility for the common economic policy of the eurozone; and being accountable to the European Parliament.

The number of documents and legislative proposals that have accompanied the route map make this the most detailed initiative yet presented by the Commission with respect to EMU. These proposals are undoubtedly a step in the right direction and reflect a growing level of consensus regarding the need to make changes at the level of institutional structure, even if some of the proposals are inadequate while others are too vague to represent real progress. In summary, the proposals contained in this package are not sufficient to get to the root of the problem: the lack of greater political union.

In the Commission's view, none of these proposals require Treaty reform, and instead the Commission argues that they could be implemented under the "flexibility clause" in the Treaty of the EU, which makes it possible to adopt certain decisions to achieve the objectives established in the Treaties, by unanimous agreement of the European Council, at the proposal of the European Commission, subject to the consent of the European Parliament.

The creation of the EMF, along with the proposed Minister of Economy and Finance, is one of the main institutional innovations of this process. For the European Commission, the new European Monetary Fund would replace the current ESM, to rescue countries in difficulty, but with strict conditions attached to any support. The most important development is that this Fund would constitute part of the *acquis communautaire*, something which in itself represents a huge step. Moreover, the new EMF would provide a backstop for the Single Resolution Mechanism and act as a lender of last resort to ensure the orderly dissolution of failed banks. The Commission also intends to speed up decision-making in emergencies, and to deliver more direct intervention in the management of financial support programmes. Over time, the EMF may also develop new financial instruments, such as supporting a stabilization function to cope with possible external shocks.

The European Commission proposals were debated at a euro summit in Sweden in December 2017, but the political stalemate in Germany meant that no major decisions could be taken. Given the impossibility of making substantive progress, the only decision taken was to seek to focus efforts during the first half of 2018 on the areas of closest agreement, specifically:

– Approve and implement a financial backstop for the Single Resolution Mechanism (SRM), possibly in the form of a credit line from the European Stability Mechanism (ESM).
– Continue to make progress towards designing the functions of the ESM, potentially for conversion to a European Monetary Fund, as proposed by the European Commission.
– Continue to develop banking union, including gradual introduction of a European Deposit Guarantee System, currently on hold waiting for decisions to be taken about the final design.

Although there are still a number of issues to be addressed with regard to completion of the eurozone, if significant progress is made in the three areas identified above, this in itself would represent significant progress towards stabilizing and strengthening Monetary Union.

Conclusion

The process of reflecting on the future of the EU that the institutions and Member States of the Union are currently engaged in offers a window of opportunity to strengthen an imperfect monetary union which has exacerbated imbalances and social inequality.

The successful establishment of a coalition government in Germany, with a more ambitious European agenda, combined with the stimulus from President Macron and from the new president of the Eurogroup, and the support of a majority in the European Parliament are all positive factors that provide grounds for optimism about the prospects for progress in 2018.

Reform of EMU needs to be ambitious. In this respect, the completion of Banking Union is both a necessary and a minimum condition, but this reform needs to go much further and include both deepening (fiscal and financial integration and the provision of dedicated resources) and rebalancing (addressing social and labour market imbalances) along with increased investment and the adoption of an EU-wide approach that reinforces the Union's democratic legitimacy.

Progress has been limited to date, due to a political stalemate over risk reduction and risk sharing, and more recently due to instability and ungovernability in key countries, notably Germany. However, the structural differences between the countries of the eurozone persist, and Germany and the Netherlands (among others) are not prepared to accept the mutualization of risk while they believe the level of risk to remain so high. It seems clear that this is an excuse to avoid progressing with the much-needed agenda of deepening and rebalancing the eurozone. And we should remember that much of the risk reduction programme has already been implemented, while risk sharing has not been addressed. However, because this risk is actually systemic, the reality is that it is already shared across the eurozone – what has not been shared is the cost.

Without profound reform of Economic and Monetary Union, there can be no solid foundation on which to build the Europe of the future. And the cornerstone of eurozone stability is economic and social convergence between the economy's Member States, which should be an absolute priority for the EU.

Crisis of multilateralism and the EU's external action

Vicente Palacio

Introduction

While the worst of the euro crisis and the resulting social and political crisis is behind us, in early 2018 the European Union's external action has yet to recover the desired profile and tempo. The recent backdrop comprises a chaotic first year for the Trump Administration in the United States, a United Kingdom on the road to Brexit, and the rise of xenophobic right-wing nationalism in many European countries, including Germany. In the new situation, the major powers are in a process of repositioning. This is common to the isolationist United States of Donald Trump; the revisionist Russia of Vladimir Putin; and to the gradually expansionist China of Xi Jinping. The global environment points to a change of era marked by renationalisation, protectionism, setbacks for liberal institutions and Western values and, ultimately, the rise of "illiberal" regimes.

The new wave has triggered a renationalisation of policies and, inevitably, a major crisis of multilateralism on an international scale, a trend clearly running counter to the project of European integration. Europe has been confronted in particular with President Trump's "America First" policy, a combination of isolationism and unilateralism. In spite of that, however, the EU at least maintains some minimum levels of leadership, if we take into account the progress made in the areas of politics, security and defence, or trade.

In these areas, there has been a certain cohesion among the Member States in reaction to the isolationist and protectionist shift of the United States. In parallel with the field of institutional architecture, where in its *White paper* of March 2017 Jean-Claude Juncker's Commission opted for a scenario of "doing more together," in foreign policy too High Representative Federica Mogherini has tried to promote common action from the various partners on several fronts, from European Defence to the advancement of the trade agreements with Canada, Japan or Mexico, taking in the dossiers on Cuba, Venezuela, Russia or Africa. Yet without doubt, it is French President Emmanuel Macron who has spearheaded European, as well as French, external presence in this time and has tried to fill the void left by the US withdrawal from the multilateral system. Similarly, Macron has become the public face of the Franco-German axis abroad, especially during the period of deadlock in Germany from the elections in September 2017 to the forming of a new coalition government in March 2018.

The following is a summary of the most notable features of the recent period in a selection of issues relative to the EU's external action, against the back-

drop of a crisis of multilateralism. It takes in the relations of the Union and its Member States with the major powers (the United States, China and Russia), Latin America, the Middle East and Africa; the chief transversal issues marking the international political agenda: trade and climate change; or enlargement and neighbourhood policy[1].

Suppressed tension with the United States: from TTIP to trade war

Inevitably, relations with the world's greatest power, the United States, have marked European external action in the first year-and-a-half of the Trump Administration, after his inauguration in January 2017. The United States has gradually proven to be, as Council President Donald Tusk put it early in the new US Administration, a strategic threat to the Union, rather than an unquestionable ally. Overall, transatlantic relations have not improved since May 2017. Following Trump's visit to Europe and the NATO summit in Warsaw, both German Chancellor Angela Merkel and Sigmar Gabriel, her foreign minister, expressed deep pessimism about America's status as a "reliable partner" and about the impact of its policies on the West. Since then, relations appear to have deteriorated if anything, both because of a fundamental disagreement over the very conception of politics, the international order or Europe – apparent in a contempt for multilateralism – and because of an impulsive and unpredictable *modus operandi*.

The World Economic Forum in Davos in January 2018 made the terms of the dispute

very clear. In Davos, the Franco-German duo of Macron and Merkel showed firm and solid rejection of President Trump's "America First" doctrine, something on which the rest of the world's leaders such as Justin Trudeau of Canada, Xi Jinping of China, or Narendra Modi of India coincided. It was confirmed then that the political differences with the United States over issues such as climate change, inequality, trade protection, global governance and multilateralism are difficult to reconcile. In a position diametrically opposed to that of Trump, the arguments of Macron, Merkel or Gentiloni revolved around a defence of the best aspects of globalisation – trade and multilateralism –, but from a critical point of view that addresses reforms to compensate the losers and improves the representativeness of the main actors in the international system.

France and Germany's worst fears would soon materialise with the protectionist drift barely two months later. A couple of months of relative calm was shattered by the sound of trade war drums in early March. The US leader picked up one of his central promises during the election campaign, announcing, in the name of "national security," the unilateral imposition of heavy tariffs on imports of steel (25 %) and aluminium (10 %) with a view to protecting American industry. The immediate reaction from Brussels was to announce possible reprisals on a list of certain US products – bourbon, cranberries, peanut butter, or Harley-Davidson motorcycles – aimed at affecting the various sectors and states of America where President Trump enjoys most electoral support. Trump came back with a fresh threat to impose new tariffs on cars from the EU, targeting Germany. Subsequently, a second exploratory phase began, headed by Trade Commissioner Cecilia Malmström and Commission Vice-President for Jobs Jyrki Katainen, giving way to

[1] Separate chapters of this report take an in-depth look at the other two most important external-domestic dimensions of Mogherini's Global Strategy: defence and security policy and migration policy.

talks where Washington's goal appeared to be lowering the duty on American cars from 10 % at present to 2.5 %. In parallel, the Commission launched an investigation to study how the deflection of trade would affect Europe if the United States imposed tariffs on China or third economies. The truce reached on 23 March 2018 by which Europe and countries such as Mexico or Canada would be temporarily exempt from the measures has not succeeded in putting Brussels' mind at rest. Even if Europe is spared the American tariff measures, and they focus only on China, it is highly likely that their imposition will end up distorting trade flows and monetary policies, with collateral effects on European economies.

The threat of a tariff crisis coincides with a moment European discontent over the lack of reciprocity on trade and investment rules on the part of the United States – "Buy American," or the barriers to European services on US soil –, a complaint captured in the conclusions of recent European Council meetings. The discontent is compounded by the fact that the evidence shows that American complaints are hardly justifiable where Europe is concerned. According to the annual Transatlantic Economy Report, for example, the profit of US firms in the EU was $720 US billion to 584 billion of European companies. Yet, above all, the apparent imbalance in favour of the Europeans is down to intra-trade among subsidiaries: US companies produce 60 % of America's imports from Europe. In fact, this framework of sales among subsidiaries on both sides amounts to $5.5 trillion, benefitting both parties.

The threat of a unilateral imposition of tariffs, which contradicts the rules of the World Trade Organisation (WTO), is a core element of the demolition of the multilateral trade system, though not the only one. On the one hand,

there is America's withdrawal from the Trans-Pacific Partnership (TPP) in early 2017 – an agreement, however, that the 11 remaining countries got up and running in March 2018. On the other, threats to tear up the North American Free Trade Agreement (NAFTA) with Mexico and Canada have continued. Negotiations have stretched into 2018 chiefly because of the unacceptable conditions for the other two partners in terms of purchasing obligations and jurisdictional matters on the part of the United States.

In this way, we have gone from expectations of a transatlantic mega-agreement on investment and trade that would lay the foundations for trade in the 21st century – the TTIP, which ultimately fell through – in Barack Obama's term of office, to a scenario of the threat of a tariff war, tension in multiple fields and the attack on the multilateral system. Europe is confronted with a new approach from Washington, according to which the international economy would benefit from US growth based on trade protection and the tax reform in favour of its big business and financial corporations. On the basis of that, the EU's expectations regarding any trade negotiation, beyond this first episode, are inevitably negative, following the imposition of hawks such as Larry Kudlow, the new director of the National Economic Council at the White House, over globalisers such as Gary Cohn. This shift to economic nationalism has its correlation in the field of security with the departure of General McMaster, the National Security Advisor, and his replacement by the hawk John Bolton and in foreign policy, with the replacement of Rex Tillerson by Mike Pompeo as the new Secretary of State.

Despite the gauntlets thrown down by the Trump Administration, the EU appears reluctant to enter into a trade war with the United States, as that could end up seriously harming the close

integration of the transatlantic economy in terms of investment, subsidiaries or jobs. Whether it is a negotiating strategy to raise the pressure, a threat that will not be carried out, or not, the distorting and delegitimising effects on the multilateral system are clear, more so if they come from the world's greatest power, and could create a domino effect, or uncontrollable reactions. Therefore, the EU Member States must come to together to appeal to their American counterpart to establish ad hoc channels of negotiation on trade between the two. In parallel, Europe holds the card of "multilateralising" the trade war issue, not only in the WTO – joining other countries affected by the tariffs –, but also in a major forum such as the G20, with a view to halting the unilateral action on the part of the United States with the collaboration of the rest of the big economies.

"Illiberal" but multilateral China

The real target of Trump's trade war is not so much Europe, but China, which is Trump's object of obsession because of a $375-billion trade deficit, while it is the country that is perceived most negatively in US business circles. Trump's policies caused the EU to find itself blocked into an incipient escalation of a trade war between the two powers in early April 2018 and have complicated the progress of the EU's bilateral agenda with China. The announcement of tariffs on aluminium and steel was followed by the announcement from Beijing that it would be taxing 128 US products – from aluminium to pork, walnuts, wine and fruit. At the end of March, Washington announced further measures to slap $60 billion worth of tariffs on Chinese products and to limit the capacity of Chinese investment in US technology, while declaring that it would be taking

the case to the World Trade Organisation, despite Trump's strong suspicion of the institution.

Europe's position in the face of the war between America and China has changed slightly. The European authorities too have long been suspicious of Chinese trade and investment practices. For example, the opacity of its bidding markets for European companies, dumping, subsidies to industry, devaluation of the renminbi to increase exports, or the purchase of European industries in strategic sectors. However, the EU has always reaffirmed its multilateral approach as the most effective way of putting pressure on Beijing. It is precisely the acceptance of the multilateral system, along with European rapport on issues such as the defence of multilateralism or the Paris climate change agreement – witnessed recently in forums such as the United Nations General Assembly, the G20 or Davos –, that could lay the foundations for a future understanding with China no longer dependant on Washington necessarily.

With Beijing, the Europeans are faced with the paradox of an "illiberal" regime on the domestic front that is gradually expansionist abroad, but which embraces multilateralism and aligns with Europe on certain fundamental issues. At a time when the Chinese regime is concentrating power in the figure of President Xi Jinping, following the 19th Communist Party Congress of October 2017, the Europeans remain hesitant, failing to engage in dialogue or exercise influence sufficiently in a unified manner. Compared with the United States, and relative to China's habitat in Asia, the EU presence remains notably lacking, especially in the geopolitical field of the hard power struggle – economic and military means –, as revealed in the United States' struggle with Kim Jong-un's North Korea, where it played practically no role at all. The same applies to Chinese expansionism in its

southern sea, a vast geopolitical space where the EU barely has a significant presence.

Putin's Russia: revising the status quo

Europe's relations with the Kremlin, which is embarked on revising the global status quo, remain difficult. On the one hand, relations between Putin and Trump appear to follow a calculated ambiguity on both sides, which does not give the Europeans clear clues for taking action. On the other, Moscow, which remains sheltered from a trade war waged mainly against China, poses a challenge to the multilateral system in that, without openly confronting it yet, it uses it or ignores it in a selective and instrumental manner to serve its interests. Examples of that are the development of a mini nuclear bomb, the annexation of Crimea in 2014 or the intervention in Syria in support of Al-Assad. Yet tension with the EU has increased above all because of the covert intervention of Russian agencies in various European elections, such as the Brexit referendum in the United Kingdom, the French presidential elections or the elections in Catalonia, through various propaganda channels and the use of social media.

The Russian action has exposed the different stances and sensibilities of the EU Member States. The fact that officially the EU expresses a desire to reboot relations has been no impediment to a broadening and toughening up of the sanctions related to the ongoing conflicts in Ukraine and Crimea. In March 2018, the Council agreed on a six-month extension, to September 2018, of the sanctions for actions against the territorial integrity, sovereignty and independence of Ukraine, including the freezing of assets and a travel ban on officials and bodies. In December 2017, the economic sanctions on

certain sectors of the Russian economy were extended to July 2018, based on the information provided to the European Council by President Macron and Chancellor Merkel on the state of the implementation of the Minsk Agreements.

However, while the EU is being firm, it does not seem realistic to demonise Putin's regime in view of his overwhelming victory in the presidential elections of March 2018, which could set him up for more than one term of office. The Germans and French are taking a firm stance for now, but they are reluctant to close the door on a direct strategic understanding between Brussels and Moscow, without subordinating to Washington or to a London in the process of leaving the Union. A case that serves to illustrate the current situation is the crisis caused by the nerve gas attack on a former Russian spy and his daughter in Salisbury (England) in March 2018, allegedly perpetrated by an agency answering to the Kremlin. European condemnation, driven by France and, to a lesser extent, by Germany, backing Theresa May's United Kingdom, was not as robust or as swift as might have been expected, while it was left to the discretion of each Member State to expel Russian diplomats or not. At the same time, the internal debate brought to the surface the traditional difference of approach between the countries of the East, the Baltic and the Scandinavian countries – in favour of tougher reprisals – and the Mediterranean countries: Italy, Spain, Greece or Cyprus.

New trade alliances: Canada, Mexico, Mercosur, Japan

With the TTIP fallen through and America's protectionist drift confirmed, the Council, Commission and Parliament turned quickly to

creating new trade alliances, making it a priority to close or renew various trade deals, thereby shoring up the free trade system, now rechristened free and fair trade. The matter has acquired the utmost political importance in the period as one of the pillars of globalisation, along with finance and technological transformation. The shift toward building a new European trade model is now on the front line of the EU's external action, particularly with the partners with which it shares values.

The Comprehensive Economic and Trade Agreement with Canada (CETA) was signed at the end of 2016 and took provisional effect in September 2017, pending ratification by the 27 national parliaments. Now the main task that lies ahead is ensuring it is executed appropriately and rigorously. The European Parliament and the national parliaments should exercise strict supervision over its implementation in terms of social and environmental standards and of the mechanism for resolving conflicts between states and investors. With regard to the renewal of the Global Agreement with Mexico, the European side has strived to keep the bar high on the standards mentioned above, thereby shaping an alternative model to the NAFTA with Canada and the United States and, possibly, building bridges with the new Mexican administration after the presidential elections of July 2018 – at a time when the polls were tipping the candidate López Obrador, a left-wing populist. In March 2018, after nine rounds of talks, there were still sensitive aspects to settle, including the technical obstacles to trade, state-owned companies or subsidies. The date of the final signing remained uncertain. With regard to Mercosur, the EU's main trade partner, negotiations restarted to seal a free trade deal pending since 1999 and picked up again in May 2016. The new international situation and the new

European priorities, as well as the political momentum provided by Argentine President Mauricio Macri, have been a huge help in breaking the initial deadlock. However, expectations of a final agreement by early 2018 were not met, owing to the lack of agreement on issues such as ethanol, the automobile sector and the agriculture and fishing sector. It seemed clear that to reach a final agreement it would be necessary to maintain a high political beat that enables driving a hard bargain in the negotiations. Finally, on the Asian front, as a means of diversifying in the face of an America in withdrawal and a China in expansion, the EU sealed the Economic Partnership Agreement (EPA) with Japan in December 2017, with a view to reducing the chronic trade deficit with the country and saving European firms some 1 billion euros in tariffs.

Global governance of climate change

The EU has found a new badge of identity in this period in the global climate change agenda. It stood firm in the face of the Trump Administration in what is one of its greatest diplomatic achievements to date: the Paris Agreement of December 2015. An overwhelming majority of countries in the international community agreed on a substantial reduction in greenhouse gas emissions. Now that countries such as Nicaragua and Syria have said they would join the agreement, the United States' isolation is even more evident.

