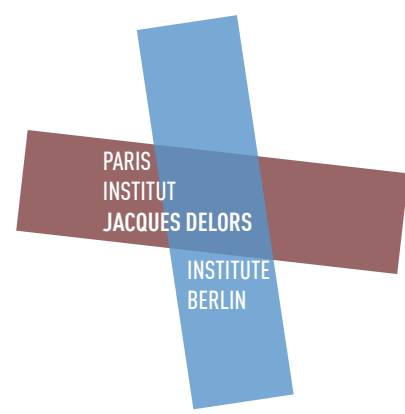


2 SEPTEMBER 2019



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NEW BEGINNINGS

THE EUROPEAN GREEN DEAL STARTS WITH THE ENERGY TRANSITION

■ THOMAS PELLERIN-CARLIN

Head of the Jacques Delors Energy Centre

■ EMILIE MAGDALINSKI

Research Fellow, EU energy policies at the Jacques Delors Energy Centre

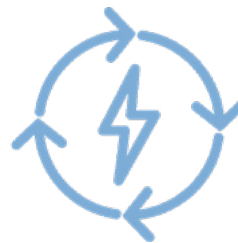
■ JEAN-ARNOLD VINOIS

Adviser, Energy Union at the Jacques Delors Institute in Paris

This series is a cooperation between the Jacques Delors Institutes in Berlin and Paris and makes concrete proposals for the EU's next institutional cycle.

Climate change is here. Global average temperatures have already risen by more than 1°C. Extreme weather events are more frequent and more intense. As European Commission President-elect Ursula von der Leyen puts it: "Whether it is Finnish wheat farmers facing drought or the French facing a deadly heatwave: we are all feeling quite clearly the effects of climate change"¹.

In order to do so, the next **European Commission should deliver Ursula von der Leyen's promise on a 'European Green Deal'. Such Deal should articulate three key components: climate ambition, innovation-based competitiveness, and social justice.** They are vital to build a broad political coalition, and to deliver the policies that speed up the energy transition.



Yet, **the world is not moving fast enough to avoid irreversible climate devastation**². The Paris Climate Agreement has enshrined the end-goal of 'climate-neutrality': reducing greenhouse gas emissions to such an extent that it becomes possible to offset the remaining emissions with carbon sinks (e.g. forest, agriculture).

To fight climate change at home and abroad, **Europe must become the prototype of a successful transition to a climate-neutral economy, starting with an energy transition** that also allows Europe to become more prosperous, socially fair and politically united.

1 ■ Climate change: a defining political challenge for Europe

Climate change is key for the political future of Europe and is an area where EU action can make a real difference. Alongside the economy, unemployment and migration, **climate change is now a key political priority for European citizens** (see figure 1). This is especially the case for northwestern Europeans, while EU citizens in the South and the East prioritise other topics, such as unemployment and the economy (see figure 2)³.

1. Ursula von der Leyen, Speech at the European Parliament, Strasbourg, 16 July 2019

2. International Panel on Climate Change, 1,5°C Report, 2018.

3. This also partially explains the geographical origin of green MEPs in the European Parliament, as most of them are coming from northwestern countries.

