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# The Year of “Eufouria”

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The resolve of a self-professed geopolitical European Commission will be severely tested in the coming months. President Ursula von der Leyen took office in December 2019 in a very defiant context plagued by huge external challenges. The Libyan turmoil and the U.S.-Iran tensions are forcing Europe to adopt a strategic role for which it is remarkably unprepared. Trade negotiations with the U.S., more conflictual than ever in the last seventy decades, demand a deep reflection and revision of the European economic role in the world. Brexit’s potential implication on fiscal competition at Europe’s borders also throws a gauntlet to the traditional openness of European policies. Such a hostile external context may transform Europe and make it more inward-looking, protectionist or even isolated. I will briefly describe some of the challenges and show that the EU Commission agenda requires an urgent and open assessment of Europe’s objectives by the governments of Germany, France, Italy and Spain, as well as their consistent commitment to it.

In fact, for all its potential threats and problematic consequences, the external environment can also provide impulse for a wider reflection on the future of European cooperation as the E.U. is preparing for a conference on its future launched by the European institutions and spurred by France and Germany. European Member State governments know that they need to reinforce the EU’s institutions also to enable them to better handle the internal tensions. The current domestic political conditions of all the larger E.U. countries, though far from being consolidated, are consistent with a stronger European commitment to bringing a sense of urgency to the European reform agenda.

The current governments of the EU4 - Germany, France, Italy and Spain - all embrace a pro-European line. They should take the initiative and adopt a pragmatic alignment of their priorities in parallel with the beginning of the Conference on the Future of Europe. This “EU4ia” needs to spur European cooperation and the reflection on the future of Europe through concrete decisions, making 2020 a defining year for Europe and the world.

Inertia is not an option. In fact, the negotiations on the new E.U. Budget are likely to provide a severe test of the credibility and functionality of the current institutional setting. The current seven-year

Multiannual Financial Framework lapses at the end of the current year and a new EU Budget will need to be agreed on before then. In order to accommodate implementation, negotiations will need to be concluded before the summer. The debate on the budget will thus provide a clear test for the E.U.'s credibility in tackling the new challenges and inspire deeper reflections on its geopolitical ambitions. The test is even more probing since an agreement is subject to unanimity. A failure to find a convincing compromise might set off soul-searching ruminations on the viability of unanimous decision-making in the E.U.

The current state of the negotiations does not bode well in this respect. Three rotating EU Presidencies, the EC and the European Parliament have made several proposals for the framework, but agreement still seems far off as Member States seek to plug the gap left by the UK's imminent departure. Last December, the Finnish EU Council Presidency presented a proposal for the total amount of common resources capped at 1.07% of the yearly EU GDP (based on the 27 remaining countries after Brexit), equivalent to €1087bn. Germany, the Netherlands, Denmark, Sweden and Austria have argued that as a member state leaves the bloc, the budget should be kept at 1% of Gross National Income (GNI), rather than increase. The EU Commission calls for 1.11% of GDP amounting to 1124bn. The EU Parliament demands 1317bn. The outcome depends on the negotiations taking place between the Member States for financing. Besides the size of the budget, controversies will emerge concerning its composition. Security, Immigration, Defense and Research should find more resources in the budget at the expense of agriculture and cohesion funds. A divisive issue is whether EU resources and funding must be made conditional on the respect of the rule of law. It is very unlikely that the 27 countries will find a compromise on the balance between traditional and new policies and the possible creation of the EC's own tax revenue.

Given the limited amount of resources dedicated to the new geopolitical priorities, the E.U. might be forced to acknowledge a lack of functionality and shift its vital priorities – Defense, in the first place, but also environmental and industrial policies - to the intergovernmental level. However, the coincidence with the Conference on the Future of Europe, beginning in May, might help build an advanced intergovernmental cooperation between a smaller group of member states and the E.U.'s institutional framework. The preparation for the conference, taking off in the coming weeks, should employ a pragmatic strategy through forms of closer and more advanced cooperation by a smaller group of member states orientated towards future EU legislative initiatives. This “avant-garde” approach might find a fruitful ground given the current domestic political conditions in the larger countries currently led by pro-European governments: France, Germany, Italy and Spain. The governments of all the four larger countries, though far from stable, have solid reasons for shouldering common European initiatives to better handle their domestic challenges.