It could be said that Trump's announcement that he was taking America out of the agreement in June 2017 served as incentive for even greater European leadership in the field. The EU renewed this huge triumph of its global action two years later, in December 2017, at a fresh climate change summit also held in Paris a

month after another climate conference in Bonn, with the attendance of over 50 heads of state and government, including the presence of representatives of several US states, as well as businesspeople and philanthropists. French President Macron acted as world leader, creating a "counter moment" to the situation created by the US Administration. As he did at the UN General Assembly in September 2017, Macron reaffirmed at the summit that the EU would not renegotiate the climate deal under any circumstances, though he did leave the door open to the US federal government if it decided to return to the agreement at any time. True, the summit did not succeed in securing binding commitments to cut carbon emissions, nor were new funds freed up to facilitate the transition to non-fossil energies in developing countries ($100 billion had been pledged in Paris in 2015). Despite that, and under the impetus of Europe, important commitments were made that serve as signal with a view to the future. For example, the announcement by multilateral institutions such as the World Bank that it would not be financing any more gas exploration or extraction projects after 2019; the announcement by China that it would be launching its own domestic carbon market; the creation of a climate research observatory to put pressure on companies that emit greenhouse gases; or the start of a carbon price market in the Americas that includes regions such as California or Quebec. The road map for the Europeans features an EU-level strategy that allows Member States to make good on the funding pledged in the framework of their national plans for the reduction of greenhouse gas emissions; the reinforcement of the alliances with cities, states, regions and companies (particularly in the United States); or the increase in channels of influence with Beijing to keep China in the deal.

Strategic autonomy: the Middle East

America's new coolness towards Europe has acted as a spur to launch the Europe of Defence and so-called Permanent Structure Cooperation, symbolised in the meeting of foreign and defence ministers called by High Representative Mogherini in November 2017. The usual dynamic of complementarity and tension within NATO and between the EU and NATO has been accentuated by the US demand to raise defence budgets to 2 % of GDP at the Alliance's summit in May 2017. That has given rise to a certain reconsideration of the EU's own strategic line.

The implications of possible greater strategic autonomy have been felt on many fronts and particularly in relation to the Middle East, a geopolitical crossroads where the interests of multiple players meet, both regional – Israel, Turkey, Saud Arabia and so on – and external – Russia and the United States. Trump's dramatic shift relative to Obama's policy in the Middle East – favouring the governments of traditional allies such as Israel and Saudi Arabia – posed a challenge to the EU, which however reacted appropriately, persevering with its own strategic line. On the one hand, it has stood up to Trump's continuous threats to withdraw from the nuclear deal with Iran of June 2015 – a triumph of European diplomacy and of the multilateral approach – and the sanctions imposed on the regime by Washington. Another major break with the United States has to do with the Israel-Palestine conflict. The announcement by Trump in December 2017 that America would be recognising Jerusalem as the capital of Israel – contrary to UN resolutions and the consensus with Europe and the international community on the issue – and moving its embassy to the holy city triggered immediate criticism from community institutions and the various foreign ministries

and exposed a major rift between Brussels and Washington. Lastly, there is America's gradual withdrawal from Syria and Iraq. The retaliatory bombing of military facilities of the Al-Assad regime on 13 April 2018, in response to the chemical weapons attack on the city of Douma and carried out jointly by the United States, the United Kingdom and France, initially created the illusion of a possible return to multilateralism by Washington. However, it is uncertain whether the joint action will continue and lead to something solid beyond the immediate media impact. The underlying reality is that the United States has ceded space in the region to other powers such as Russia, Iran or Turkey. That could prompt the Europeans – once again, with French leadership – to return to the Geneva process for a political transition and consider an increase in its civilian, military, financial, political and diplomatic presence.

A commitment to Africa pending realisation

With regard to Africa, we can talk of three prominent events in the period. One was the G20 Summit in Hamburg in July 2017, which was marked by the leadership and commitment of Germany and of Chancellor Merkel to launch a new approach to Africa. It was about putting the European spotlight on the African continent by the world's major economies. The adoption of a broad agenda in Hamburg, including commitments regarding funding, marked a shift in the way in which the EU is going to interact with Africa – no longer "for Africa," as in the old ways of thinking of the past, of development aid.

A second moment, following on from the G20, was the African Union-EU Summit in Abidjan in November 2017, geared towards de-

fining a sustainable future for a region that the Europeans are starting to see as an opportunity, not a problem. The most spectacular result on the financial plane was the agreement for a 44-billion euro foreign investment plan of a public and private nature, which comes on top of initiatives from the Multiannual Framework or the Fund for Africa. The new approach prioritises key sectors such as youth education and training – in view of the African demographic boom forecast for the coming decades – and balanced and sustainable growth. The end of the previous Joint Africa-EU Strategy (2007-2017) in 2017 and of the Cotonou Agreement in 2020 make a change of course essential. In this area, we could also speak of a certain understanding in the Franco-German axis, with renewed interest from France and from other countries such as Spain, which traditionally has had a lesser presence but which has huge potential for reaching into the region. Lastly, in a third moment, Macron made an extensive tour of several African countries in January 2018. The tour, while not without controversy, served to illustrate not only the need to change attitudes from the past on both sides, Europe and Africa, but also to see that the success of the new partnership will largely depend on the capacity of the European partners to leave old attitudes behind, to "Europeanise" their policies and see Africa as a player with which to cooperate and not as an area to compete among one another.

Latin America: regionalism and multilateralism in crisis

The attacks on the multilateral system from the neighbour to the north, the United States, coincided with a time of certain political decline of

the main bodies of regional integration and multilateral forums in Latin America and the Americas, from the UNASUR to the CELAC, taking in the OAS. Mexico in particular has gone through a tricky time, both because of the controversy of the Peña Nieto presidency with Trump on migration issues – DACA or the wall – and the difficulties in renegotiating the NAFTA with the United States and Canada. Similarly, the delicate situation in major countries with various elections in 2017 and 2018, such as Mexico, Brazil, Argentina and Colombia, undoubtedly influenced a trend towards introspection and a neglect of multilateralism. Paradoxically, the decline went hand-in-hand with a certain awareness of the opportunity to revive integration in a context of US withdrawal, although it has not materialised yet – perhaps with the exception of the Pacific Alliance. On the other hand, with regard to the EU, there has indeed been a significant revival in the area of the trade treaties mentioned above: EU-Mexico, EU-Mercosur and EU-Chile. The EU, with Spain at the head, has continued to send signals to the region that Latin America matters, irrespective of the change of election cycle.

A prime example of this relative weakening of the regional and multilateral architecture was the postponement of the 3rd CELAC-EU Summit scheduled for October 2017 in San Salvador and put back to 2018, mainly owing to the Venezuelan crisis. A common feature running through the recent period is the divisive factor of the "Chavism" of President Nicolas Maduro and the Venezuelan crisis, aggravated by the dissolution of the Parliament, the creation of a Constituent Assembly and the calling of elections for May 2018. The polarisation has been felt in regional meetings and forums, pitting Caracas against the Mercosur, the UNASUR and the OAS, for example; in the electoral processes

in neighbouring countries such as Cuba or Venezuela; and in relations with the EU too. As a new "common position" of the EU Member States, Brussels has imposed sanctions on senior officials of the Maduro regime since early 2018, on top of those applied in November 2017. Europe is faced with a difficult prospect following the failure of the negotiating team headed by former Spanish Prime Minister Rodríguez Zapatero. In the short term, there appears to be no other way but to keep up the pressure through selective sanctions and encourage dialogue despite the setbacks. Yet the most important thing, with Spain at the head, is to actively accumulate a critical and regional diplomatic mass (CELAC, UNASUR) to avert the scenario of an outright civil war and humanitarian crisis. On Cuba, meanwhile, European action remains firm in the terms of the Dialogue and Cooperation Agreement, while in April 2018 the replacement of Raúl Castro took place. With the full support of European diplomacy and the High Representative, Brussels is moving towards positive incentives to make progress on economic efficiency and a certain political liberalisation.

Dilemmas of enlargement: the Balkans and Turkey

Lastly, against a backdrop of Brexit, Euroscepticism and a general withdrawal into nationalism, we must highlight how important the issue of enlargement to the neighbourhood has become again. The matter has been reopened on two fronts: the Western Balkans and Turkey.

On the one hand, we have the Western Balkans. The Juncker Commission, which began its term of office ruling out any possibility of new enlargements owing to the crisis and certain "fatigue," has subsequently made a dramatic

shift, to the extent that in February 2018, it expressed its determination to enlarge the Union to the six Western Balkans countries of Serbia, Montenegro, Bosnia-Herzegovina, Macedonia, Kosovo and Albania by 2025. However, voices have been raised calling for the new Balkans strategy to carefully modulate the accession process. It comes at a crucial moment in the reconstruction of the European project and is problematic in itself in that there are pending issues such as: economic reforms, persistence of high levels of corruption, internal disputes between countries of the area, human rights, or even the non-recognition of Kosovo by five EU Member States, including Spain. Against this background, it seems prudent to stagger the process of accessions through very strict monitoring. The recent Sofia Summit in May 2018 as well as the European Council in June seem to point to a third alternative route, both to a rapid adhesion and to closing doors to new candidates. In this regard, President Macron has advocated allowing new accessions to the culmination of the reform of the Union, as well as a significant advance in sub-regional integration among the six countries involved - which would eventually be backed politically and financially by the EU and its Member States.

As for Turkey, the door to accession appears to have shut owing to the authoritarian moves of President Recep Tayyip Erdogan's regime in terms of human rights and freedoms, a drift that the mass jailing of journalists well symbolises. This situation will block progress on the EU accession process, despite the effectiveness of the deal with Ankara to put a brake on irregular immigration. As positions become more inflamed – with Germany too – and Turkish authoritarianism become more pronounced, there is a growing perception among the still 28 Member States that the present model of relations no longer fit

for purpose. Because of that, the EU may be heading for a shift toward a more pragmatic and realistic relationship, opening diplomatic and political channels for resolving specific issues, such as migration, the conflicts with Cyprus and Greece, or policy on the Middle East, which could restore a better political climate in the medium term.

Conclusions. From multilateralism to "Eurolateralism"?

Paradoxically, one of the consequences of the isolationism, of the abandonment of multilateralism and of the protectionism on the part of the United States is that it has served to unite the European partners in defence of their principles, at least rhetorically, though major results have yet to materialise. Trump and Brexit did not hamper, but even reactivated significant progress on some issues. The most notable developments have been in connection with the United States and to quite a lesser degree, with Russia and China. There has been significant progress on trade policy, on defence and security, on the environment, on specific regional dossiers, or on the window of EU enlargement.

In the light of events over the last year, what can we expect of the Member States and the Union as a whole in the immediate future? The current moment is one of fluctuation between a "leap forward" and stagnation. Following the elections in France and the forming of a coalition government in Germany, the path appears to be clear to starting the Franco-German engine of major reform in the EU, which means Europe's external action could enter a phase of change and progress in many fields. The leadership to sustain a multilateral order with a suitable place for Europe requires synchronisation be-

tween France and Germany, but that is not all. More players must come on board. In that respect, with the United Kingdom in the process of leaving, opportunities are opening up for Member States such as Spain.

The response of the EU and its Member States to the crisis of multilateralism is capable of materialising in three ways. First, renationalisation, division and decline in integration and, therefore, a dispersion of external action. Second, a rearrangement dependant on the other major powers, acting reactively to the United States, China and Russia. And third, the most desirable, a "Eurolateralism" consisting of asserting all the economic, political and cultural influence of the EU to structure a world in the 21st century based on rules more favourable to European positions, interests and values. According to this option, with the current constellation of leaders such as Trump, Putin or Xi Jinping, the response of the EU and its Member States would not be "Europe First," but a multilateralism reformed and led by the Europeans, in the image of the best of the EU. There appears to be no other option that will enable the EU to survive in a hostile environment like the present one.

A major new commitment by Member States in defence and security: Permanent Structured Cooperation (PESCO)

Francisco Aldecoa Luzarraga

General issues

In the corresponding chapter for last year's report – *The Defence Policy of the European Union within the Framework of a Global Strategy on Foreign and Security Policy* – I argued that the Common Security and Defence Policy (CSDP) was making progress. Since then, we have seen an acceleration of the pace of change, with the implementation of Permanent Structured Cooperation (PESCO) by 25 countries.

The challenge now is to ensure that the train does not derail as it picks up speed. One year ago, we stated that "the key innovation in this area has been the transformation of security and defence policy: while the previous policy (the European Security and Defence Policy) primarily consisted of overseas crisis management, the new approach constitutes a comprehensive defence policy, entailing an obligation of mutual defence in the event of external aggression against any EU Member State".

Confirmation of this can be found in the development of the CSDP and the implementation of PESCO, designed to ensure the credibility of this defensive alliance. At the time, we also identified two significant steps that had been taking during 2016: "The first of these is the Global Strategy on Foreign and Security Policy, which involves agreement based on common values and seeks to intervene pragmatically in the regulation of global governance through the joint action of a stronger Europe. And, in order to achieve this goal, we are seeing the development of a strategically autonomous defence policy designed to defend citizens and territories. The second step is to be found in a series of concrete decisions that have been taken in the sphere of defence policy (some of them endorsed by all 27 remaining members

of the EU) with the aim of achieving the objective of strategic autonomy based on an autonomous defence capability".

The main development of the last year is the start of PESCO, and we will therefore analyse the factors that facilitated this development, the reasons behind it, and the scope and content of this cooperation, which is already starting to bear fruit.

We will also consider the question of EU-NATO compatibility, given that the EU has historically been a political and economic organization, with additional security or crisis management operations, but is now acquiring a defence function, while NATO has moved in the opposite direction, starting out as a defensive organization but also acquiring security functions. As a result, it is possible that conflicts may arise.

Finally, we will consider Spain's participation in PESCO, along with the paradox of the British position, which has shifted from opposition to a desire to participate. We will also discuss the lukewarm attitude of the United States, before considering whether PESCO constitutes the first step towards a European version of NATO, which may be incompatible with the larger organization.

What is PESCO?

The idea of PESCO was first mooted at the Convention on the Future of Europe (2002–2003) and was reflected in the Draft Treaty establishing a Constitution for Europe. Although this treaty never came into force, its key elements found expression in the Treaty of Lisbon, with Article 42.6 TEU referring to permanent cooperation as follows: "Those Member States whose military capabilities fulfil higher criteria and which have made more binding commitments to one

another in this area with a view to the most demanding missions shall establish Permanent Structured Cooperation within the Union framework".

Protocol 10 (annexed to the TEU) established that this cooperation would take effect by 2010. However, TEU itself only actually came into force in December 2009. As a result – and due to a number of circumstances, in particular the economic crisis – the Protocol did not take effect until December 2017.

The fundamental aim of PESCO is to implement the defensive alliance commitment established in Article 42.7 TEU, which states: "If a Member State is the victim of armed aggression on its territory, the other Member States shall have towards it an obligation of aid and assistance by all the means in their power". This article is very similar to Article 5 of the Washington Treaty, which established NATO.

The EU has conducted more than 35 crisis management operations, both civil and military, since the start of the millennium, as part of the CSDP. However, these operations were not performed for the purposes of territorial defence. The innovation introduced by Article 42.7 was the obligation to defend the territorial integrity of all Member States. To this end, the Treaty created PESCO. The decisions taken in December 2017 were the start of the process of achieving this objective.

The European Security Strategy, presented on 28 June 2016, transformed this legal agreement into a political commitment, obliging the EU to defend its citizens and its territories. It established the principle of strategic autonomy, which means that within a period of five to ten years the EU should have the necessary capacity to respond to potential attacks autonomously.

Why is PESCO necessary?

Why do we need to strengthen the autonomous defence policy and PESCO? In my view, there are at least three key reasons why PESCO is needed today. These are:

– The gradual escalation of risks and threats in neighbouring regions, which shows no signs of slowing, particularly since 2014. These endanger not just individual Member States but the EU as a whole, its political and social model, and the values that underpin it. A collective response is therefore required.

– A global political player must be responsible for its own defence and cannot subcontract it to others, as currently occurs with NATO. If it wishes to be an independent player in the political world, the EU must take responsibility for defending its citizens and its territory, and this issue is all the more pressing as a result of the actions of the new United States administration under President Trump.

– Over recent years, and in particular since November 2015 (the date on which the defensive alliance clause was activated in response to terrorist acts in France) internal and external security have become more closely linked, making defence policy a key component of anti-terrorism strategies. The two areas are opposite sides of the same coin.

Among the changes in 2017 and 2018 that have driven the implementation of CSDP and PESCO, it is important to stress the impact of Brexit in promoting cohesion between the remaining Member States, and between these and the institutions of the EU, particularly since 2017, when the European Council of 30 April agreed a common position with respect to negotiations, with the backing of the European Parliament. The completion of the preliminary stages of negotiations with the United Kingdom on 8 December 2017 and 23 March 2018, with the EU achieving almost all of its objectives, demonstrates the new political climate in the 27-member EU.

Moreover, the new President of the United States, Donald Trump, is acting as an external driver of cohesion, at least in defence issues. His erratic approach to foreign policy is forcing the EU to take the initiative, and this is speeding up the EU's decisions in several areas, particularly with regard to defence.

The economic situation has also changed radically from the one that prevailed in 2009. Over the course of 2017, the eurozone grew more quickly than the United Kingdom – for the first time – and faster than the United States, Japan or Russia, a trend that it seems will be repeated in 2018.

At the same time, there is a change in the perception of EU citizens with regard to the need to develop the European project, with survey results such as Eurobarometer December 2017 finding that a very high percentage of citizens support the immediate implementation of an autonomous defence policy.

In this sphere, a particularly important development has been the design and implementation of the Global Strategy on Foreign and Security Policy, as a result of which we have seen decisive action over the last two years in the form of an evolving European foreign policy and, in particular, the implementation of a common defence policy, the principal instrument of which is PESCO.

Why was PESCO created?

PESCO is necessary to lend credibility to the defensive alliance, promoting the strategic autonomy established in the Global Strategy, thereby

consolidating the EU as a global, normative and diplomatic player with an increasing role in global governance, providing the external dimension of the EU's internal model. It is important to note that defence policy is not an adjunct of foreign policy, but rather an essential means of ensuring that the EU can operate without its activity being constantly conditioned by external military pressures.

This means that the EU's presence and influence in the world will never be the result of its military capacity, as is the case with other powers, but will instead reflect the defence of its common values and shared interests and its vision of the world, which differs from that of other international agents, as a result of the EU's social model.

This international influence is exercised through instruments such as trade policy, expansion and partnerships with neighbouring countries, humanitarian aid, development policy and culture. However, this requires a collective defence capacity that includes the option of exercising the legitimate right to self-defence by using force in the face of external aggression.

PESCO was created to give effect to the principle of strategic autonomy, as set out in the Global Strategy. This also established the goal of being able to defend the EU's territory and its citizens without recourse to support from other states. The method for achieving this objective is through PESCO, which is designed to prepare the defensive capacities required to deal with any threat which endangers the territorial integrity of Member States.

PESCO is designed to ensure that the EU maintains its international standing and to enable it to defend international law. Its purpose is to give force to the principle of legitimate collective defence, enabling the use of rapid intervention capacities and their deployment in the face of external aggression which threatens the territorial integrity of Member States.

The implementation of PESCO in 2017 and 2018

During 2016 and 2017, a number of steps were taken towards the creation of an EU defence force, including the Bratislava Declaration on a new relationship with NATO, the European Defence Action Plan, progress to achieve operational capacity, the creation of an operational HQ, the Commission's European Defence Fund and, in particular, significant progress towards PESCO.