1- ENERGY & CLIMATE

2- EUROZONE

3- TRADE

4- FOREIGN & SECURITY POLICY

5- DIGITAL

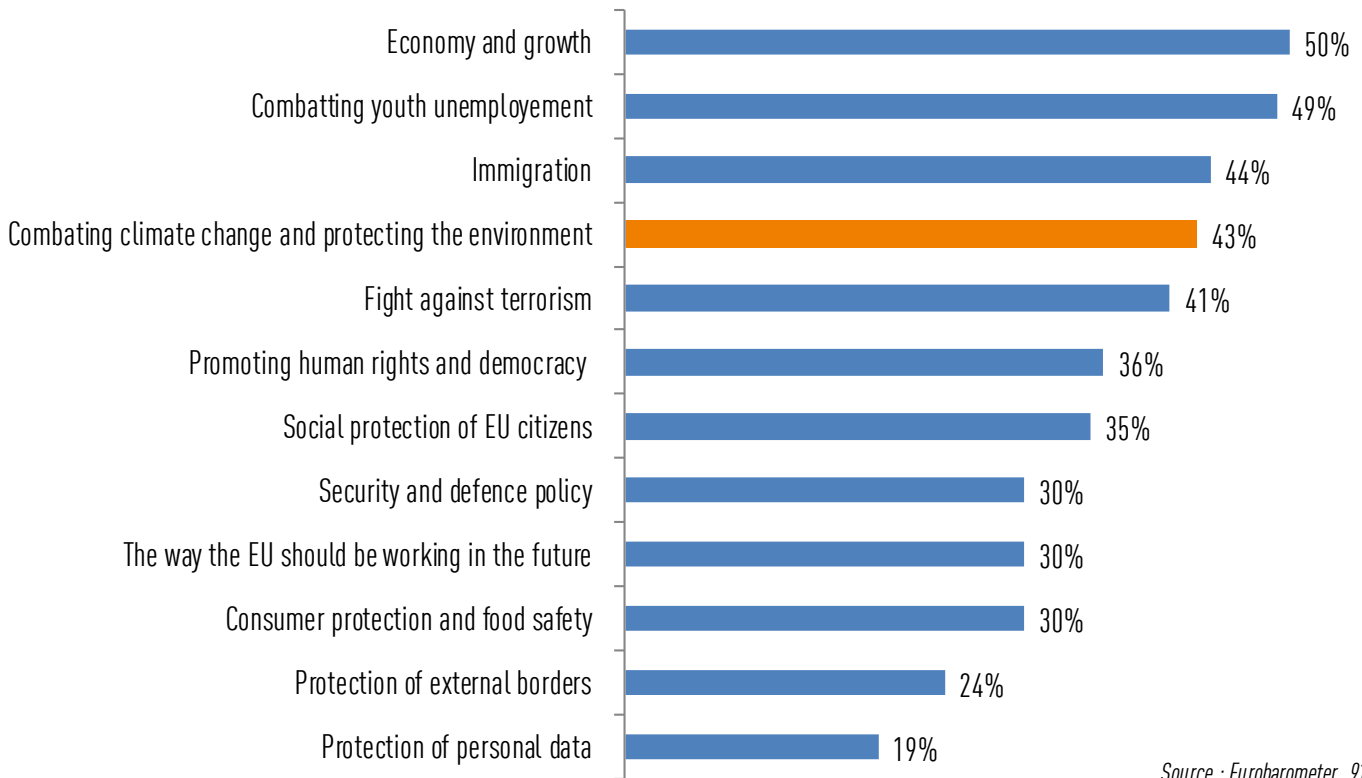
6- DEMOCRACY

7- MIGRATION

8- EMPLOYMENT & SOCIAL POLICY

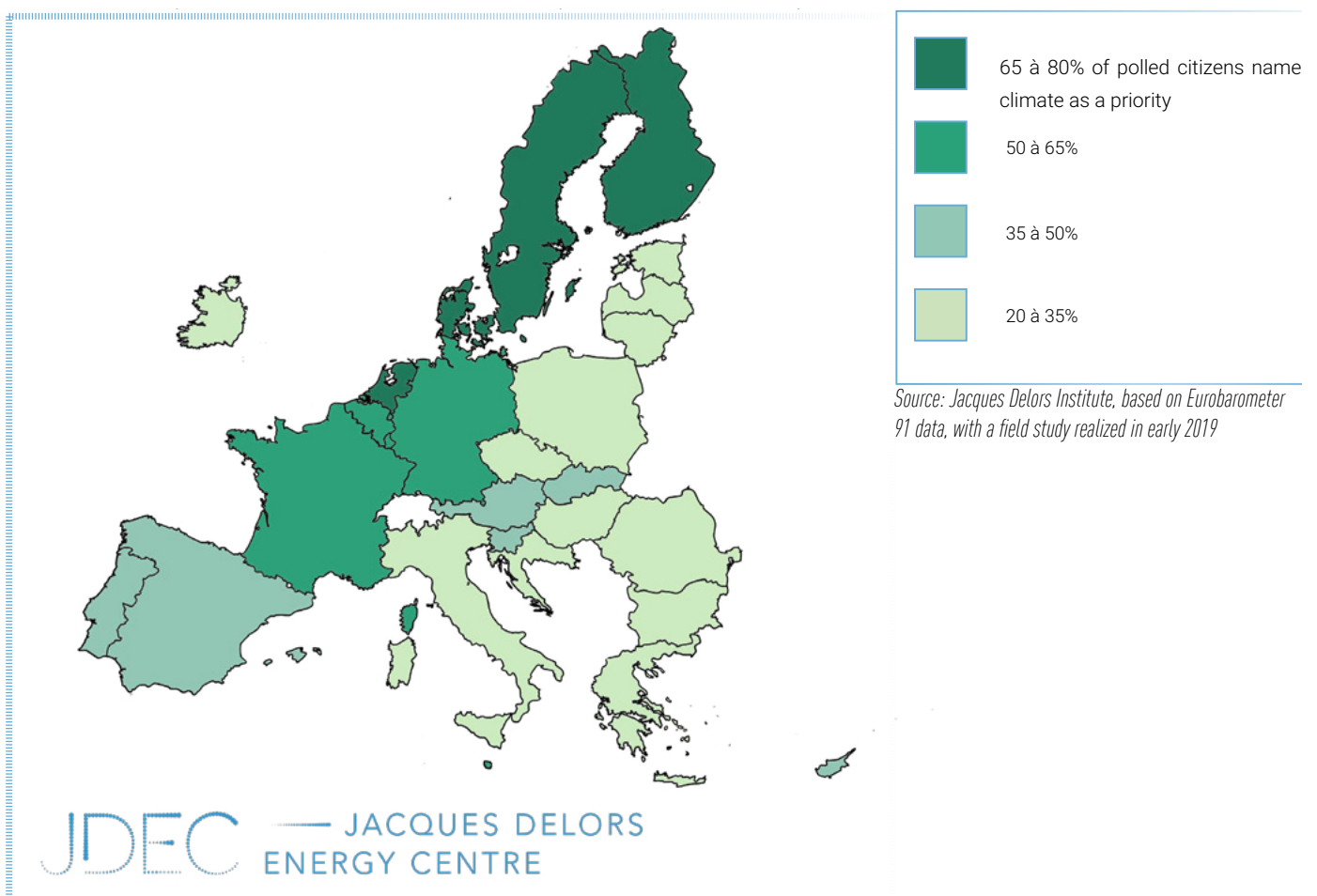
9- BUDGET

FIGURE 1 ■ Which following themes should be discussed as a matter of priority during the electoral campaign for the next European Parliament elections ? Firstly ? And Then ? (Max 6 answers) (% -EU)



Source : Eurobarometer 91.1

FIGURE 2 ■ Percentage of EU citizens who consider that 'fighting climate change and protecting the environment' should be a top-priority during the EU elections (max. 6 answers)



Climate change is also a policy area where the EU is powerful. At the international level, the EU plays an essential role in the Paris Climate Agreement. While Europe only emits 10% of global greenhouse gas emissions, it accounts for 20% of the global economy and 30% of high-level scientific publications. The EU can thus become the prototype of a successful global transition to a climate-neutral economy. And **where Europe leads, others strive for more**, as China, Chile or California already do.

Within Europe itself, the EU has built solid policies that can effectively fight climate change (e.g. energy, agriculture, research and innovation). **In this paper we focus on energy policy**: i.e. what should the EU do to deliver climate-neutral **electricity, transport, heating and cooling**, to all European citizens and businesses.

2 ■ The European energy transition has already started

To fight climate change, Europe needs to complete its energy transition. This is a historic endeavour, as no such transition ever occurred throughout history.