The Libyan crisis has mercilessly exposed the currently inconclusive mix of national prerogatives and European rhetoric. Divisions among the E.U. Member States have left the ground for Russia and

Turkey, who are now dictating events in many Southern Mediterranean states, from Syria to Libya. A divided Europe is proving unable to play an active role even at a regional level, let alone on a global one. In fact, beyond being a critical test for the future geopolitical role of the E.U., the Libyan crisis is also vital for the control of migration flows through the Mediterranean and the Eastern routes controlled by Turkey. Recent polls in Germany show that migration policy remains the most sensitive political issue for the German electorate. Similarly, migration and security represent an open flank in Italy's government policies vis-à-vis the strong right-leaning opposition.

The Berlin Conference on the Libyan crisis at the end of January might give reason for tighter cooperation and for bringing back to unity the disordered initiatives conducted so far in Northern Africa by France and Italy. Formally, no decision will be taken under the E.U. umbrella. However, Germany, which is hosting and chairing the conference, will also take over the E.U. presidency in the second half of the year and is in the position to work on ways to reconcile the agenda of the larger Member States gathering in Berlin for the Libyan conference with the idea of a new role for the E.U. institutions.

Similarly, domestic political incentives are pushing forward the environmental agenda that is at the core of the new E.U. Commission. On December 11, Ursula von der Leyen issued a Communication on the European Green Deal, the European Union's road map to carbon neutrality in 2050, that will be followed up with a "Just-Transition Fund" proposal, fleshing out how to finance a €100bn transition fund and use it to fairly spread the cost of energy transition among the Member States. Von der Leyen will have to take into account the resistance of some Eastern countries, first of all Poland, which may veto unanimous decisions. The Green Deal may in fact touch upon a wide range of issues that shape the European economic model: including agriculture, industrial policy, sustainable investments and fiscal policy. The flagship "European Climate Law", expected to come out in February or March 2020, will build on existing regulations, but it will impinge on many sensitive issues: first of all, the EC has proposed making future comprehensive trade deals subject to the implementation of the Paris Agreement and the imposition of a "carbon border adjustment mechanism," a carbon tariff that will further strain trade relations with the US. Considering that China and the US are not aligned with the European policies for cutting emissions, European firms will have to foot higher costs. Competitive disadvantages could be compensated through public subsidies at the European level, but this is unlikely given the limited resources in the EU Budget.

Environmental priorities and trade implications will also have an impact on a new industrial policy for the E.U., which the new Commission considers a priority for its mandate. Von der Leyen's staff intends to reiterate a tougher trade policy, as well as a more assertive regulatory approach to technology and artificial intelligence. The new approach crosses lines with security policies and trade. Moreover, the Commissioner for Competition, Margrethe Vestager, has indicated that the revision could include reviewing the European State Rules, thus opening the door to a more assertive

role for national governments. France and Germany, in particular, want to assert European interests – often coinciding with those of large corporations - vis-à-vis global competitors. French and German interests are relevant and comprehensible but interaction with Italy and Spain may reconcile them with the interests of the E.U. as a whole when they emerge in the Conference on the Future of Europe. National bias cannot substitute the wider approach, since environmental preferences, trade conflicts and security protection are tightly intertwined and are redefining Europe’s distinct role in the global framework.

Finally, after Brexit the four larger states of the E.U. for the first time will all belong to the euro area. Consequently, they should acknowledge their responsibility for completing the Monetary Union. The European Council Summit in December failed to reach an agreement on the reform of the European Stability Mechanism, nor was the roadmap for a European Deposit Insurance Scheme (EDIS) adopted. Despite the setback, technical discussions on EDIS continue and the European finance ministers managed to agree on the outlines of a euro area budget. More initiatives in this direction could take form once a preliminary agreement is reached between Germany, France, Italy and Spain.

Once the larger countries pave the way for the priorities sketched by President von der Leyen, the Conference on the Future of Europe may find it easier to set a long-term agenda and eschew the risk of lofty principles being shot down by the unreconcilable conflicts of the larger countries. Eventually, “Eu4ia” may be the only way to get Europe out of the current depression.