The Joint Declaration of the President of the European Commission and the Secretary General of NATO, following the informal meeting of 27 EU Defence Ministers on 26 and 27 September 2016 in Bratislava, stated that the EU and NATO are seeking a new relationship based on mutual aid and cooperation, confirming a new climate and acceptance of the Global Strategy. The declaration contained a set of conclusions adopted by the respective councils, including more than 40 proposals. This declaration broke the deadlock in the relationship between the two organizations, making it possible to implement PESCO, which had been the object of some suspicion on the part of NATO.

In June 2017, the European Council decided to activate PESCO, establishing a period of three months for Member States to commit to participating in the project, under the terms established in the agreement. After evaluating these commitments, the Foreign Affairs and Defence Council of 13 November 2017 decided to move ahead, and the Ministers of Foreign Affairs and Defence signed the joint notification. Of the

EU's 27 Member States, only Denmark and Malta decided not to participate in PESCO. Nor, of course, will the United Kingdom be a member. The European Council of December 2017 then took the final decisions for immediate implementation.

Some observers consider that the version of PESCO that has been adopted does not fully match the provisions of Articles 42.6 and 46 and the content of Article 1 of Protocol 10, as these establish that cooperation is for those states that wish to participate and have the requisite military capacities (in a manner similar to the convergence criteria for Economic and Monetary Union).

This solution was a consequence of the German proposal to include all members in PESCO, with the aim of strengthening unity and a sense of belonging. This contrasted with the French position that membership should be restricted to those states which possessed both sufficient military capacity and the willingness to deploy against potential aggression: in other words, those states that satisfied the criteria set out in the Protocol.

The solution adopted seeks a formula which reconciles these two positions. On the one hand, almost all Member States (25 out of 27) will be included; on the other, France, Germany, Italy and Spain will form a hard core of countries that are prepared to make a deeper commitment and implement the genuine mandate of the Second Paragraph of the Protocol. This means that, in practice, defence issues will be decided by the four members with the necessary military capacities. As a result, implementation of PESCO is proceeding rapidly.

Compatibility with NATO

As noted earlier, there is some overlap between the functions of NATO and the EU, with the latter taking on some of the defensive capacities that were previously the exclusive domain of the former.

This raises the question of the relationship between these two organizations. The generally accepted view is that they are compatible, and that the relationship is one of reciprocal autonomy rather than hierarchy. However, NATO has a deterrent capacity which the EU lacks and will thus remain, at least for the time being, the basis of collective defence for its members.

In this respect, the Principle of Compatibility is set out in Protocol 10, which states "the North Atlantic Treaty Organisation … remains the foundation of the collective defence of its members, and is compatible with the common security and defence policy established within that framework".

The current situation of increasing threats on the eastern border of the EU means that some states which do not belong to NATO – such as Sweden and Finland – are particularly interested in the need to make this defensive alliance credible and are therefore pushing to strengthen the EU's capacities, something they hope to achieve through PESCO.

While the relationship between the two organizations has always been somewhat uneasy, the Warsaw Declaration and the Bratislava Declaration on Cooperation by the EU and NATO in September 2016 went some way towards solving this problem. However, while the Warsaw Cooperation agreements certainly strengthened the relationship, it is also true that the creation of PESCO has aroused some suspicions on the other side of the Atlantic.

As a result, at the Atlantic Council of 10 February 2018, the United States representative raised objections to the development of PESCO, and these doubts have been echoed in other international forums, such as the European Security Conference in Europe a few days later, or the NATO Parliamentary Assembly of March 2018.

This concern is based, among other things, on the view held by some in the United States that the development of the CSDP and in particular of PESCO will reduce the purchase of military hardware from the United States.

The British paradox with respect to defence policy and PESCO

The first thing to note is that, throughout its membership of the EU (for more than 40 years) the United Kingdom opposed the development of a security and defence policy. In particular, during the last decade it slowed down implementation of PESCO and other security and defence initiatives. And the United Kingdom government's letter notifying intention to withdraw from the EU under Article 50, on 29 March 2017, specifically mentioned the possibility that, if no acceptable economic agreement were reached, the United Kingdom might weaken its ties in the areas of security and defence.

A year on, the situation has changed substantially and the EU has successfully concluded a pre-agreement on the first phase of negotiations (8 December 2017) which reflects the EU's initial goals rather than those of the United Kingdom, and has also made substantial progress in the development of its defence policy. This reflects the cohesion between Member States, which increased significantly as a result of the British withdrawal, enabling the EU to present a united front in its negotiations with the United Kingdom.

The paradox lies in the fact that the United Kingdom government's Foreign Policy, Defence and Development report of September 2017 states that, in defence and security issues, the United Kingdom hopes to participate decisively in all initiatives, despite no longer being a member of the EU. This has been confirmed by a number of more specific public statements by the United Kingdom.

Even more recently, at the Munich Security Conference on 17 February 2018, Prime Minister Theresa May called for the rapid agreement, prior to the withdrawal date of 30 March 2019, of a Defensive Alliance Treaty with the EU and participation in the new defence structures. In other words, after having previously opposed the development of the defensive alliance, the United Kingdom – following its decision to leave the EU – now wants to participate in this initiative.

Following the pre-agreements adopted at the European Council on 23 March 2018 – which establishes a transition period of 21 months following the United Kingdom's departure on 30 March 2019, taking us up to 31 December 2020 – almost all of the elements of the United Kingdom's membership of the EU will be extended, other than its participation in European institutions. As a result, its existing security and defence commitments will also be extended until the end of 2020.

However, the future relationship between the EU and the United Kingdom in all spheres – including security and defence – will have to be agreed in the coming months. This will be far from easy. In principle, there are no plans to extend the transition period, although such a development cannot be ruled out. It is worth noting that the United Kingdom, which wanted a rapid and comprehensive withdrawal, was now the one asking for the final exit date to be postponed through a transition period of two or

three years, although the EU eventually set this at 21 months.

With regard to the European defensive alliance, it is particularly important to note that the United Kingdom, which has raised many doubts about the initiative, now views it positively. This is despite initial fears that the United Kingdom's departure would weaken the CSDP and the defensive alliance.

Spain's participation in the CSDP and PESCO

Over the last 15 years, Spain has been one of the EU's biggest contributors to civil and military crisis management, in terms of personnel and the number of operations. It is currently participating in all six of the EU's ongoing military operations, performing a major role and, in some instances, directing operations.

With the implementation of PESCO, Spain is one of four countries playing a central role – along with France, Germany and Italy – participating in 9 of the 17 projects approved by the PESCO Council on 2 March 2018. And it is leading one of the most significant of these: the command, control and leadership system for CSDP missions and operations, which may be transformed into the new HQ.

It should also be noted that several crisis management missions are under Spanish leadership, and two Spaniards hold senior positions in the CSDP: Pedro Serrano de Haro is Deputy High Representative with specific responsibility for the CSDP; and Jorge Domecq is Executive Director of the European Defence Agency.

Once again, it should be stressed that the development of PESCO is of great significance to Spain, a country whose threats and hazards come primarily from the south. In the functional distribution which has been established (at least implicitly) between NATO and the EU, southern Europe is the responsibility of the EU while systemic threats from the east are, in the first instance, the responsibility of NATO. And we should also remember that Ceuta and Melilla are not covered by Article 6 of the Washington Treaty, but they are protected by Article 42.7 TEU.

In January 2018 Spain gained agreement to establish the Galileo Programme's Vigilance and Security Centre at San Martín de la Vega, near Madrid. Galileo is the European satellite navigation system, whose purpose is to monitor and prevent any threats to the operation of one of Europe's most ambitious telecommunications projects, and it will compete with the US system from 2020, once its 30 satellites are all in orbit. It is currently based at Swanwick in the United Kingdom and at present is only used for civil purposes, but there is no question that it could also have a military function.

Spain also hopes that the HQ for Operation Atalanta, the counter-piracy mission in the Indian Ocean – currently based at Northwood (United Kingdom) but due to be relocated after Brexit – will be transferred to the Spanish naval base at Rota, although the Italian government has also proposed Naples as a possible location.

To what degree could PESCO constitute the European NATO?

NATO's key achievement has been to maintain the peace and security and territorial integrity of its members for seven decades, as a result of the deterrent threat of a permanent military organization which is prepared to implement the defensive alliance commitment established in Article 5 of the Washington Treaty.

PESCO shares the same basic objective as NATO, seeking to lend credibility to the defensive alliance established in Article 42.7 TEU by establishing a permanent military organization, with the aim of achieving strategic autonomy so that it is able to deal with potential aggression independently, without having recourse to NATO.

The agreements adopted in December 2017 with respect to the creation of PESCO represent a major new commitment by Member States in Defence and Security. And the decisions taken during the first months of 2018 constitute significant progress.

Although this does not mean that success is inevitable and that an autonomous defence policy will necessarily be created soon, it is important to recognize that – over the course of the last two years and particularly during the last twelve months – good use has been made of the window of opportunity created by the UK's decision to vote for Brexit on 23 June 2016 and its subsequent notification of withdrawal on 29 March 2017.

We can therefore conclude that, over the past year, there has been progress in developing the CSDP, along with a major step towards the final approval and implementation of PESCO, which heralds the start of constructing a permanent, autonomous military defence capacity by 25 EU Member States.

At the same time, we cannot say with certainty whether the EU, through its development of the CSDP and, principally, the application and implementation of PESCO, will be able to defend itself against potential external attacks solely through its collective defence structures without requiring the support of NATO.

Digital innovation needs welfare

Daniel Buhr

Introduction

Industry 4.0, Smart Health and e-Government: increasing digitalisation is about to enter all areas of the economy and society. This brings change with it, also for the political institutions and the welfare states. Digitalisation is changing not only production and consumption, but also how participation in politics and society is organised; how states and governments provide social services; how participation in the labour market works; how health care services are delivered and so on (Eichhorst and Rinne, 2018); (Buhr *et al.*, 2016). However, the welfare states itself, are powerful stimulators for change and innovation as well. Therefore, a number of fundamental questions need to be answered. On the one hand these questions deal with the effects that digitalisation might have on the welfare state, i.e. the health-care systems and the labour market? How far have developments in individual welfare states progressed? What further developments can we expect? On the other hand, however, we could also ask, how policy makers will use the welfare state in order to foster innovation?

In this article, above mentioned questions will be discussed. The analysis is based on a study design by Claudia Christ, Marie-Christine Fregin, Rolf Frankenberger, Markus Trämer, Josef Schmid and myself (Buhr *et al.*, 2016) that was conducted on behalf of the Friedrich-Ebert-Foundation. It focuses on a comparison of seven welfare states: Estonia, France, Germany, Italy, Spain, Sweden and the United Kingdom. One objective of this study is to compare the development of, as we call it, external and internal modernisation in different welfare states. It will provide an insight into comparative welfare state research, which forms the basis for selecting the seven European countries under examination.

Digitalisation and the welfare state

With the increasing digitalisation and interconnectedness of business and society in the twenty-first century, the capitalist production regimes of contemporary industrial societies are changing fundamentally. On the one hand, these innovations create new opportunities for cooperation and production, while, on the other hand,

they force these societies to adapt. This requires people to have special knowledge, skills and abilities so that they can function in the "new digital world". More and more tasks are being performed by machines and new tasks for people are emerging that demand new skills.

The technological revolution not only influences production regimes and individuals, but also has a far-reaching impact on society as a whole and on social protection systems. If the production regime changes, this generates specific problems, difficulties and needs that need to be compensated for by the state and society. This usually takes place via welfare systems because capitalism and welfare state are two sides of one and the same coin (Offe, 1972), their specific institutional arrangements are closely intertwined. Both systems – the industrial production system and the welfare state redistribution system of social protection – are subject to digital change. However, whereas production systems change and adapt rapidly, the redistribution systems of welfare states are path-dependent and persistent. As a result, existing welfare state structures are coming under pressure and having to adjust. Here, digitalisation essentially has two different impacts on the welfare state:

– Digital transformation is creating a new age of industrial production, "Industry 4.0". This can be termed an external modernisation effect on welfare states. By altering production and disseminating information and communication technologies and automation, new demands arise for labour in general and for employees in particular (*cf.* Autor, 2015). The processing of these changes and challenges needs to be supported by the welfare state.

– Digitalisation of the welfare state is causing internal modernisation effects. They are related, on one hand, to the digitalised administration of welfare and the technical environment, such as the proliferation of internet connections and broadband expansion. On the other hand, internal modernisation involves developing the individual skills and abilities that digitalisation requires with regard to information pro-cessing, in order, for example, to take part in the community and the labour market. The question of how the welfare state handles (new) social inequalities – known as the "digital divide" – and what solutions might be found to counter the effects of digitalisation goes hand in hand with this.

If external and internal modernisation are in equilibrium, social innovation (i.e. work 4.0) could also arise from technical innovation (i.e. industry 4.0). This not only drives Industry 4.0, but also transforms the welfare state in the direction of Welfare 4.0?

The worlds of welfare capitalism

In comparative welfare state research, a distinction is made between different types of welfare state (*cf.* Buhr and Stoy, 2015). They reflect the relevant experiences of each state's national political and social history, as well as the political balance of power. Here, the emphasis is on the seminal work done by Danish sociologist Gøsta Esping-Andersen (1990), which resonated widely and is still of great significance today. His "three worlds of welfare capitalism" categorise states as either "liberal", "conservative" or "social democratic". Each of these types follows a historically evolved development path and has its own logic with regard to the organisation of social policies, pattern of social stratification and inequality (in particular in the employment system), and forms of social integration or exclusion (Schmid, 2010). Esping-Andersen (*cf.*

1990) defines three dimensions that have different effects on the different welfare types: decommodification, stratification and residualism.

– Decommodification refers to the relative independence of the social security of the individual from the pressures and risks of commercially oriented ("market") policy and decision-making. In other words, the higher the level of decommodification, the lower the individual's dependence on selling work as a commodity in order to secure their own survival. This is achieved via the type and amount of social security benefits.

– Stratification refers to the vertical and horizontal economic and social segmentation of society. This involves describing social inequality in terms of income and social status. By pro-viding social security systems and benefits, the welfare state is an instrument of redistribution "to influence and, where applicable, correct the social inequality structure" (Esping-Andersen, 1998, p. 39). At the same time, different types of welfare state themselves generate a specific form of stratification.

– Residualism is understood as the specific interplay between market, state and family with regard to individuals' social security and therefore the extent to which the state intervenes in this mixed relationship between private and public provision.

Esping-Andersen (1990) used the above dimensions to develop three ideal-types. The emphasis in a "liberal" (or "Anglo-Saxon") welfare state model is on a hands-off state social policy that focuses on those deemed most in need, supports the welfare production functions of the commercial sector and leaves other welfare production to private providers and the family (Schmidt, 2004). The overall decommodification effect is weak, with social entitlements set at a

low level and means-tested on a case-by-case basis. There is a stigma attached to applying for such entitlements. One example of this type is the United Kingdom. Others include Canada, the USA and Australia.

The "conservative" (or continental European) welfare states are based on strong state social policy in which the emphasis is on insured individuals maintaining their status. Such states are characterised by a Bismarck-style social insurance model in which the socio-political role of commercial interests is usually low, while that of the family is prioritised in accordance with the principle of subsidiarity (Schmidt, 2004). Associated with the principle of subsidiarity is the influential role of the churches, which also play a key role in ensuring that traditional family forms are preserved (Esping-Andersen, 1998). In contrast to the "liberal" model, the decommodification effect is more strongly developed and the state intervenes more strongly. Social rights are linked to class and status, which leads to the mainte-nance of status and group differences. Examples of this welfare type include Germany, France and Austria.

"Social democratic" (or Scandinavian) welfare states are based on a social policy characterised by universalism, strong decommodification and ambitious ideas of equality and full employment. The aim here is to minimise dependence on commercial interests and family. Decommodification effects are most strongly felt in such states. Examples of this type are the Scandinavian countries of Sweden, Norway, Denmark and Finland.

Chart 1 (from Schmid 2010) summarises the key features of the three types of welfare state systematically compared in triangular form. This clearly shows Esping-Andersen's ideal categorisation and indicates the mixed forms that actually exist.

In the meantime, Esping-Andersen's approach has been extended to include two additional welfare state types: first, the rudimentary or "Mediterranean" welfare state type, which expressly includes the countries of southern Europe (Spain, Portugal, Greece, and to some extent Italy), and second, the post-socialist welfare state type found in the transitional political systems of central and eastern Europe. The Mediterranean welfare state is characterised by the stronger role of the family and the lower level of social benefits (Leibfried, 1990; Lessenich, 1995). This group consists of less industrialised, structurally weak and poorer countries. Social security systems in this group of countries are typically only partly developed and welfare entitlement has no legal basis (Schmid,

2010). One specific feature of this type is the high degree of employment protection.

The collapse of the Soviet Union and the transformation of its former Member States have resulted in a further welfare model being added. Götting and Lessenich (1998) describe the post-socialist welfare state as an authoritarian re-modelling of the social democratic welfare type (*ibid.*, p. 272). The transformation towards a welfare system in accordance with the western European model is described as gradual and features both old and new characteristics. According to Götting and Lessenich (1998), the post-socialist states are a mixed form: "the post-communist welfare states are currently institutional hybrids" (*ibid*., p. 274).

Type of welfare state liberal	
Variables/indicators	
Decommodification	weak
Residualism	strong
Privatisation	high
Corporatism/statism	weak
Redistribution capacity	weak
Full employment guarantee	weak

Types and dimension of the welfare state according to Esping-Andersen

Type of welfare state social democratic	
Variables/indicators	
Decommodification	strong
Residualism	weak
Privatisation	low
Corporatism/statism	weak
Redistribution capacity	strong
Full employment guarantee	strong

Type of welfare state conservative	
Variables/indicators	
Decommodification	medium (?)
Residualism	strong
Privatisation	low
Corporatism/statism	strong
Redistribution capacity	weak
Full employment guarantee	weak (?)

Chart 1. Types and dimensions of welfare states according to Esping-Andersen

Why these cases

To answer the core research questions of this study, a comparative design was selected. This process examines in particular the development paths and responses of various welfare states to the challenges and opportunities of digitalisation. Countries were selected on the basis of the various welfare state types distinguished by Esping-Andersen and Lessenich, with examples of each of the five types included in the examination. Germany and France represent the "conservative" welfare state type, Sweden the "social democratic" welfare model and the United Kingdom the "liberal" welfare state. Estonia is primarily considered to be a post-socialist welfare state given its collectivist welfare structures in many areas, even if the country today exhibits a number of "liberal" characteristics following the comprehensive economic and social state reforms that took place after independence: a very low proportion of social spending (14.8 % of GDP), above-average income inequality, a very low level of organisation of workers and only a very weak institutionalisation of labour market relationships. Spain and Italy are included here as examples of the "Mediterranean" welfare state. While Spain is a classic representative of this type, Italy may also be considered a "conservative" welfare state, given the dominant role of social insurance and, at the same time, the fairly passive role of the state. There is disagreement among researchers over this classification, however. According to Ferrera (Ferrera, 1996); (see also Lynch, 2014), Italy belongs to the group of "Mediterranean" welfare states, but the latest social state reforms point towards a gradual departure from this in the direction of the "conservative" model.