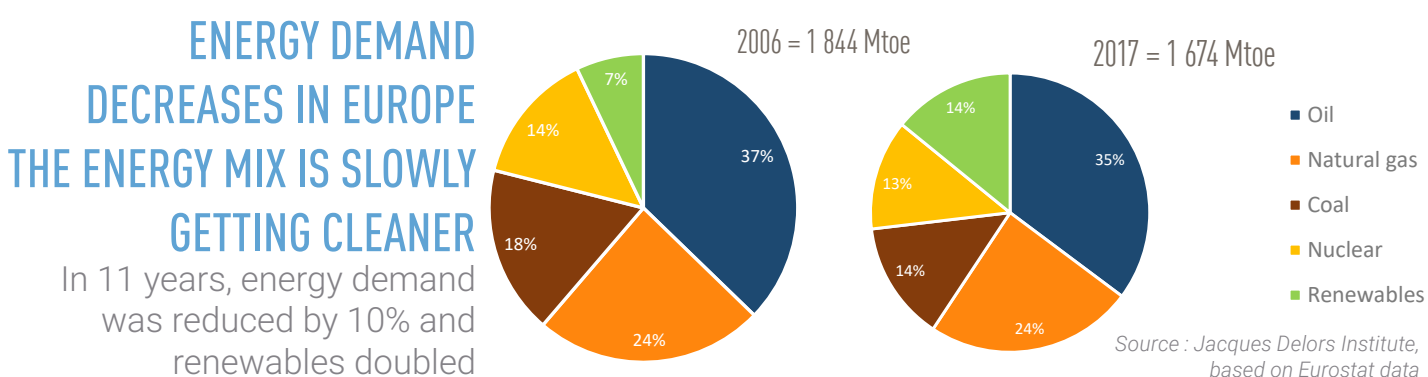
Over the last two centuries, energy demand kept on growing and humans consumed increasing quantities of biomass, coal, oil, gas and nuclear. Today's energy system is therefore the result of past energy additions, a system where we consume massive quantities of dirty fossil fuels.⁴ **We must therefore complete the first-ever energy transition**, where energy efficiency helps to decrease energy demand, all while substituting fossil fuels with renewables.

To do so, **the EU has many cards up its sleeve**: broad popular support as 90% of Europeans favour energy efficiency and renewables⁵, active civil society and mayors⁶, workers and entrepreneurs, and the relevant investment capacity⁷.

The European energy transition is already underway. Europe's energy demand peaked in 2006, allowing newly deployed renewables to start substituting fossil fuels (see figure 3).

Most importantly, in the last ten years, the European Union went from no clear legal competence⁸ for acting on energy to having a comprehensive energy policy that is now in place⁹.

FIGURE 3 ■ Evolution of the eu primary energy mix



4. Jean-Baptiste Fressoz, "Pour une histoire désorientée de l'énergie", Entropia n°15, 2013.

5. Eurobarometer, *Special Eurobarometer 435 Report*, November 2015

6. Such as the 9.000 European Mayors from the *Covenant of Mayors*.

7. Eulalia Rubio, "An EU budget in support of the next commission's agenda", New beginnings, Jacques Delors Institutes in Paris & Berlin, September 2019

8. In EU Treaties, the first article that granted the EU a legal competence to develop an energy policy was the Article 194 introduced in December 2009, with the entry into force of the Treaty of Lisbon.

9. Jean-Arnold Vinois, Thomas Pellerin-Carlin, "L'Europe de l'Énergie existe: le citoyen l'a reconstruite", Décryptage de l'Institut Jacques Delors, Mai 2019.

This EU energy policy **has three clear targets**:

1. Reduce greenhouse gas emissions by 20 % by 2020 and 40% by 2030 –compared to 1990 levels. The EU is on track to achieve this. Ursula von der Leyen wants a more ambitious objective of 50% or 55% by 2030. She also proposes an EU Climate Law that creates a legal objective to make the EU climate-neutral by 2050.

2. Develop renewable energy, to cover 20% of EU energy demand by 2020, and 32% by 2030. Europe is not yet on track to achieve those targets, due to the lack of progress in several Member States.

3. Improve energy efficiency by 20% by 2020 and 32,5% by 2030. The EU can make it, if it takes the right decisions in the next five years, especially in the buildings and transport sectors.

To reach its energy and climate targets, the EU has set-up a comprehensive framework that articulates legislation, enabling tools, and financial support (see figure 4).