The worlds of digitalisation

The European Commission is prioritising digitalisation in the ongoing development of the European Union at social and economic level. The creation of the digital single market has been one of the priorities of the European Commission since 2015. A number of core objectives were set out in the Digital Single Market Strategy for Europe. As well as creating trustworthy and powerful technical infrastructure and reducing digital barriers and the digital divide, key targets include improving digital skills among citizens and adminis-trations, investing in research and development and enhancing digital public services. To accompany the process of digitalisation, a monitoring instrument was implemented in the Digital Economy and Society Index (DESI), which enables individual countries' progress to be benchmarked (*cf.* European Commission 2017). Examination of the comparative data on the status of digitalisation across EU states reveals sometimes huge differences between the aspirations and reality of digitalisation. Even average data speeds in broadband and mobile networks and the shares of fast broadband connections vary widely between countries. While the Nordic countries of Sweden, Finland and Norway, as well as Belgium and the United Kingdom – and to a lesser degree Germany – have above-average speeds in both broadband and mobile networks, it is mainly the southern European states such as Greece, Croatia and Italy, as well as France that clearly need to catch up to some extent in both areas.

Even if the EU Member States fare relatively well by international comparison in terms of technical infrastructure and are generally ranked in the third of the world, there is also considerable need to catch up, particularly in the area of

connectivity. However, technical infrastructure is only one of many factors that are important for the development of a digital society. If the dimensions used in the DESI (European Commission 2017) are included – human capital, actual internet use, integration of digital tech-nologies into the economy and development of digital public services (eGovernment) – then additional, often very specific differences become apparent between the Member States. Overall, the data reveals the extent to which and the areas in which Europe as a whole is still far from being advanced in terms of digitalisation.

The fact that the digitalisation of the economy – as well as the fostering of citizens' digital skills and the general development of human capital – is key to increasing welfare and driving the EU's economic development becomes clear, for instance, when examining the connection between the level of integration of digital technologies and economic output as measured by GDP per capita (see Chart 2). States with better integration of digital technologies also tend to have higher economic output and vice versa.

Closer examination of the development of the states under survey in terms of DESI dimensions shows the specific strengths of individual countries, which can serve as best practice examples for other states if they are adjusted to the conditions of the welfare state in each case. While Sweden, for instance, is a leader in all dimensions and deemed to be a digitalisation pioneer, Estonia and Spain have clear strengths in the area of e-government and e-administration, and the United Kingdom and, again, Estonia are strong when it comes to human capital and internet use. In general, it can be observed that the least advanced areas are – with the exception of Sweden and to a lesser degree Germany – the integration of digital technologies into the economy (the core of Industry 4.0) and the

development of e-government across the EU (see **Chart 2**). But what do the digitalisation profiles of the seven states examined here look like, and what are the countries strengths and weaknesses in specific policy areas?

## Different Paths to welfare 4.0 – labour and health

The increasing digitalisation of value-added networks and the greater use of new technologies, flexible production processes and new work forms is leading to changes in welfare state architectures. It tackles variuos policy fields, starting with the labour market, over to education, science and innovation up to health and social care. The following short analysis covers two policy areas that are strongly influenced by digitalisation and for which digitalisation offers strong innovation potential: labour and health-care.

Labour

As the central location for distributing life opportunities and social security in contemporary capitalist market societies, the labour market is affected by digitalisation and automatisation in two ways: first, and as mentioned before, these technological developments are drivers of structural change; and second, these developments enable new ways to organize work which could lead to a growing number of short hirings, zero-hour contracts and other forms of labour-on-demand (crowd- and cloud-work).

With the uprise of digitalisation and automation, artificial intelligence and robots, there begins a downsize of a variety of routine tasks that were traditionally done by humans. Famous claims have been made that half of all jobs in
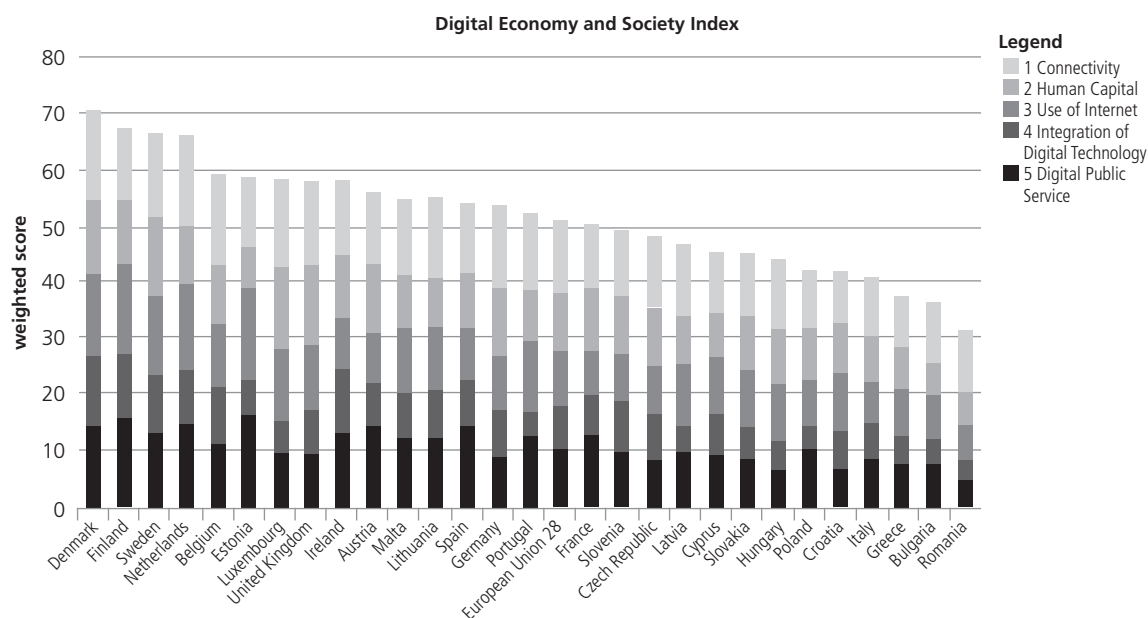
Digital Economy and Society Index

Chart 2. Digital Economy and Society Index 2017

industrialised countries are so susceptible to automation that they will disappear in the next two decades (Frey and Osborne, 2013). However, automation will affect certain tasks, not whole occupations. In many occupations, tasks that can be automated through new technology are bundled with tasks that are inherently difficult to automate. With this approach, the share of jobs threatened by new technology more resemble the pace of structural change we are used to. Further, we must not underestimate human creativity, nor human ability to find new desires that needs to be fulfilled. Jobs will disappear, but new jobs, occupations and companies will emerge on the same time. Therefore, labour market policies will even more have to look into the future, since real employment security will not lay in the job you have, but in the jobs you can get. And here, some people (highly skilled) are much better prepared for this than others

(low skilled), which could lead to growing inequalities.

The welfare state is supposed to counteract inequalities by redistribution and protecting against certain risks. At the same time, the welfare state itself is based on social stratification, which more or less privileges gainful employment. Digitalisation results in new challenges. Particularly stratified welfare states (i.e. Germany, France, Italy) are more likely to produce a digital divide between those who have the necessary skills to find their way around the digital environment and those who do not have those skills and are therefore more exposed to the dangers of work casualisation. Digitalisation in this situation does not alter the demand for work equally across all skills levels, but rather has a polarising effect. While demand rises in highly skilled areas, it falls for non-manual routine work (Arntz *et al.*, 2016), as new production and

information-processing technologies make, on one hand, many unskilled tasks unnecessary but require, on the other hand, corresponding knowledge and skills to apply those technologies (Groß, 2015).

One central requirement in all the countries examined is to acquire the skills necessary for Work 4.0 in a digital economy. This means that the interfaces between the labour market and education, in particular, become relevant and one of the crucial fields of future welfare state action. Especially in knowledge societies and high-tech industries, education is not only crucial for the innovation potential of a society but also important for social inclusion. This applies increasingly to countries such as Spain, Italy and France that are affected by constantly high youth unemployment.

Most governments in Europe are addressing the situation with reform programmes aimed mainly at attaining more flexibility and less regulation, but also activation and skills measures. In all the countries examined there is evidence of an increase in "atypical" employment relationships. These often go hand in hand with precarious employment careers and restrictions on integrating into social security systems. Here, ways must be found to include new work models (for instance, crowd- and click-workers working as self-employed individuals) in existing security systems.

Digitalisation has the potential to increase productivity and could therefore boost demand and create new professions and activities. If appropriate investment is made, this can even result in employment growth. Rising demand for workers, however, is to be expected mainly in areas that require greater skills. Decent jobs need inclusive growth. Because professions and activities can be automated in different ways, all the welfare states examined here require solutions for all those who lose out in the digitalisation process. This requires greater investment in professional development and lifelong learning for low-skilled workers, as well as, for instance, for older workers.

Digitalisation brings new opportunities, but also risks. Societies that want people to take professional risks therefore require social security systems that are able to cushion such risks. In short, working is becoming more mobile, more flexible and less contained. This can be positive, for instance in achieving a better work-life balance by more flexibility and new (social) support services, but also negative if the boundaries between work and leisure become blurred. Because new social risks require new ideas for ensuring a social security net, the long-term question we have to ask is whether and how we might design a social security net that is decoupled from work and how we might arrive at EU-wide regulations.

Health and Social Care

Digitalisation also changes the health and social care systems, which are in most of the welfare states one of the largest employers already. Digital services are entering the market and starting to monitor our behaviour: apps count our steps, wearables measure our blood pressure, health and medication data is stored in Electronic Health Records. Customised and personalised medicine offers the opportunity to provide optimal support, but it is a concern if this data is made available to employers, for instance. For that reason, the data must be owned by the patient, but this is only the case in very few welfare states in reality, although the same applies in the analogue world. For the most part, patient data involve ownership without

possession (that is, the data, including analogue data, lie with i.e. doctors) or possession without ownership (lots of data lie with lots of doctors, care organisations and hospitals). With the growing risk of cybercrimes, however, topics like data safety and security will probably enter the political agenda in more and more states soon, especially when the new European General Data Protection Regulation (GDPR) is applied starting from 25 May 2018.

This is one side of digitalisation. The other is better quality of life due to better and more convenient medical and care services, including in rural and sparsely populated areas, if they are equipped with the appropriate digital infrastructure, like for instance in Denmark, Finland, Sweden, Estonia or Scotland. This is because the digitalisation of health care offers huge opportunities. For instance, it could avoid multiple examinations, cumbersome documentation and bureaucracy, and therefore saving costs; it could improve diagnosis, prevention, treatment and medication; it could connect and dovetail formal with informal care-givers in order to improve and reduce the burden of social care; and it could lead to more efficient processes, shorter waiting times and approaches, and thereby more time for people and person-centered services.

Using digital technologies requires digital literacy, in other words, basic skills that enable people to draw the greatest benefit from these new technologies. For citizens to be interested in these technologies, however, they need to recognise what the benefit is for them or how these innovations could specifically improve day-to-day life. If citizens are less prepared for digitalisation and do not have the basic skills required, digitalisation will not be able to achieve its full potential, whether from use of internet connections in general through to health services in particular. Here, Italy and Estonia represent two contrasting case studies. It is striking that the countries that have strong administration units and that have tried to manage digitalisation top down in large-scale projects are those in which the debate about small-scale innovations is more prominent. Here, the problems experienced in Germany and the United Kingdom with health cards, the disappearance of patient data and records and general data protection problems in the NHS with care.data provide particularly noteworthy examples. On the other hand, decentralised states struggle with translation problems and fragmentation when implementing digitalisation, as the examples of Spain and Italy show. It seems that a mix of centrally determined requirements and operational autonomy at regional and local level is indeed conducive to achieving objectives (**Chart 3**).

## Digitalisation and welfare states – equal or unequal?

Digitalisation is giving rise to challenges of varying intensities in the different welfare state models. First, as chart 2 and 3 show, the countries examined occasionally differ widely in the degree of digitalisation in the economy and society that they have already achieved, from setting up and expanding digital infrastructure to building digital human capital, integrating digital technologies into the economy and driving digital public services. Irrespective of the type of welfare state, then, the key aim must initially be to establish high-speed networks across all states and to promote human capital. Second, depending on the type of welfare state, there are also different challenges in terms of content. Measures that are comparatively easy to integrate for one welfare state may have a centripetal effect in other welfare states. For instance,

the issue of employment protection in a period of decentralised, flexible and digital work in "liberal", "conservative", "Mediterranean" and "social democratic" states will require different solutions. Applying dimensions of internal versus external modernisation, on one hand, and social inequality, on the other, we can construct a model that systematically shows the interactions between digitalisation and the welfare state and in which we can position the states that have been examined (see **Table 1**).

Comparison reveals that Sweden has the lowest level of social inequality due to the high redistributive capacity of its social democratic welfare state. It is also proactively and consistently modernising its welfare state internally. Sweden can therefore be considered a pioneer

of Welfare 4.0. Similarly, Estonia and the United Kingdom, with their relatively good levels of network coverage and progress in digital public services, are taking the route of internal modernisation and benefiting very much from this in the areas of connectivity and digital public services. However, it is also becoming apparent that the much stronger stratifying effect of post-socialist (Estonia) or "liberal" (United Kingdom) social security systems does not cancel itself out. In fact, it is actually accentuated if it is not accompanied by targeted welfare state measures. Estonia, in particular, is struggling with the effects of a strongly dualised labour market and the social inequality that this brings with it.

By contrast, the "conservative" welfare states of Germany and France are more strongly
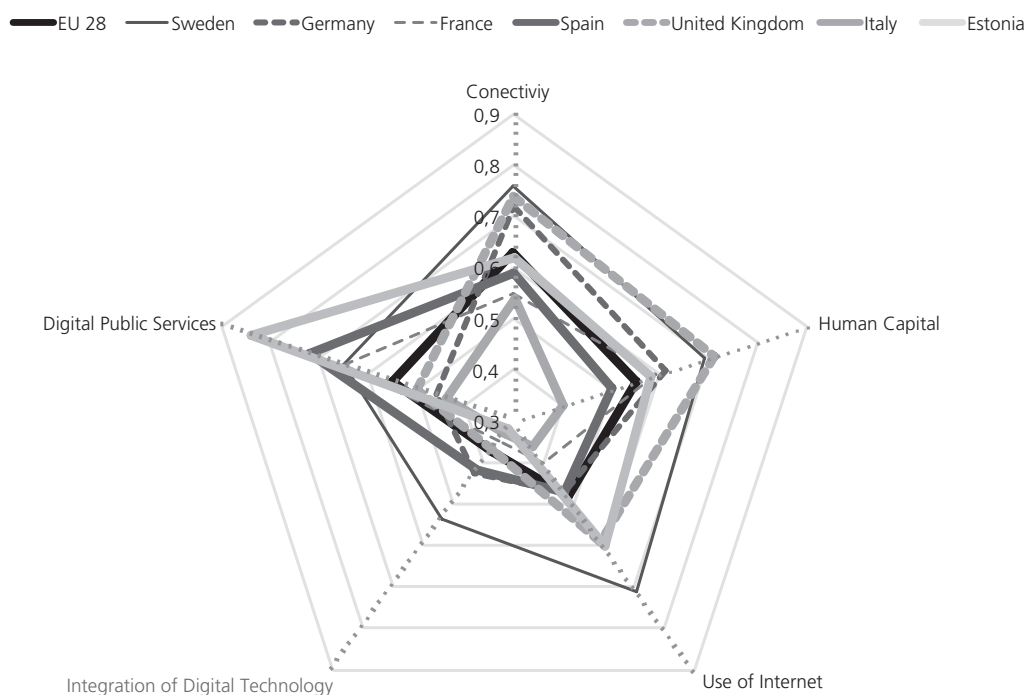
Source: Buhr *et al.*, 2016 based on European Commission, DESI 2017.

Chart 3. Comparison of the digital economy and society

driven by external modernisation effects. The welfare state subsequently adjusts to the external challenges of Industry 4.0. Here, the question of recalibrating society's internal redistribution of labour and welfare benefits becomes one of the key issues. The "Mediterranean" welfare states of Italy and Spain face the biggest challenges. Here, on one hand, social inequality is high and was exacerbated by the effects of the economic and financial crisis. On the other hand, external modernisation effects, especially on the labour market, lead to further stratification of these societies. At the same time, systematic digitalisation of the welfare state offers great development potential, especially with regard to integrating digital technologies into industry, building human capital and driving digital public services. Spain, for instance, especially when we look at health- and care-system, is taking the route of digitalising public services as a possible strategy for coping with the consequences of the economic crisis and with latent modernisation problems. It is now slowly catching up.

Conclusion

Digitalisation can bring about economic and social progress as well as equality. But not in each and every welfare state setting to the same extent. Here, the scandinavian welfare states (Sweden, Denmark, Finland) seem to be in a

beneficial position since the internal modernisation of these welfare states already is on a higher level than in most of the liberal, mediterranean, post-socialist and conservative welfare states. This, however, seems to be an important factor for a society's ability to innovate. Therefore, social and digital infrastructure go hand in hand. This means not only fast internet with blanket coverage. It means also, learning and thinking in networked connections must be activated as well – via education, training and qualification. For innovation and labour market policy, this means both investing in innovations and promoting the ability to make use of them actively in the society (human capital). However, it also includes analysing and structuring the consequences of innovations in advance and with the involvement of potential users (structural capital). In this way, employees become innovation drivers and not the driven. The idea here is to enable innovation through participation and thereby rely on open and social innovations (relationship capital), in particular in the care and health area. The strong connection between a solid social infrastructure and the innovation capacity of a society is shown by the Innovation Capability Indicator (IIT, 2018). Here, once again, we can see the strong position of the social-democratic welfare states (Sweden, Finland) followed by conservative welfare states like Austria and Germany.

Table 1. Modernisation and social inequality: comparison of interactions

		Modernisation	
		External	Internal
Social inequality	Low		Sweden
	Medium	Germany France	United kingdom
	High	Italy Spain	Estonia

Source: Buhr *et al.*, 2016.

Therefore, it could be wise for governments and public administrations to focus more on these internal modernisations effects, by using digitilisation to modernize the health-, care- and education-system, for instance, and to foster equal access to these services throughout society, for people that live in the cities as well as for people living in rural areas. This requires, however, in some of the states to shift away from strict financial and austerity policies in order to allow policy makers to become more active again and invest, for example, in innovation, research and education, in digital as well as social infrastructure.

How could a vision of welfare 4.0 look like? May be like this: by using digitalisation we could enhance the welfare state in such a way that, on the one hand, it absorbs the risks of growing flexibilisation and, on the other hand, it offers us new ways of harnessing the opportunities of working without space and time constraints, which could be an important prerequisite for social progress, too: to enable an independent and self-determined, active and healthy life for as many people as possible. This vision needs to be shaped not only in economy and society, but also by an active welfare state that invests in the future – in both, the supply-side (i.e. research, fast internet connections, etc.) as well as the demand-side (i.e. public procurement, education/qualification) – in order to foster innovation and inclusive growth.

Current status of the fight against tax havens in Europe

José Luis Escario Díaz-Berrio

Time to implement global and European standards on banking secrecy and the exchange of information for tax purposes

The international community planned to implement the new OECD standard on international tax cooperation, based on the automatic exchange of information (AEOI) about bank accounts, during the course of 2017 and 2018. Almost all EU Member States, with the exception of Austria, applied AEOI in 2017, becoming "early adopters" of the Common Reporting Standard (CRS),[1] the name of the new OECD global standard in this area. This replaces the previous global standard, which was based on the exchange of tax information on request.

The new CRS means that banks which provide accounts to residents of other jurisdictions are obliged to transmit information regarding a wide range of incomes to their tax authorities.

In a second moment, this tax authority must – on a regular basis and without the requirement for any specific request – transfer the said information to the state of residence of the account holder. It is essential for the state to have access to this data to identify whether its taxpayers with accounts in other countries are in compliance with their tax obligations.

With respect to the first part of the CRS – the reporting obligations of financial institutions to their local tax authorities – it is important to note that this implies a parallel need to identify those accounts affected by automatic exchange and, where applicable, those individuals who control intermediary bodies or structures (for example, current accounts in the name of offshore companies, foundations or trusts). Furthermore, this must comply with the relevant "due diligence" procedures. As we will see, the issue of the availability of information about the real beneficial owners intermediary structures exist is essential for AEOI to be effective. With respect to the part of the CRS which affects tax authorities, the standard contains a model agreement

between competent authorities which regulates how these should apply the automatic exchange of annual information.

The introduction of the CRS over recent years has required the EU to review its legislation in this area to comply with the reporting levels established by the OECD. While it is true that the EU was the first region to implement a system for the automatic exchange of tax information, the first AEOI Directives[2] contained a series of loopholes which undermined their effectiveness. In particular, AEOI was limited to certain kinds of income, only affected the current accounts of individuals, and permitted some Member States[3] to preserve transitional regimes which were less demanding than the general system established for other countries. The requirement for unanimous agreement when revising these directives meant that these loopholes were not closed. It was only with the appearance of the Foreign Account Tax Compliance Act (FATCA) in the United States and, subsequently, approval of the CRS by the OECD that the most reluctant Member States gave in to international pressure and agreed to move towards more comprehensive AEOI.

Indeed, the Directive on Administrative Cooperation in the Field of Taxation, subsequently converted into the reference standard on the automatic exchange of tax information in the EU, had to be revised to bring it into line with the requirements of the CRS and to include the main types of income within its scope. New categories – such as dividends, current account balances and some insurance products – were covered by the AEOI obligation.

Monitoring compliance with automatic exchange of information (AEOI)

Now that the majority of countries have agreed to apply the CRS and the Directive on Administrative Cooperation transposed into law by Member States, what is needed is evaluation and monitoring to identify the degree to which these reforms are actually being implemented by individual countries.

In contrast with the global regulations of the OECD, the EU Directive on Administrative Cooperation, like any other directive, is binding on Member States and is backed by a coherent system of coercive measures, with the Court of Justice of the European Union guaranteeing compliance.

The process of applying and monitoring the OECD standard, by contrast, is far more difficult. To start with, applying the CRS involves several different legal instruments. The first step is for jurisdictions to adhere to the OECD and Council of Europe Convention on Mutual Administrative Assistance in Tax Matters. Next, the members of this Convention must sign the Multilateral Competent Authority Agreement (MCAA),[4] which gives effect to the Convention and provides a legal platform so that jurisdictions may exchange information.

However, although the application of the CRS involves all of these multilateral conventions and agreements, it is also the case that activating AEOI in each specific case requires a bilateral agreement between the jurisdictions involved (the jurisdiction of residence and the one where the bank account is based).

---

[2] Directive 2003/48/CE, on Taxation of Savings Income and Directive 2011/16/EU, on Administrative Cooperation in the Field of Taxation.

[3] Luxembourg, Austria and, initially, Belgium.

---

[4] The MCAA was signed during the annual meeting of the Global Tax Forum on 29 October 2014 in Berlin.

In practice, this has meant that the most "controversial" jurisdictions only automatically transmit information to the tax authorities of the states with which they wish to cooperate, whether because they are important trade partners or because they are powerful enough to follow through on their threats in the event of failure to respond to their requests for information. For example, Switzerland – which agreed to start AEOI from January 2018 – has already indicated that it will only automatically exchange information with a group of carefully selected jurisdictions, such as G20 countries, important trade partners and major financial centres. It seems, then, that developing countries (who are the main victims of banking secrecy and tax havens) run the risk of only benefitting in a limited manner from the flows of information that will result from application of the CRS.

In any event, the OECD has implemented a system to evaluate the level of compliance with CRS by different jurisdictions. Specifically, the Global Tax Forum of the OECD has established a monitoring system based on peer review, which entails mutual evaluation between participating jurisdictions and consists of two phases. In the first phase, teams evaluate the legislative framework of the territories being examined (level of transparency, availability of banking information etc.) while in the second phase the evaluation focuses on identifying whether the automatic exchange agreements have been applied effectively. A final report is then published, accompanied by a rating of the jurisdiction examined (compliant, partially compliant, non-compliant etc.). However, because there are no specific sanctions for non-compliant countries, pressure for members of the Global Forum to cooperate is based on being "named and shamed" at the next G20 summit.

Abuse of trusts and shell companies as the chief obstacle to effective information exchange

One point that requires particular attention, and which is taken into account in the peer review processes described above, regards the identification of the beneficial owners of accounts, given that effective AEOI between jurisdictions requires that information about the beneficial ownership be available, not hidden behind the screen of intermediate vehicles such as offshore companies, foundations or trusts.

Recent tax scandals such as the Panama Papers have merely confirmed the scale of the problem. Many of the funds and assets that are hidden from the tax authorities are held not in the name of individuals but in the name of companies or other legal entities which are used as instruments to conceal the true identity of the beneficial owner.

Unfortunately, there is no agreed definition of what constitutes the "beneficial owner" of an asset in all Member States, but in essence this is the person who has the right to use and enjoy the asset and who exercises ultimate control over it. The real owner is also the one who receives profits from the exploitation of the assets of a company, foundation or trust, unlike the administrators, agents, trustees or other intermediaries.

The abuse of intermediary vehicles – and of trusts in particular – breaks the link between the legal owner (the one who is named as such in official documentation: the trustee, for example) and the beneficial owner, who is thus hidden behind a screen of legal ownership. This does not prevent the beneficial owner from enjoying the assets, but does allow them to avoid paying the taxes which are due.

Strategies of this sort require the complicity and mechanisms provided by some jurisdictions, which often do not demand the information

required to identify the beneficial owner, or do not transmit it to other territories.

The situation is further complicated when "offshore service providers" offer nested structures to clients seeking anonymity. These involve using various "legally favourable" jurisdictions, with a trust sitting at the top of a structure of shell companies and other legal entities. This creates additional layers of opacity which reduce the risk of detection by the tax authorities.

The favoured instrument for this kind of strategy is the trust, a device that derives from Anglo-Saxon legal systems and offers the advantage of consisting in a simple contract between three parties which lacks a separate legal personality. This means that, in some jurisdictions, trusts are exempt from the registration and accounting obligations that apply to companies and foundations. As a result, it is sometimes difficult even to identity their existence, let alone the type of agreement reached by the parties to the contract or trust deed.

Automatic exchange of information and the new European list of tax havens

In December 2017 the EU published a blacklist and a grey list of "non-cooperative" countries, after a process that took more than a year to complete. Both lists are the result of the application, to a group of pre-selected jurisdictions, of three criteria approved at ECOFIN November 2016: transparency, fair taxation and the implementation of BEPS minimum standards.

Transparency

The transparency criterion is based entirely on an up-to-date analysis of OECD studies of AEOI. For the jurisdiction to avoid inclusion on the blacklist, this criterion requires that it be committed to implementing the CRS, either by ratifying the Convention on Mutual Administrative Assistance in Tax Matters or by signing bilateral agreements for the automatic exchange of information with all Member States.

In its current form, the transparency criterion sets a low bar, as it is sufficient for jurisdictions to have entered into a "formal commitment" to implement the CRS to avoid inclusion on the blacklist. From 2018, this criterion will be significantly strengthened, with the requirement that the jurisdiction be evaluated as "largely compliant" in the peer review process conducted by the Global Tax Forum of the OECD.

In this respect, the EU criterion leaves very little room for discretion as it is based entirely on the monitoring process and reports conducted by the OECD. It is sufficient to check the data published by the OECD to see which countries the jurisdiction has decided to exchange information with in order to know whether it complies with the EU requirement. This evaluation will include a consideration of whether the territories supply information to all members of the Global Forum or only do so on a selective basis to a limited number of jurisdictions.

Transparency regarding beneficial owners and establishment of centralized public registers of companies and trusts

As part of this transparency criterion, the ECOFIN agreement establishes a further condition, with effect from June 2019, requiring the jurisdiction to ensure the availability of information on beneficial ownership.

The importance of this for effective AEOI was noted in the previous section. The first element of the OECD CRS – the obligation on banks

to report information to their tax authorities – specifically requires financial institutions to identify the people who control any intermediate vehicles (companies, trusts etc.), in accordance with the procedures of "due diligence". However, to guarantee genuine transparency, the existing obligations of banks and other professionals in this field must be strengthened with the implementation of centralized registers of beneficial owners. This is reflected in the 4th Anti Money-Laundering Directive EU 2015/849 (IV AMLD). It is now time to extend the same solution to the sphere of tax evasion.

The availability of centralized registers of the beneficial owners of companies and trusts would, for example, mean that, in the case of an individual holding accounts with several different banks, the institutions would not have to replicate their control processes to check beneficial ownership. At the same time, banks would no longer be able to use the impossibility of identifying the beneficial owner behind a trust or a company as an excuse for having accepted a new client.

Therefore, when evaluating compliance with this criterion, the EU should consider whether third-country jurisdictions have implemented a centralized register of beneficial owners of trusts and companies, in line with the approach adopted in the IV AMLD.

But the requirement should not stop there. These registers should be publicly accessible, as set out in the proposed reform to IV AMLD presented by the Commission following publication of the Panama papers. This proposal suppresses – in the majority of cases – the current requirement that only individuals who can demonstrate a "legitimate interest" may have access to the information in the register of beneficial owners. The notion of "legitimate interest" is problematic because it is very vague, and its definition thus

becomes a matter for each individual Member State. This raises the danger that restrictions on access to registers may vary widely from one country to another, failing to guarantee a level playing field in this area. As a result, the requirement to demonstrate a legitimate interest should be eliminated, enabling unconditional public access to the content of registers of beneficial owners.

The principle of unrestricted access is reflected in the Commission proposal, with the exception of "non-commercial trusts", for which it is proposed that the legitimate interest requirement should be retained. However, this exception strikes us as unjustified, particularly given the fact that so-called "family trusts" are often used for purposes of tax evasion and money-laundering.

A genuinely public register of beneficial owners would mean that more people would be able to scrutinize the information provided by financial agents. This, in itself, would act to dissuade opaque or corrupt behaviour. It would also give investors more reliable information on which to base their decisions, and would allow a more accurate assessment of the potential tax risks of entering into relationships with certain organizations. Companies, for their part, would have important additional information, which would give them a better understanding of their business partners and sub-contractors.

Finally, public records would enable civil society, investigative journalists and others to exert more social pressure on the opaque behaviour of certain economic operators. For all these reasons, the completely unrestricted publication of information about beneficial owners in a centralized register of trusts and companies should constitute the standard of transparency required to prevent the inclusion of a country or territory in the European list of tax havens.

Towards a European definition of a tax haven which goes beyond the concept of banking secrecy

As we have seen, the first criterion of the European list of tax havens is based on the OECD definition of a tax haven, which coincides with the concept of "secrecy jurisdictions". This identifies tax havens as those jurisdictions which do not exchange information with other territories and whose purpose is to attract the private wealth of individuals, guaranteeing a level of secrecy which permits them to conceal both their identity and their money.

However, as we will see below, the second and third criteria for the European list go beyond this very limited definition of a tax haven to consider the notion of "corporate tax havens". These are territories which compete to attract the profits of companies (typically transnational corporations) despite the fact that these profits have been generated elsewhere. To do this, they offer special tax regimes designed to attract particular types of company or income source. Large companies thus have the opportunity to exploit the loopholes and benefits offered by certain jurisdictions and, by stretching their interpretation of the law to the limit, they can significantly reduce their tax liabilities. In contrast with secrecy jurisdictions, which favour tax evasion, here the issue is one of aggressive tax planning and corporate tax avoidance. However, it is also true that at times the grey line that separates avoidance from evasion is difficult to identify.

The criterion of fair taxation

The second criterion on the European list – fair taxation – has several implications. In the first place, it requires that the tax system of the juris-diction under evaluation does not contravene the principles of the OECD's Forum on Harmful Tax Practices or the principles of the EU's Code of Conduct for Business Taxation. Both initiatives were developed at more or less the same time: the OECD Forum was held in 1998 and the EU Code of Conduct was drawn up in 1997.

It is important to note how the concept of tax haven used by the OECD has developed over time. When the Forum on Harmful Tax Practices was held, the OECD adopted the definition of a corporate tax haven described above, which was heavily based on the existence of harmful tax practices which undermined the tax base of other countries. Subsequently, the OECD shifted towards a definition that focused exclusively on the idea of information exchange (secrecy jurisdiction). This was due to the influence of the Clinton and Bush administrations, which were far more interested in obtaining information about current accounts held by their nationals abroad than in eliminating the tax benefits offered to large transnational corporations (many of which were American) across the globe.

The EU, in contrast, has never abandoned its focus on combatting harmful tax practices, although with a low-profile approach which one can only hope will be strengthened with the implementation of the new European list of tax havens.

Along with establishing the Code of Conduct, ECOFIN December 1997 created the Code of Conduct Group with a dual mission: to dismantle existing harmful tax regimes and to evaluate potentially harmful new regimes. The Group has continued to perform this task, with varying degrees of success, until the present day. Both the Commission and some Member States have criticized the fact that the parameters used by the Group to perform this work have not been updated sufficiently and have

excluded some of the "most innovative" harmful tax practices, such as the patent box regimes used in some member countries or the special regime for notional interest deduction.

In any case, a new feature of the latest European list of tax havens is that evaluation of harmful tax regimes will be performed by the Group, not only with respect to Member States, as has been the case to date, but also in relation to third-party states that could be included in the list. In fact, as we will see below, the Group will play a fundamental role throughout the process of compiling and regularly updating the list of territories to be included or excluded.

The other aspect of the fair taxation criterion relates to the facilitation by the jurisdiction in question of offshore structures which do not conduct any activity in the territory, and whose purpose is to attract profits generated in other countries. This is a fairly broad, and rather vague, definition, which has the disadvantage of leaving a lot of scope for interpretation by the evaluating body, primarily the Code of Conduct Group.

It is true, however, that once a tax regime permitting the creation of offshore structures has been developed, the jurisdiction concerned is required to eliminate it immediately if it wishes to avoid being included in the blacklist. Here (in contrast with the criterion of transparency) a mere "formal declaration" that this regime will be eliminated in the future is not sufficient.

Finally, it is unfortunate that ECOFIN has not specified the existence of a corporate tax rate at or close to zero per cent as a separate criterion which, on its own, would justify immediate inclusion of a territory on the blacklist. The solution chosen, instead, is to include this as a sub-category of the fair taxation criterion, with the effect that – in order to be included in the list – in addition to a zero or near-zero rate, the ju-

risdiction in question must have facilitated the creation of offshore structures with no economic substance.

Implementation of BEPS programme minimum standards

The third criterion relates to the third-party country's commitment to implement minimum standards issued by the BEPS process led by the OECD over recent years, under the G20 mandate. The Base Erosion and Profit-Shifting programme is the first serious attempt to reform the international tax system to address the problem of aggressive tax planning by multinationals. After identifying 15 areas where there is particular risk of corporate tax evasion, the BEPS programme has produced a series of reports which contain a range of anti-abuse rules. These reports are intended to be developed by states in their domestic legislation, but not all of them have the same legal status. The BEPS reports with the greatest legal weight for states are the ones mentioned by the third criterion of the European list, which establish minimum standards.[5]

Although, initially, the aim was to cover all the gaps in the international tax system, the final result of the BEPS programme has only represented a first step in this direction, and this will have to be supplemented by further reforms in the future. Some developing countries who are not G20 members (and many civil society organizations) have questioned whether this next stage should be conducted within the framework of the OECD or under the auspices

---

[5] The other BEPS reports merely establish shared methodologies or best practice, and signatory states do not acquire any commitment to adopt the recommendations they contain.

of the UN (Tax Committee). This group of countries feels that the OECD and the G20 represent the "rich countries' club" and that they have not been allowed to participate on an equal footing in the BEPS process of developing rules. They argue that specifying compliance with BEPS minimum standards as the third criterion for the European list repeats the error of forcing them to comply with rules that have been developed without their input.

As in the case of the criterion of transparency, it is sufficient – initially – for the third-party jurisdiction to formally undertake to implement the standards for it to be excluded from the blacklist. In the future, the criterion will be tightened and the EU will require the jurisdiction to have received a positive evaluation within the monitoring process established by the OECD "Inclusive Framework on BEPS". This framework brings together states that are not members of the OECD, to contribute to the process of implementing the BEPS Programme. The OECD hopes that as many non-member countries as possible will adhere to the Inclusive Framework and undergo monitoring to determine the level of compliance of each jurisdiction with the minimum BEPS standards. In this criterion, as in the case of the first criterion, the EU will base its decision entirely on the outcome of the work of the OECD and, before it can be implemented, will therefore have to wait until the monitoring process has been completed for all countries that adhere to the Inclusive Framework.

The controversial decision to exempt Member States from the criteria

However, perhaps the most controversial aspect of the EU process is the decision not to apply the criteria used in the evaluation of third-party countries to the EU's own Member States. The most recent tax scandals (LuxLeaks, Panama Papers and Paradise Papers) have exposed the decisive role of certain tax regimes and tax systems in European jurisdictions in corporate tax avoidance strategies. It is impossible to make sense of the complex structures established by Google and Apple without considering the use of tax advantages offered by the Netherlands, Ireland or Luxembourg.

There is no doubt that the EU would be in a far stronger moral position to require other countries to respect a series of standards of good tax governance if it had put its own house in order first by ensuring that these standards were applied internally. It seems that pressure was exerted by certain Member States in the Council to prevent this happening. However, this has not prevented detailed discussion of the issue at the centre of other EU institutions, as evidenced by the tightly contested vote in the European Parliament at the end of 2017, on the approval of the final report of the inquiry committe into the Panama Papers. The chamber rejected, by a single vote, an amendment that proposed the possibility of including Member States on the blacklist of tax havens if they failed to satisfy the criteria approved by ECOFIN.

More recently, the Commission also questioned the position of the Council by publishing a series of reports[6] in which, after careful study of its tax systems, it directly identified seven Member States: Belgium, Cyprus, Ireland, Hungary, Luxembourg, Malta and the Netherlands.

Despite recognizing that these countries had recently made some improvements, the Commission did not hesitate to state that their tax

---

[6] Biannual Report of the Commission on coordination of economic and tax policy in the EU

policies were prejudicial both to other Member States and to third-party countries in a variety of way. It is very significant that the Commission has decided to combat unfair tax competition itself and not to leave this function solely in the hands of the Code of Conduct Group. And it is also noteworthy that indicators such as the evaluation of aggressive tax measures in Member States have been included in the country reports drawn up under the European Semester framework. We hope that these moves – which are necessary but not sufficient – will finally lead to the ECOFIN criteria being applied not just to third-party countries but also to Member States.

The process of listing territories: the blacklist and grey list of tax havens

The European black and grey lists have been the result of a lengthy process involving several stages. Following a pre-selection by the Commission, 92 jurisdictions were selected to participate in the screening process, which took place over the course of 2017. In the first instance, a group of national experts was asked to evaluate the tax systems of these countries in accordance with the criteria described above. The outcome of these evaluations was then transmitted to the Code of Conduct Group. Of the initial 92, twenty passed the first stage of the evaluation and the remaining 72 were asked to address a series of reforms relating to various deficiencies that had been identified.

This was the start of a dialogue between the Group and the jurisdictions concerned, at the end of which – following several stages of exchanges and correspondence between the parties – both a blacklist and a grey list of tax havens were compiled. The Group presented these lists to ECOFIN December 2017 for ratification.

The jurisdictions which, according to the Group, had made a sufficient commitment to implement the tax reforms required within the specified timescale were included in the grey list (47), while those that had not made such a commitment were included in the blacklist (17).

However, these initial lists are not static. They can be updated at any time (and at least once a year) depending on whether the territories are deemed to be in compliance with their commitments. Territories may be included in or removed from the lists or may be transferred from one list to another in accordance with the procedure described above, by which the group of national experts recommends a change of status for a given territory and the Code of Conduct Group takes the final decision, which is then ratified by ECOFIN.

Several changes have already been made to both lists during the period since their publication. The first occurred at ECOFIN January, which ratified the transfer of eight territories from the blacklist to the grey list. The second occurred at ECOFIN March, with the inclusion of three territories on the blacklist and five on the grey list. These changes were due to the decision to extend the final evaluation of these territories – which had been particularly hard hit by Hurricane Irma – until February, giving them additional time to present their reform proposals. As a result, there are currently only six jurisdictions on the blacklist.

Overall, the blacklist is very weak, and only includes small territories and developing countries with minor impact on the tax evasion and avoidance industry. This is in contrast with the grey list, which is much broader and contains several of the most important tax havens, globally. The success of progress will therefore depend on whether, faced with the threat of inclusion in the blacklist, these grey-listed jurisdictions

genuinely implement substantial reforms to the most harmful tax policies.

Where it is already possible to draw some conclusions – and not very positive ones – is in regard to the lack of transparency that has characterized the whole classification process. As a result, it is very difficult to assess whether the criteria have been applied objectively or if, rather, political interference has had a significant influence on the final outcome.

In this respect, the leak of 19 Council documents in February 2018 by the Green group in the European Parliament has merely confirmed the worst suspicions. These documents record the pressure exerted by countries such as Luxembourg, the United Kingdom, Ireland and even France to weaken the application of criteria and remove some of their natural allies from the list.

At the same time, there has been no information about the specific commitments acquired by grey list territories to prevent their inclusion in the blacklist. It would be far better if these countries were to publicize these commitments so that progress could be evaluated when the deadline is reached in 2018. ECOFIN March 2018 did release the letters sent by the EU, identifying deficiencies and requiring the affected jurisdictions to implement the necessary reforms. This is undoubtedly a first step towards greater transparency. However, there is much work left to be done. The EU, moreover, needs to publish the methodology used so far to evaluate whether jurisdictions comply with the criteria. Only in this way can we be sure that the lists are truly reliable and not diplomatic instruments.

The high degree of inter-governmental method of cooperation and of secrecy which has characterized the entire list process does not offer any reassurance in this regard. The Commission only participated in the initial stages of the process, subsequently ceding almost all initiative to bodies and groups which are completely controlled by Member States.

It is important to remember that, during the screening phase, which precedes final approval of the initial lists, the first stage is conducted by a group of experts appointed by the Member States, and the Code of Conduct Group then takes control of negotiations with the selected jurisdictions, meaning that the Group has the dominant role in the process of drawing up and periodically updating the lists.

The Group consists of officials of the Member States with expertise in tax issues. It reaches all of its decisions unanimously and in absolute secrecy. The minutes of its meetings are only published every six months, and the Committees of the European Parliament which have – as part of their mandate – requested documentation from the Group, have almost always been frustrated. And this is before we mention the other shortcomings of this Group, noted above, with respect to the most innovative, harmful tax practices.

Several Member States, along with the Commission, have repeatedly called for reform of the Group, affecting both its mandate and the requirement for unanimity (it is unacceptable, for example, that a Member State should be allowed to participate in votes that directly affect judgements regarding its own tax regime). It would be similarly desirable if the European Commission were to assume at least some of the functions of the Code of Conduct Group, to guarantee a better balance between individual national interests and defence of the general interests of the EU.

Sanctions and counter-measures against territories included in the blacklist

The issue of sanctions and counter-measures associated with inclusion in the blacklist is of the greatest importance, and is also highly controversial. It is fundamental to the willingness of grey list jurisdictions to address the "deficiencies" in its tax policies detected by the EU.

For some Member States, such as Ireland or Luxembourg, inclusion in a European blacklist would be sufficient in itself. There would be no need for additional measures. This is the OECD's "name and shame" system, in which the jurisdictions evaluated as "non-compliant" in the peer review process are identified and stigmatized at the G20. However, without wishing to underestimate the potential impact of this, the peer review system does not always appear to have led to radical reforms by the jurisdictions concerned.

The EU had expected a set of sanctions to be agreed before starting the screening process, at the start of 2017. But it was not possible. When the first list was published by ECOFIN December 2017, the Member States had still only managed to achieve a "general approach" on the issue of sanctions for listed countries. The Commission, aware of the insufficient nature of its commitment, has urged Member States to develop a "more binding and definitive" approach in this area over the course of 2018.

In particular, this general approach distinguishes between (non-fiscal) counter-measures applied by the EU and counter-measures by Member States. With respect to the former, ECOFIN establishes that certain EU funds[7] may

not be channelled to countries included on the blacklist. At the same time, the Commission is already taking the list's existence into consideration in some of its legislative proposals. So, for example, the new proposal on country by country reporting requires that this type of reporting be public for the subsidiaries of multinationals located in the EU or "which are located in territories on the European blacklist". Subsidiaries with a presence in unlisted non-EU territories are exempted from these stricter reporting requirements. At the same time, the Commission is currently examining legislation in other policy areas to identify how to introduce more meaningful consequences for listed jurisdictions.

In general terms, the EU should use all of its capacity as a major economic power, linking the blacklist to other aspects of foreign policy, trade relations and development aid. Inclusion on this list should, where applicable, entail the suspension of any free trade agreements with the EU, and any trade agreements signed by the EU with third-party countries should, in future, include good tax governance clauses. Companies that use these territories without justification (for an activity that is unrelated to the purpose of the business) should be penalized in European tender processes and excluded from access to European funds and investment programmes.

But ECOFIN December 2017 does not only refer to sanctions to be imposed on blacklisted countries by the EU. It also agreed a list of counter-measures that Member States "may" apply to territories on the blacklist, while at the same time insisting on the importance of these measures being applied in a coordinated manner by all Member States. These include raising the audit requirements for companies with a presence in these territories, withholding cash flows towards European tax havens and limiting the exemptions available to companies that use these

---

[7] The European Fund for Sustainable Development (EFSD), the European Fund for Strategic Investment and the Mandates for Foreign Loans.

enclaves. To this effect, Member States may use both their domestic legislation and double taxation agreements.

There is still a great deal of work to be done in this field. The effectiveness of the listing process and of the EU's struggle against tax havens in general will depend to a large degree on the establishment of genuinely effective and credible sanctions for jurisdictions included in the European blacklist, leading these territories to implement significant reforms.

The common European asylum system adrift

Estrella Galán and Paloma Favieres

A common refrain heard at every summit meeting held over the past few years is "The refugee crisis is a European issue in need of a European solution".

Nevertheless, the ways in which individual Member States have dealt with this situation have not reflected even the semblance of a unified approach and the patent lack of solidarity between them on this issue is casting doubt upon the fundamental tenets of the Union, which finds itself mired in a serious crisis of values.

In May 2015, at the height of refugee arrivals along the Greek and Italian coasts, the European Commission announced a new "European Agenda on Migration", which in the opinion of the UN's Special Representative of the Secretary-General for International Migration Peter Sutherland, constituted the first serious step towards the reform of European asylum system.

This agenda called for a series of immediate measures:

– An augmentation of the budget allocated for search and rescue operations conducted by the European Border and Coast Guard Agency Frontex (Triton and Poseidon Operations).

– The redistribution of refugees arriving in Italy and Greece by means of a resettlement programme.

– The resettlement of 20,000 displaced persons stranded in other EU Member States.

– Actions against criminal networks, an upgrade of border management practices, the negotiation of cooperation agreements with third countries that offering incentives to collaborate and ongoing pressure on these countries to fulfil their readmission obligations.

We find ourselves once again faced with a European agenda offering short-term, poorly focused measures that repeat errors committed in the recent past, which is to say, policymaking based a single fixed logic – controlling migration flows and borders from a securitisation perspective[1].

---

[1] For more information regarding the theory of securitisation and critical studies, see: Pérez de Armiño, K., Medina Azcue, I. (eds.): *Seguridad Humana. Aportes críticos al debate teórico y político*. Tecnos, 2013 (in Spanish).

Meanwhile, the much-anticipated Common European Asylum System is not being evenly implemented throughout Europe and Member States continue to take significantly different approaches to the issue. The European Union has adopted a series of legal instruments since 1999 conceived as integral parts of a greater Common European Asylum System capable of harmonising legislation, conditions of reception and other aspects of international protection throughout the Union. This process is intended to unify national systems and guarantee that asylum seekers and refugees in all of these countries receive equal treatment.

Despite this initiative, national asylum systems throughout Europe are not yet fully aligned and refugees applying for international protection in the EU are being treated differently from one country to the next.

Although a new set of directives and regulations that signified a further step towards the consolidation of a common system was approved in 2013, community legislation on international protection continues to be applied in a patchwork fashion.

National systems differ and tend to be inadequate in areas such as recognition criteria, procedural access and safeguards, reception conditions and integration policy.

Recognition rates varied significantly from one country to the next in 2017 due to differences in criteria applied. Whereas Sweden recognised 44 % and Germany 50 % of the applications they respectively processed that year, Hungary recognised a substantially lower 31 %. Although the Spanish government has yet to release its recognition rate for 2017 (an issue of concern in and of itself), its rate for the past few years has steadily hovered around a paltry 33 %.

Recognition rates for specific nationalities vary sharply across Europe. Data published by the European Council on Refugees and Exiles (ECRE) indicates that whereas Germany recognises 70 % of the asylum applications presented by Iraqis, Norway recognises a mere 18 % of the applications presented by people of the same nationality. The recognition rate for Afghan asylum seekers is also higher in Germany than Norway: 55 % compared to 30 %.

What we have, in effect, is a European asylum lottery by which refugees' experiences and application outcomes depend almost entirely on the country in which they try their luck.

The combination of divergent approaches and practices being applied has given rise to a situation in which fundamental legal, moral and political principles such as the "right to have rights" have been superseded by factors such as luck, exceptionality, the discretion of national authorities to interpret regulations to suit their own agendas and the commercialisation of human rights. We have reached a point at which it is hard to deny that the implementation of the Common European Asylum System has lamentably meant more restrictions and setbacks than progress from the perspective of human rights.

A case in point is what is happening in the Mediterranean, which has become an ill-defined frontier along which policies determining reception and return, life and death and yes or no decisions are formulated and reformulated, in many instances on the basis of race or nationality.

The commercialisation of borders and rising tide of "humanitarian" rhetoric that threatens to supplant actual concern for rights are but two factors clouding the future of human rights and making it more difficult to resuscitate the notion of social justice so closely linked to the right to asylum.

In any case, understanding where we are today requires an examination of past.

During the period following the ratification of the Geneva Convention in 1951, refugees fell more or less into two basic categories: survivors of World War II concentration camps and exiles fleeing communist countries. All of these people were white, European, and had cultural backgrounds similar to our own. The plights of both of these groups elicited a positive moral response: pity in the case of the former and respect in the case of the latter, who had fought against the threat that many believed communism supposed for Europe at that time.

New groups arriving in 1970s such as exiles fleeing the Pinochet dictatorship in Chile and Southeast Asian "boat people" escaping communist repression in Vietnam inspired similar sentiments. Admiration for the first and compassion for the second prompted Europe to open its doors to them.

Policies began to change in the 1980s. As the fall of the Berlin wall in 1989 dissolved the last of its remaining internal borders, Europe was busy constructing an invisible, more ominous and powerful external border under the Schengen Convention implemented in 1990.

From this point on, European political discourse intentionally framed asylum seekers as illegal immigrants and public perception of refugees began to change. People fleeing conflict zones were increasingly suspected of fraudulently posing as innocent victims in need of asylum. Although the persecution of Chechenians in Russia, Tamils in Sri Lanka and Darfurians in Sudan was well known and widely covered by European media, the plight of these groups sparked little public empathy and few people fleeing these situations were granted international protection by European countries.

Nothing changed during the first decade of the new millennium, during which Haitians subjected to political violence and human rights violations in the wake of a catastrophic earthquake and victims of a brutal civil war that claimed over three million lives in the Democratic Republic of the Congo stirred almost no public sentiment in Europe in favour of asylum.

The message of that foreigners beyond EU borders were not to be trusted and represented a menace to our well-being had hit its mark and a fortress Europe mentality had taken root.

The percentage of asylum applications recognised in Europe plunged dramatically. Instead of questioning the limits they were imposing on access to protection (an exercise that would have clearly signalled a failure to respect international treaties), governments throughout Europe increasingly viewed asylum as a legal instrument of protection, a position that restricted entry to a select and carefully screened few.

For all intents and purposes, legal asylum has gradually slipped out of the reach of most people in need of it, losing its status as a right and, in the process, becoming a coveted privilege.

Nevertheless, the thousands of people fleeing terror and in desperate need of protection who are knocking on the gates of Europe today have kindled a more receptive attitude towards refugees.

The consequences of the fortification of Europe and the deterioration of the right to asylum

One of the stopgap solutions being applied to deal with this new wave of arrivals, which is nothing other than the catastrophic consequence of misguided border tightening policies implemented since the 1990s on the premise of our need to protect ourselves from external threats at the cost of devaluating the right to

have rights[2], is the doctrine of "humanitarianism"[3].

While country after country has flouted its commitments to international treaties with total impunity, self-serving policymakers have increasingly embraced "humanitarianism" – an approach to refugee assistance that could have devastating effects should it come to be perceived as a viable substitute for justice and human rights. In the context of the crisis at hand, humanitarian aid has essentially become a new means of legitimising exclusion.

Humanitarian discourse has moulded much of the political and media debate related to the present crisis. It is interesting to note how the appalling situation in which refugees have found themselves in Europe has been defined as a "humanitarian crisis", "humanitarian emergency" or "refugee crisis" rather than in terms of justice or human rights.

This dangerous discourse has had a series of important consequences:

– First and foremost is the fact that humanitarian crises call for exceptional actions that lead to states of exception under which the urgency of a situation provides justification for acting outside established legal frameworks.

– Given that humanitarianism is more closely linked to human sentiments than human rights, humanitarian action tends to frame refugees as objects of compassion rather than holders of rights.

– Refugees and people seeking international protection are thus transformed into passive recipients of our compassion (solidarity), which by definition is doled out to specific individuals (the majority of whom, in the context of the present crisis, have generally been Syrian) and fails to address structural issues given that humanitarian action is not organised to implement pro-equity policies and by default ends up sustaining existing inequalities.

– Converting refugees and international protection applicants into passive victims allows states to shift the responsibility for what occurs onto the shoulders of other actors such as people smugglers, a tactic that obstructs awareness of other factors at play and the consequences of border tightening policies that have put thousands of lives at risk. The relentless narrow focus on the fight against human trafficking during this crisis has effectively prevented proposals for guaranteeing legal and secure means of entering Europe from being seriously considered.

This disheartening scenario reveals a waning interest in asylum, which having been deliberately lumped into the same conceptual sack as solidarity, humanitarianism and even charity rather than being treated as a right, risks becoming a casualty of Europe's crisis of values. Given the serious backward slippage that has occurred since the implementation of the Common European Asylum System, we must be ever alert for further attacks on the already badly besieged right of asylum in Europe.

Steps towards reform

On 6 April 2015 the European Commission adopted a Communication launching a reform of the Common European Asylum System

[2] Ruiz-Giménez Arrieta, I.: *Derechos Humanos: Género e Inmigración,* presented at the 36th Congreso de Teología, Madrid 7-10 September 2017.

[3] Fassin, D.: *Les économies morales revisitées Annales. Histoire, Sciences Sociales,* 2009, 64(6), pp. 1237-1266.

(CEAS)[4] that included the creation of a fairer, more efficient and more sustainable system for allocating asylum applications among Member States". On 4 May 2016 it presented its proposals for the first phase of this initiative, which entailed the updating of Dublin rules, the reinforcement of the EURODAC system and the establishment of a European Agency for Asylum. On 13 July of the same year the Commission released new proposals for the second phase of the reform process, which included a new regulation covering asylum procedures, the harmonisation of standards for protection and rights and reception conditions and the creation of a common EU Resettlement Framework.

On 7 June 2016 the European Commission and the EU High Representative announced the launch of the New Migration Partnership Framework, which was designed to strengthen cooperation between the EU and countries of origin and transit (especially those in Africa) and facilitate joint management of migration issues.

One of the documents revised was the current Regulation (UE) No. 604/2013[5] establishing the criteria and mechanisms for determining the Member State responsible for examining an application for international protection lodged in one of the Member States by a third-country national or stateless person, commonly known as the Dublin III Regulation, which was updated to correct deficiencies that jeopardised the adequate and homogeneous functioning of the EU's asylum system as a whole.

---

4 https://ec.europa.eu/home-affairs/what-we-do/policies/asylum_en

5 Proposal for a Regulation of the European Parliament and of the Council establishing the criteria and mechanisms for determining the Member State responsible for examining an application for international protection lodged in one of the Member States by a third-country national or a stateless person (recast) – COM (2016) 270 final.

The Commission proposed modifying this regulation to enhance the efficiency of the system. Actions to be taken included suppressing cessation of responsibility clauses to ensure that individual applications for international protection are handled by one specific Member State, creating a fairer system of case distribution with a correction mechanism designed to automatically detect disproportionate national caseloads and clarifying applicant obligations and the consequences of non-compliance, the last of which was intended to deter abuses and discourage secondary movements of applicants within the Union.

The Commission has also proposed substituting the Asylum Procedures and Qualification Directives with new, directly applicable regulations and revising the Reception Conditions Directive.

These modifications are meant to provide a common procedure for all asylum applications, harmonise standards of protection and asylum seekers' rights and unify reception conditions throughout the European Union so as to reduce the differences between recognition rates in Member States, discourage secondary movements and guarantee the implementation of common, effective procedures for all people applying for asylum within the EU.

Under the new regulations, the European Asylum Support Office (EASO) will be upgraded and renamed The European Union Agency for Asylum. This entity will be a full-fledged agency responsible for strengthening practical cooperation and information exchange on asylum-related matters, ensuring a high grade of uniformity in the assessment of protection needs across the Union, promoting Union law and operational standards related to asylum and monitoring and assessing their application, and providing greater technical and operational support to Member

States for the management of asylum and reception systems.[6]

All in all, 2018 is proving to be a landmark year in terms of the convergence of European norms and practices related to migration and asylum.

The Commission has recently urged the European Council to unblock debate on migration and asylum agreements in general and those related to the pending reform of the Common European Asylum System (CEAS) in particular with the objective of developing a "more effective and fairer approach to balancing solidarity and responsibility".

In December 2017 the European Council informed the Permanent Representatives Committee of progress made on the reform of the CEAS and the proposed regulation on resettlement.

Following consultations on the pending reform, the Maltese presidency emphasised that the system needed to be efficient, discourage secondary movements and offer effective solidarity to Member States facing "disproportionate migratory pressure". The presidency also expressed support for accelerating procedures for people from safe third countries and safe countries of origin and individuals whose claims are likely to be unfounded as well as effective return procedures, which it considers an integral part of migration system management. The European Council hopes to reach a consensus on this issue during the first semester of 2018.

Issues related to the Reception Conditions Directive yet to be resolved include measures intended to prevent secondary movements, assignment of residence, asylum applicants'

access to the labour market, the reduction and withdrawal of material reception conditions and provisions for unaccompanied minors. The first trialogue on this topic took place in December 2017.

Differences of opinion between the Council and the European Parliament regarding recognition regulation expressed during the four trialogues devoted to that topic to date have slowed progress in that area. Issues to be decided upon in future negotiating sessions concern the uniform status of refugees and subsidiary protection, the duration of residency permits, alternatives to secondary movement and systematic status reviews and the three-month additional residency periods granted to people whose refugee or subsidiary status has been withdrawn.

Regarding the Common Asylum Procedures Regulation, the Presidency has stated that more discussion should take place regarding the concept of safe third countries and that the concept of safe third country adopted must conform to the provisions of the Geneva Convention and EU law.

Progress has been made on the Resettlement Regulation, on which further negotiations are scheduled to take place during the first semester of 2018. The text agreed upon by the European Parliament provides for humanitarian admission and underscores the voluntary nature of resettlement.

Regarding emergency relocation and resettlement agreements adopted by the Council in 2015, it must be noted that Member State commitments assumed through two schemes agreed upon that year to relocate a total of 160,000 people stranded in Greece and Italy have not been fulfilled. Only 33,521 people have been relocated by means of this mechanism. Moreover, the European Commission referred the Czech Republic, Hungary and Poland

---

[6] https://www.cear.es/wp-content/uploads/2017/03/INFORME-SECA.pdf; https://www.cear.es/wp-content/uploads/2017/03/CINCO-PUNTOS-CRITICOS-SECA.pdf

to the European Court of Justice for their infringement of the Council agreement on which these schemes were based.

Both relocation agreements have now concluded and the Greek government has officially confirmed the end of the initiative.

The two-year period Member States were given to provide international protection for more than 180,000 people under relocation and resettlement programmes ended in September 2017. During this time, the European Union relocated a mere one out of four of the people it had made a commitment to receive and Spain, which relocated or resettled approximately 2,000, fulfilled only slightly more than 12 % of its established quota.

The reasons for this failure are clear. Eligibility was restricted from the very beginning to nationalities with an average EU asylum recognition rate of at least 75 %. The discriminatory nature of this criterion, which runs counter to the Geneva Convention, meant that thousands of people who had fled to Italy and Greece from other countries also immersed in serious civil conflicts such as Afghanistan, Iraq, Sudan and Nigeria were excluded from the programme.

On numerous occasions the European Commission has taken issue with certain Member States that have imposed restrictive conditions on Greek and Italian authorities involved in identification and transfer logistics, failed to communicate pledges within stipulated time frames or impeded planned transfers by creating last-minute bureaucratic obstacles – practices that have reduced both the pace at which refugees have been placed and the number of people the countries in question have actually accepted.

Many countries have objected to receiving people with serious health conditions or handicaps, victims of violence and, most particularly, unaccompanied minors. The lack of solidarity inherent to such practices reveals the faint will of certain countries to accept refugees within their borders.

An agreement between the EU and Turkey clearly born of a desire on the part of the Union to cut off the sea route being taken by refugees seeking to leave that country entered into effect on 20 March 2016. These two powers unilaterally decided, counter to the agreements reached by the Council in June and September, that as of that date refugees arriving in Greece from Turkey would be unable to request relocation to EU countries and thus be left with choice of remaining in Greece – a country whose reception system was already being taxed beyond its functional capacity – or returning to the countries from which they had originally fled. In May 2017, the European Parliament called for an end to this exclusionary practice.

The European Commission should have taken a much tougher stance with Member States failing to meet quota deadlines from the outset and initiated infraction procedures far more quickly. EU countries seem to have renounced the right of asylum and their responsibility towards people fleeing war and persecution. Xenophobic political parties have not needed to govern to have their way on this issue; their message of fear has given others in power an excuse for closing their countries' doors to refugees and backpedalling on reception commitments.

On 14 March 2018 the Commission issued a report on the progress made under the European Agenda on Migration and announced further key actions to be taken towards a comprehensive deal on migration to be formulated by June 2018 in line with the roadmap for a long-term EU migration and asylum policy it presented in December 2017. In this document, the Commission announced that having relocated

almost 34,000 persons to EU countries, the Union's two-year relocation scheme "was successfully coming to an end" and that the EU Resettlement scheme adopted back in July 2015, which had facilitated the transfer of 19,432 vulnerable people to EU Member States, had also terminated on a positive note.

In a December policy update, the Commission appealed to Member States to support a new commitment to settle at least 50,000 additional refugees, noting that 19 EU countries had already pledged to take responsibility for the placement of almost 40,000 of these people. The same document also stressed the need for Member States to create more slots for people coming from priority countries, especially refugees transferred from Libyan territory to UNHCR's Emergency Transit Mechanism in Niger, to which 1,300 people were evacuated from Libya on 14 March 2018.

Nonetheless, the main thrust of the Union's efforts continues to be focused on exterior border management, Member State support for, and commitment to, the European Border and Coast Guard Agency and further Member contributions in this area.

Member States are also being urged to negotiate new readmission agreements as needed and to implement existing readmission agreements more effectively so as to expedite the return of more people to their countries of origin in concert with operations conducted by the European Border and Coast Guard Agency.

The Commission considers the European Union Emergency Trust Fund for Africa an important tool in the Union's fight against migrant smuggling and human trafficking. Additional measures are being adopted to facilitate voluntary return and evacuation, a crucial issue for Member States repeatedly being asked to make additional contributions to the fund.

EU consent and support for the involvement of the Libyan Coast Guard in contention and control operations in the Central Mediterranean is troubling given the numerous reports of aggression on the part of this force against persons attempting to flee untenable conditions in Libya and reach the Italian coast. Their obstruction of NGO rescue efforts and the apathy and indifference of Libyan authorities towards such interventions should be strongly condemned. One notable instance of the European implication in this problem was the training provided to more than 200 members of the Libyan Coast Guard during Operation Sophia. Libyan and Italian Coast Guards now cooperate on an ongoing basis.

Returning to an earlier topic, 20 March 2018 marked the second anniversary of the disgraceful pact between the European Union and Turkey that signified a turning point in what has erroneously been characterised as "the European refugee crisis". Under this joint action agreement conceived to strengthen cooperation between the EU and Turkey on migration and other issues, Turkey made a commitment to allow Greece to send back migrants and asylum seekers entering its territory from Turkey by sea in search of another opportunity to enter Europe after their initial applications have been rejected. In return for this gesture, the EU promised to provide additional financial support for Turkey's refugee population, accelerate visa liberalisation for Turkish nationals and reactivate negotiations for Turkey's admission to the EU.

Two years into its implementation, the ongoing harm this agreement is causing thousands of refugees is patently clear. The restrictions on movement it imposes on refugees opting to enter Greece have left thousands of persons in a state of limbo. It has furthermore provoked severe overcrowding, frustration and unhygienic

living conditions for the refugees who find themselves trapped there and stoked xenophobic reactions in overwhelmed Greek host communities.

As winter approached, CEAR and twelve other organizations called upon the Greek government and the EU to relax their contention policies in consideration of the rising desperation of refugees now faced with the prospect of living in lightweight tents without running water during this period. A number of specific cases were brought before the European Court of Human Rights. It is estimated that 54,000 refugees are currently trapped in various points of the country.

ACNUR statistics indicate that approximately 30,000 persons sought refuge on Greek islands during 2017. According to the Greek Minister for Immigration Policy, greater numbers of asylum seekers have recently been transferred from the islands on which they landed to Athens and other points of the mainland to distribute the burden of reception throughout the country. People crossing the inland border between Greece and Turkey along the Evros River are not subject to the EU-Turkish agreement and therefore eligible to request that their applications for international protection be processed in Greece. The Greek government's desire to accelerate asylum application review and return procedures makes the provision of swift and effective legal assistance more important than ever.

The Commission has meanwhile adopted a discourse focusing on the reduction of arrivals and deaths of refugees along the Aegean coast and the EU continues to fund refugee reception facilities in Turkey.

The European Union is therefore clearly continuing to do everything in its power to prevent the entry of migrants and refugees into its territory, in large part by means of agreements with third countries that fail to uphold even minimal standards of respect for human rights.

From a legislative perspective, EU appeals to Member States to demonstrate greater solidarity and process applications for international protection in a more efficient manner have centred on measures intended to penalize secondary movements and the application of accelerated processes in which safe third country and safe country of origin issues are taken into account and international protection status review processes that ignore the needs of vulnerable people who deserve international protection – an approach that undermines refugees' guarantee of access to the asylum system, the fair and efficient processing of their applications for protection and the principle of nonrefoulement.

In conclusion, we would like to underscore that the right to asylum is but one of a number of principles being cast aside in the context of a more general deterioration of human rights that will lead to an inexorable moral, political and social decline that will only be avoided by correcting Europe's present errant orientation.

Recommendations

Recommendations

European Affairs Council of the Fundación Alternativas*

1. Member States and political reform of the EU

– Member States must engage with the issues to be addressed by the European Council during 2018, particularly the social dimension of Europe, economic and monetary union, globalization, European defence, EU finances and the most pressing institutional issues, while also reserving sufficient space to discuss models for the future operation of the EU described in the White Paper on the Future of Europe. This debate must receive institutional support and funding from political entities at the central, regional and local level, promoting the greatest possible involvement of civil society and public opinion.
– Drawing on the European Parliament's contribution to the future of Europe (two resolutions in February 2017), the European Commission should develop a legislative initiative (including, if necessary, proposed reform of the treaties through a Constitutional Convention) which goes beyond simply identifying general political scenarios regarding the operation of the EU, and advances towards a federal political union.
– Transnational lists for the European Parliament elections should be seen as a valuable tool to Europeanize political debate. If these are not possible in 2019, then they absolutely must be implemented by 2024.

2. The values of the EU and the nationalist challenge

– We need a mechanism to monitor ongoing compliance with the Copenhagen criteria by Member States, measuring respect for democratic values

---

and principles in the same way that compliance with economic criteria is monitored.

– The possibility of making use of EU funds conditional upon political and not just economic criteria must be put on an official footing, so that such funds are dependent – both positively and negatively – upon compliance with obligations such as accepting refugee quotas or respect for fundamental democratic requirements, such as the separation of powers or press freedom.

– European institutions, starting with the Parliament and the Commission, must take an aggressive stand against anti-democratic, xenophobic and anti-European trends, ensuring that legislative backing and resources are provided to programmes to counteract the false news, disinformation and emotional manipulation that feeds ultra-nationalist populism, combatting these energetically on social media.

– The only way to stem the tide of nationalism is to advocate social policies at both the national and the European level.

3. Reforming European monetary union

– Populism's success in advocating nationalist alternatives can only be halted by radically changing the neoliberal agenda of the last 15 years. This would enable Europe to become a symbol of the political response to globalization.

– Eurozone reform should return to the initial ideas presented by the Commission in 2012. These embodied a balanced approach to fiscal union. However, without greater effort to achieve economic integration, monetary union will prove unsustainable in the face of any future crisis. We therefore need to start by establishing a European anti-crisis fund, a bank restructuring fund, and a deposit guarantee fund.

– The new German government has agreed a policy which represents a compromise between the principles of Ordoliberalismus and the need to invest in social policy. This is a reasonable approach to EMU reform.

– The EU must implement a firm policy to combat tax evasion and avoidance, in particularly with regard to the major tech firms, who are in the driving seat of the digital revolution. The EU should demand US cooperation, which to date has been insufficient.

4. European social pillar

– We need to approve measures at a European scale which provide effective minimum employment guarantees (contracts, salaries, legal protection) and are designed to respond to new challenges, such as automation and robotics.
– Social and employment rights, such as the universal right to collective bargaining, must be included in basic European legislation.
– We need to create a European financial instrument to promote active, counter-cyclical policies in the Member States most affected by the crisis, to complement national budgets. All of these measures should be designed to give real effect to the European Social Pillar, created at the Gothenburg summit of November 2017.

5. A genuine European asylum system

– Creation of a common European policy for refugees, based on respect for human rights and the right to asylum, given the urgent need to respond to the current humanitarian crisis. Legislation to implement a European migration and asylum policy must give priority to procedural guarantees for migrants and refugees.
– It is essential to guarantee the opening up of safe legal routes that guarantee refugees' access to the right to asylum. This will require us:
  • To strengthen resettlement programmes to reflect the number of refugees, including fair distribution between all states.
  • To guarantee the possibility of applying for asylum at embassies and consulates in third countries.
  • To activate policies to grant humanitarian visas, eliminate the requirement for transit visas for people coming from conflict zones, and make family reunification requirements more flexible.
– These measures, on their own, will not be sufficient and will not address the true causes of forced movements of people. This requires a structural change in focus of all EU policies, going beyond those that pertain directly to migration.

6. Foreign policy, global governance and climate change policy

– In the current international situation, dominated by leaders such as Trump, Putin and Xi Jinping, the response of the EU and its Member

States should not be "Europe First" but a multilateralism for the 21st century, moulded in the image of the EU (what we might call Eurolateralism) by virtue of which the EU would bring all of its economic and political weight to bear in favour of rules in line with European positions, values and interests, to support more balanced governance from a social, institutional and environmental perspective.

– Following the French elections and the formation of a coalition government in Germany, the road appears to be clear to a Franco-German alliance to drive far-reaching reform of the EU. At a time when the United Kingdom is leaving the club and Italy's influence at Brussels is declining following a general election in 2018 in which populist parties won a majority, Spain should take advantage of this window of opportunity to put itself at the heart of European leadership, propose an economic policy that is an alternative to the current approach, and strengthen the EU's external role in all areas.

– In the current context of resurgent nationalism, the High Representative for Foreign Affairs and Security Policy should take on a more prominent role, working not only with the various committees of the European Parliament but also with the national parliaments of Member States where requested, with the aim of creating a sense of unity in this area.

– The EU should resist the slide towards a trade war with the USA, despite the threats of the Trump Administration, as such a move would seriously damage transatlantic economic integration in terms of investment, subsidiaries and employment. The members of the EU should unite in calling upon their North American ally to open up communication channels on trade between the EU and the USA. At the same time, the EU should remain absolutely firm in its defence of duty-free trade and the principle of reciprocity.

– Trade is of great political significance and is one of the pillars of globalization, along with finance and technological change. A new European trade model must therefore be consistent with the EU's foreign policy, particularly with regard to those countries with which we share values. With respect to the CETA with Canada, which has already been signed and parts of which have been applied provisionally since September 2017, the European Parliament and national parliaments must closely monitor compliance with social environmental standards and the resolution mechanism for conflicts between states and investors. With respect to the Global Agreement with Mexico, Europe must ensure that the aforementioned standards remain high, providing an alternative to the NAFTA model, with a view to building bridges with the new Mexican administration that emerges following that country's presidential

elections in July 2018. With respect to Mercosur, to reach a final agreement it is necessary to keep up the political pressure while at the same time retaining a flexible and patient approach to negotiations.

– In the Middle East, given the partial withdrawal of the USA and the growing role of Russia, the EU must remain united and continue to pursue an independent strategy. The nuclear pact with Iran must be defended uncompromisingly; the EU must actively pursue an imaginative solution to the Israel–Palestine conflict, continuing to reject Trump's decision to transfer the US Embassy to Jerusalem; and the civil, military, financial, political and diplomatic presence of the EU and its Member States in key countries such as Syria and Iraq should increase.

– With respect to Russia, Europe needs to be aware of the revisionist ambitions of its eastern neighbour. And countries such as France and Germany must strive to listen to the sensibilities of other EU states and offer guarantees for the security of Baltic and eastern European states within the framework of the European defence project. At the same time, it is important to avoid demonizing the Putin regime – and even more so in the wake of his latest election victory in March 2018, which consolidates his position for another term. Instead, we must leave the door open to the possibility of reaching a strategic understanding in the future.

– With regard to expansion, the EU must focus on two areas:

   • The EU should not seek to compensate for Brexit by speeding up access for new potentially problematic members where there are unresolved issues of economic reform, internal conflict and human rights. The new strategy for the six western Balkan countries, launched by the Commission and President Juncker, which sets 2025 as the incorporation date, should be modified to ensure that accession is conditional and the process is subject to very strict monitoring.

   • With respect to Turkey, the EU needs to shift towards a pragmatic relationship, making efforts to open up diplomatic and political channels to resolve specific issues – migration, Cyprus, Greece, the Middle East – which may restore a better political climate in the medium term.

– In Latin America, EU policy should favour the processes of economic and political integration in that region. In Cuba, European action should remain committed to the Political Dialogue and Cooperation Agreement. And the EU should keep up the pressure on President Maduro in Venezuela, with selective sanctions. But most important of all is to continue to coordinate with regional diplomatic bodies (CELAC, UNASUR).

– In Africa, the EU needs to grow its political and economic capital in the region at an exponential rate, in accordance with the new approach agreed at the G20 Summit in Hamburg in 2017 and followed up by the African Union-EU Summit at Abidjan, and to view the region as a source of opportunities, not problems.

– With regard to climate change, the EU must remain firm in its opposition to the Trump administration, and should continue to defend the Paris Agreement, which is one of the greatest diplomatic achievements of the EU's history. Existing commitments need to be updated to take the form of a strategy which permits states to implement the financial commitments agreed in the framework of national plans to reduce emissions of greenhouse gases; we need to consolidate alliances with cities, states, regions and companies (particularly in the USA) and to increase bilateral channels to influence Beijing to ensure that China remains a party to the agreement.

7. Defence and security

– The EU must decisively develop the approaches set out in the strategy approved in 2017, whose objectives include promoting the strategic autonomy of the EU and establishing a general HQ, capable of planning both executive and non-executive civil and military missions.

– We must strengthen permanent structured cooperation (PESCO) and the projects linked to it, designed to ensure the capacities of the EU in both industrial and operational aspects.

– The competencies, composition and regulation of the European Committee of the Regions must be reviewed so that territorial and regional entities have more influence on the decisions that affect them and are able to represent their interests effectively at the EU without the need requiring their own state.

– In post-Brexit Europe, the EU and the United Kingdom must sign a security and defence agreement in the form of an international treaty.

– We should aspire to build a European Security and Defence Union, with an institutional status at the Council of Ministers of Defence.

Biographies

Francisco Aldecoa has been Chair of International Relations in the Department of International Public Law and International Relations of the Faculty of Political Science and Sociology at the Complutense University of Madrid since 2000, having previously served as chair of the same discipline at the University of the Basque Country (1990-2000). He has also held a Jean Monnet Chair in European Studies (conferred by the European Commission) since 1994 and was awarded an honorary doctorate by the National School of Political and Administrative Studies of the University of Bucharest in 2009. Aldecoa studied under the late Antonio Truyol y Serra, former co-director of the Complutense University of Madrid's Centro de Excelencia Antonio Truyol and one of Spain's most highly respected theorists on the process of European construction. Dean of the Complutense's Faculty of Political Science and Sociology from May 2002 to May 2010, Aldecoa has also served as president of the Spanish Association of Professors of International Law and International Relations (2005-2009) and director of the Complutense's Centre for Studies in Management, Analysis and Evaluation (2012-2016). In addition to being the co-chair of the Federal Council of the European Movement since 2013, he is also a member of the Scientific Council of the Real Instituto Elcano (2001-present), the Consejo Académico Eurolatinoamericano (2012-present) and the Advisory Board of the United Nations University Institute on Globalization, Culture and Mobility (UNU-GCM) (2015-present).

José Enrique de Ayala. Brigadier General of the Army, retired. Ayala holds diplomas from the Spanish Army General Staff and Joint Staff Colleges as well as a degree in International Relations from the Centre for International Studies. He has served as military attaché to the Spanish Embassy in Germany and as Chief of Staff of the Eurocorps. An international policy analyst specialized in the European Union he collaborates with numerous media both written and audio-visual. He is a member of the European Affairs Advisory Committee of Fundación Alternativas.

Prof. Dr. **Daniel Buhr** is Head of the Steinbeis Transfercenter for Social and Technological Innovation and Associate Professor of Policy Analysis and Political Economy at the Faculty of Economics and Social Sciences of the Eberhard Karls University Tübingen in Germany. He conducts transdisciplinary research and teaches at the interface between politics and economics with a special focus on economic and innovation policy (i.e. Industrie 4.0, IoT) as well as on social, health and care policy. Daniel Buhr has been advising various Ministries, parliaments, associations and think-tanks on the (inter)national and

regional level. Before resuming a university appointment Daniel Buhr worked in different marketing and communication positions – as journalist and editor, marketing director, PR-consultant and press spokesman, as founder and executive officer, in start-ups, consulting firms and international IT-companies.

José Candela Castillo is a member of the European Affairs Council of the Fundación Alternativas. He has been an official of the European Commission since 1986 to 2014 as member of the Cabinet of the Vice-President of the Commission and as Head of the Units of Application of Community Law and Governance in the Secretariat General of the Commission. He took part in the Group of Commissioners responsible for preparing the Maastricht Treaty in 1992, chaired by Jacques Delors and was editor of the European Commission's White Paper on European Governance in 2001 and Assistant to the representation of the European Commission in the Convention on the future of Europe that drafted the European Constitution in 2003. He has also been an advisor to the Spanish Secretary of State for the European Union. He has given numerous courses and lectures and published several chapters of collective books and articles on Community Law and Governance in journals such as the *Revue du Marché Unique Européen*, the *Revue du Marché Commun et de l'Union Européenne* or the *Revista Española de Derecho Europeo*. José Candela Castillo is Professor of Philosophy of Law, Morals and Politics at the Faculty of Law of the Universidad Complutense de Madrid.

Carlos Carnero. Managing Director of Fundación Alternativas. Carnero has served as a member of the European Parliament (1994-2009), Spanish ambassador-at-large for European integration 2009-2012), and Vice-President of the Party of European Socialists (2006-2009). He was also a member of the Convention that drafted the European Constitution. He has collaborated on several books, including *Construyendo la Constitución Europea. Crónica política de la convención, Manual de instrucciones de la Constitución Europea, Europa en la encrucijada* and *La diplomacia común europea: el servicio europeo de acción exterior, Gobernanza económica de la Unión Europea y salida de la crisis*. Carnero holds a degree in Tourism. He is a professor in the master programme on EU of the Institute of European Studies at the University CEU-San Pablo. Carnero is member of the Scientific Council of Real Instituto Elcano. The Spanish government awarded him the Order of Constitutional Merit and the Order of Civil Merit for his work related to the European Union and foreign affairs, and the European Parliament with its Medal.

José Luis Escario Díaz-Berrio is Master of International and Community Law from the University of Leuven. He has worked in the European Commission, European Parliament and the Spanish Administration. He has been Policy Advisor for Taxation in Oxfam Intermón and Coordinator for European Union Affairs at Fundación Alternativas (FA). Currently he is Consultant in tax issues at the European Parliament, after having been Advisor of members of the Inquiry Committee and Special Committees created after the LuxLeak and Panama Papers affairs. He is also member of the FA Council of European Affairs and has been coordinator of the State of the European Union Report. He is the author of books and numerous scientific articles on European and taxation issues.

Paloma Favieres has been coordinator of the state legal service of the Spanish Commission for Refugee Aid (CEAR) since 2012. A counsellor of the Illustrious Bar Association of Madrid since 1990, she is an expert counsel in Human Rights, Migration and Asylum. She specialises in legal advice to applicants for international protection and refugees in the territory and at border posts, as well as in litigation before the Spanish and, when necessary, European courts. Representative of the organisation in the European Council on Refugees and Exiles network (ECRE). Member of the Legal Committee of the Forum for the integration of immigrants in Spain. Representative of the organisation in the Council for the Elimination of Racial Discrimination or Ethnic (Ministry of Health, Social Services and Equality). Writer of the CEAR Annual Report on the situation of refugees in Spain.

Jérémie Gagné is Head of Political Analysis at *policy matters*, a Berlin-based political research and consulting institute. In this position, he conducts both qualitative and quantitative research on political attitudes, preferences and participation in Germany and Europe. Before his current role, he worked as a project manager with Bertelsmann Foundation, where he co-authored widely received publications on voter turnout. He holds a master's degrees in political science and European affairs.

Estrella Galán is a third sector professional, anthropologist and social worker, an expert in Management of Social Organizations, Human Rights, Asylum, Migration and social intervention with disadvantaged groups. She is a regular contributor to the radio program La Ventana, Cadena SER and other media. An author and contributor to numerous articles, studies, reports and publications on Asylum and Migration, she is General Secretary of the Spanish Committee for Refugee Aid (CEAR), where she has worked since 1999.

Mercedes Guinea Llorente is professor of International Relations at the Universidad Complutense de Madrid. Guinea Llorente is a specialist in European integration. Her primary lines of research are the political model of the European Union and European foreign policy. In 2016 she collaborated with Fundación Alternativas as the co-author of *Renegotiation by the United Kingdom of its constitutional relationship with the European Union: Issues related to Sovereignty*, a study commissioned by European Parliament's Committee on Parliamentary Affairs and conducted jointly with Francisco Aldecoa.

Björn Hacker is professor of European Economic Policy at the University of Applied Sciences (HTW) Berlin. His main areas of research include European Economic Governance, the theory of European integration and the comparative study of welfare state policies in the EU. Prior to 2014 he has been working on European economic and social policy at Friedrich-Ebert-Stiftung in Berlin.

Richard Hilmer is co-founder and Managing Director at *policy matters*, a Berlin-based political research and consulting institute. A trained sociologist, he started his career in 1982 as a scientific project manager at Infratest, Munich. As of 1992, he established Infratest political research in former East Germany as Managing Director. Some years later, he successfully steered and oversaw his company's application for election coverage with German public broadcaster ARD.

Under his direction, the institute renamed Infratest dimap in 1997 became Germany's market leader in political research. In 2013, the Association of German Market and Social Researchers awarded him the title of "Researcher of the Year". In June 2015, he and Rita Müller-Hilmer co-founded *policy matters*, specializing in strategic political research and consulting.

Diego López Garrido is the President of Fundación Alternativa's Council of European Affairs. He is an economist, has a Chair in Constitutional Law and is Legal consultant for the Spanish Cortes. Former member of the Spanish Parliament and of the NATO Parliamentary Assembly. He was Secretary of State for the European Union (2008-2011) and coordinated the 2010 Spanish Presidency of the EU. He also served as the Socialist Group's spokesman in the Congress of Deputies and has been elected as MP for six terms. He was member of the Convention for drafting the European Constitution, representing the Spanish Parliament (2002-2003). He is author of many books on human rights, economics, politics and European Community Law. His last publications are: *La Edad de Hielo. Europa y Estados Unidos ante la Gran Crisis: el rescate del Estado de bienestar* (RBA, 2014), *The Ice Age. Bailing Out the Welfare State in the Era of Austerity* (London Publishing Partnership, 2015), *Paraísos fiscales. Veinte propuestas para acabar con la gran evasión* (La Catarata, 2016). Recently he published *Lecciones de Derecho Constitucional de España y de la Unión Europea* (Tirant Lo Blanch, 2018).

Gero Maass represents the Friedrich Ebert Foundation in Spain. He studied political science and economics at Hamburg and holds a Ph.D. in economics. After graduating, he worked for the Institute of African Affairs and then for the University of Hamburg. He joined FES in Portugal in 1985 and has worked both at the Foundation's head office in Germany (where he was director of the FES department for industrialized western countries from 2005 to 2006, and director of the department of international political analysis) and abroad (having directed the foundation's offices in Paris, London and Stockholm). His particular areas of interest include the future of the welfare state, the process of European integration, common European foreign and security policy, and the development of social democracy in Europe.

Sébastien Maillard was a journalist at *La Croix*, where he recently covered the campaign of Emmanuel Macron. Previously correspondent of the daily in Brussels and then in Rome, he made numerous reportages across the continent. He is a specialist in European affairs that he taught at Sciences Po. (Paris) and Boston College. He is also involved in various actions for Europe (EuropaNova, Comece, Robert Schuman House), and wrote *What We Have made of Europe?* (edited by Salvator, 2013). He is preparing a new book on Europe with Enrico Letta, president of the Jacques Delors Institute, to be published in September. He is currently Director of the Jacques Delors Institute.

Guilherme d'Oliveira Martins is an executive trustee of the Calouste Gulbenkian Foundation, Portuguese coordinator of the European Year of Cultural Heritage (2018). He has been president of the Court of Accounts (2005-2015), president of the National Culture Centre (2002-2016), Presidency minister (2000-2002), Tax minister (2001-2002), Education minister (1999-2000), Secretary of State for

Education Administration (1995-1999), member of the Assembly of the Republic of Portugal for seven terms (1980-2005), and member of the Convention for the Future of Europe. He also chaired the Commission which prepared the Convention on the Value of Cultural Heritage in Contemporary Society (2005), was vice-president of the UNESCO National Commission (1988-1995), member of the National Education Council, president of SEDES (1985-1995), political advisor to President Mário Soares (1986-1991), and holds honorary doctorates from the universities of Lisbon, Aberta and Lusíada. He has been awarded the Cross of the Order of Christ and the Order of Prince Henry the Navigator and is a Knight of the Order of Isabella the Catholic. He has written numerous books on financial law, history and political science.

Vicente Palacio. Director of the Foreign Policy Observatory at Fundación Alternativas, and associate professor of political science at Carlos III University, Madrid. Doctor in philosophy from Complutense University, Madrid. He has been a visiting fellow and visiting researcher at Harvard University (USA). He has lectured in International Relations at Syracuse University and at the School of International Relations at Instituto de Empresa, Madrid. He has contributed to numerous reports, projects and other documents on the European Union and Spanish foreign relations, and in specialist publications in these areas, and has also published on the United States, Latin America and global governance. His most recent book is *Después de Obama: EE. UU. en tierra de nadie* [After Obama: USA in no-man's land] (La Catarata, 2017). Forthcoming: *Soberanía y soberanismo* [Sovereignty and sovereigntism] (Marcial Pons). He is a frequent media contributor, with his work appearing in Spain's *El País* newspaper and other platforms and social media.

María Pallares is programme coordinator at the Friedrich-Ebert-Stiftung (FES), Madrid. Previously, she has worked as research fellow for Notre Europe (Paris), the Rafael Campalans Foundation (Barcelona) and as free-lance consultant. She holds a Master in European Affairs from Sciences Po., Paris.

Manuel de la Rocha Vázquez. Economist with more than 20 years' professional experience. Graduate in Business Science from the Autonomous University of Madrid (1995), Master in Latin American Studies from Complutense University, Madrid (1996) and Master in Economic Policy Management from Columbia University, New York (2000). He has worked for various international organizations, including the World Bank, the European Commission and the African Development Bank, and has also held a range of posts in public bodies and state agencies in Spain (including ICEX, AECID, FIIAPP, Ministry of Foreign Relations, and Expansión Exterior). He has lived in Spain, Argentina, the United States, Mexico and Kenya. From July 2014 to October 2016 he was Secretary of Economic Policy for the PSOE. Since January 2018 he has been Director of Innovation at the International University of Rioja (UNIR). He is a regular contributor to policy think-tanks, including Fundación Alternativas, Economistas frente a la Crisis, Fundación Felipe González, Policy Network and FEPS. Manuel has published numerous articles and documents on topics including economic policy, international trade, global governance, development policies and the euro crisis.

Nicolás Sartorius. A lawyer and journalist by profession, Sartorius is executive vice-president of the Fundación Alternativas. Imprisoned for several years during the Franco dictatorship for his trade union activities, he was co-founder

of Comisiones Obreras and member of the Spanish Parliament for the Spanish Communist Party and Izquierda Unida for several terms up until 1993. He participated in social and political negotiations during the Spanish Transition. Since that time, he has devoted the greater part of his time to writing. He is a frequent contributor to newspapers such as *El País* and is the author of numerous essays including *El resurgir del movimiento obrero, El sindicalismo de nuevo tipo, Un nuevo proyecto político, Carta a un escéptico sobre los partidos políticos, La memoria insumisa: sobre la dictadura de Franco, El final de la Dictadura: la conquista de la libertad en España* and contributor to *Una nueva globalización: propuestas para el debate*.

Acronyms

AECID: *Agencia Española de Cooperación Internacional para el Desarrollo* (Spanish Agency for International Development Cooperation)

AEOI: Automatic Exchange of Information

AfD: *Alternative für Deutschland* (Alternative for Germany)

AMLD: Anti-Money Laundering Directive

ANEL: *Anexartitoi Ellines* (The Independent Greeks)

ANO or ANO 2011: *Akce nespokojených občanů* (Action of Dissatisfied Citizens in the Czech Republic in 2011)

ARD: *Arbeitsgemeinschaft der öffentlich-rechtlichen Rundfunkanstalten der Bundesrepublik Deutschland* (Consortium of public broadcasters in Germany)

BE: *Bloco de Esquerda* (The Left Bloc of Portugal)

BEPS: Base Erosion and Profit Shifting

CDS: People's Party of Portugal

CDU-CSU: *Christlich Demokratische Union Deutschlands* (Christian Democratic Union of Germany) and *Christlich-Soziale Union in Bayern* (Christian Social Union Bavaria)

CEAR: *Comisión Española de Ayuda al Refugiado* (Spanish Commission for Refugees)

CEAS: Common European Asylum System

CELAC: *Comunidad de Estados Latinoamericanos y Caribeños* (Community of Latin American and Caribbean States)

CEO: Chief Executive Officer

CEPS: Centre for European Policy Studies

CETA: Comprehensive Economic and Trade Agreement

CFSP: Common Foreign and Security Policy

CRS: Common Reporting Standard

CSDP: Common Security and Defence Policy

DACA: Deferred Action for Childhood Arrivals

DESI: Digital Economy and Society Index

DF: *Dansk Folkeparti* (Danish People's Party)

DUP: Democratic Unionist Party

EASO: European Asylum Support Office

ECB: European Central Bank

ECOFIN: Economic and Financial Affairs Council

ECRE: European Council on Refugees and Exiles

EFSD: European Fund for Sustainable Development

EMF: European Monetary Fund

EMU: Economic and monetary union

EPA: Economic Partnership Agreement

EPP: European People's Party

ESM: European Stability Mechanism

EU: European Union

EURATOM: European Atomic Energy Community

EURODAC: European Dactyloscopy

FA: *Fundación Alternativas* (Alternatives Foundation)

FATCA: Foreign Account Tax Compliance Act

FEPS: Foundation for European Progressive Studies

FES: *Friedrich-Ebert-Stiftung* (Friedrich Ebert Foundation)

FIDESZ: *Fiatal Demokraták Szövetségen* (Alliance of Young Democrats, Hungary)

FIIAP: *Fundación Internacional y Para Iberoamérica de Administración y Políticas Públicas* (International and Ibero-American Foundation for Administration and Public Policies)

FPÖ: *Freiheitliche Partei Österreichs* (Freedom Party of Austria)

FRONTEX: European Border and Coast Guard Agency

G20: Group of Twenty, International forum for major economies

GAFA: Google, Apple, Facebook, Amazon

GDP: Gross domestic product

GDPR: General Data Protection Regulation

GRU: *Glávnoe Razvédyvatelnoe Upravlénie* (Main Intelligence Directorate)

HQ: Headquarters

HTW: *Hochschule für Technik und Wirtschaft Berlin* (University of Applied Sciences for Engineering and Economic)

ICEX: *Instituto Español de Comercio Exterior* (Spanish Institute for Foreign Trade)

IIT: Innovation Capability Indicator

IMF: International Monetary Fund

IoT: Internet of Things

IT: Information technology

LREM: *La République En Marche* (The Republic Forward)

MCAA: Multilateral Competent Authority Agreement

MEP: Member of the European Parliament

MERCOSUR: *Mercado Común del Sur* (South American trade bloc)

MP: Member of Parliament

NAFTA: North American Free Trade Agreement

NATO: North Atlantic Treaty Organization

NGO: Non-governmental Organization

NHS: National Health Service

OAS: Organization of American States

OECD: Organisation for Economic Co-operation and Development

ÖVP: *Österreichische Volkspartei* (Austrian People's Party)

PCP: *Partido Comunista Português* (Portuguese Communist Party)

PESCO: Permanent Structured Cooperation

Ph.D: *Philosophiae doctor* (Doctor of Philosophy)

PiS: *Prawo i Sprawiedliwość* (Law and Justice)

PR: Public relations

PSD/PPD: *Partido Social Democrata/Partido Popular Democrático* of Portugal (Social Democratic Party/Democratic People's Party)

PSOE: *Partido Socialista Obrero Español* (Spanish Socialist Worker's Party)

SEDES: *Associação para o Desenvolvimento Económico e Social* (Association for the economic and social development)

SGP: Stability and Growth Pact

SPD: *Sozialdemokratische Partei Deutschlands* (Social Democratic Party in Germany)

SRM: Single Resolution Mechanism

TEU: The Treaty on European Union

TFEU: The Treaty on the Functioning of the European Union

TINA: "There is no alternative"

TPP: Trans-Pacific Partnership

TTIP: Transatlantic Trade and Investment Partnership

UDI: Unilateral declaration of independence

UK: United Kingdom

UN: United Nations

UNASUR: *Unión de Naciones Suramericanas* (Union of South American Nations)

UNESCO: United Nations Educational, Scientific and Cultural Organisation

UNHCR: Office of United Nations High Commissioner for Refugees

UNIR: *Universidad Internacional de la Rioja* (International University of La Rioja)

UNU-GMN: United Nations University Institute on Globalization, Culture and Mobility

USA or US: United States of America

V4: Visegrád Group (alliance of the Czech Republic, Hungary, Poland and Slovakia)

WTO: World Trade Organization

This year's State of the European Union Report (2018) approaches the subject from a slightly different perspective than earlier editions. It addresses the subject not only from the viewpoints of european institutions based in Brussels, Strasbourg and Luxembourg but those of member states as well.

This set of problems so counter to the idea of Europe could precipitate what could hurt the Union the most: divisions between member states. A return to the Europe of Westphalia.

There is nevertheless a flipside to the coin, which is the undeniable desire on the part of European citizens to remain in the Union and the euro and their satisfaction with being a part of the European project. On the average, over 70 % of the citizens of EU countries hold firm to these convictions. The EU needs reforms to tackle the challenges of globalisation.

What kind of reforms? Those most urgently required fall into four fundamental areas addressed in the chapters and final recommendations of this report: euro, social Europe, asylum policy and security and defence in a post-Brexit Europe

In order to counteract this tendency and enter the 2019 election season on the best possible footing, the Union – in other words, its member states – must broaden their horizons and move beyond the current situation fraught with nationalist and protectionist tendencies and narrow self-interests. Pursuing a genuine European project is by far the best alternative.

FRIEDRICH
EBERT
STIFTUNG

GOBIERNO DE ESPAÑA
MINISTERIO DE ASUNTOS EXTERIORES Y DE COOPERACIÓN
SECRETARÍA DE ESTADO PARA LA UNIÓN EUROPEA

FUNDACIÓN alternativas