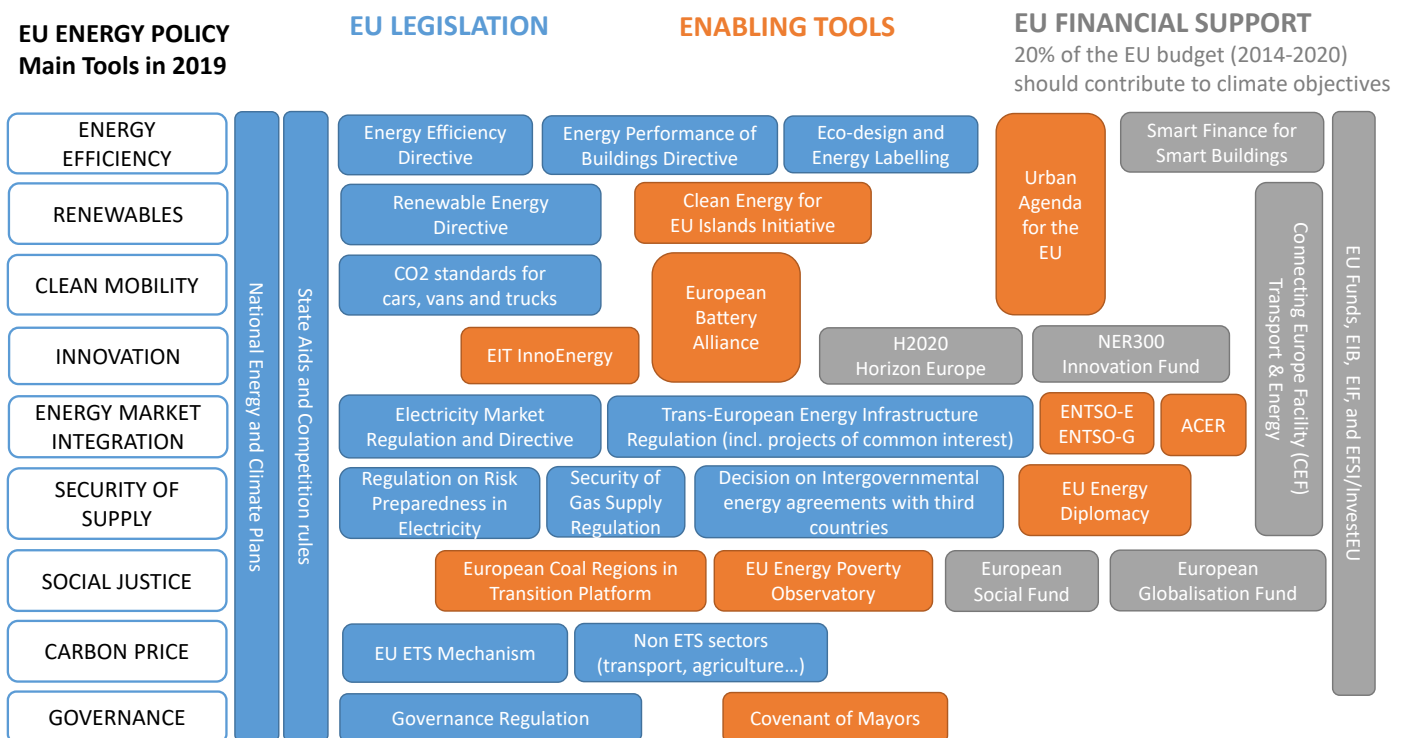
The European Commission should build on this set of tools to tackle three major challenges:

1. While fighting climate change is urgent, the evolution of our energy system is slow. We are on the right track because we are reducing energy demand and boosting renewables. Nevertheless, the pace remains too slow to effectively fight climate change.

2. Some policies raise concerns about international competitiveness. The tension lies between protecting dying industries (e.g. coal), helping those in transition (e.g. car manufacturers), and supporting emerging industries (e.g. offshore wind).

3. Several policies can have social consequences. The 2013 Bulgarian protests and the 2018 French Yellow Vests movement, set off by rising energy prices, show that the energy transition cannot be achieved at the expense of low-income citizens whose daily lives are strongly affected by such policies. It is time to understand that **the energy transition must be socially fair if it wishes to succeed.**

FIGURE 4 ■ Main EU energy policy tools on 2019



3 ■ A European Green Deal: ambitious, innovative and social

Ursula von der Leyen's number one priority for Europe is the **"European Green Deal"**. Her Commission should elaborate a political project that articulates three components: climate ambition, innovation-based competitiveness and social justice.

This articulation is required from both a *policy* and a *political* perspective.

From a *policy* perspective, to deliver our climate ambition, we need innovative business models, technologies, processes, infrastructures and behaviours. We also need social policies that are inclusive of all workers and citizens in the transition.

From a *political* perspective, only a broad coalition can bring about change in Europe. **Europe thus needs climate ambition** to gather support from green-leaning parties, NGOs and citizens – especially in northwestern Europe (see figure 2). This ambition needs to be **supported by a serious agenda for innovation and competitiveness** in order to gather support from businesses as well as from pro-market and right-wing politicians and citizens. A **Social Pact for the Energy Transition**, for workers and poorer Europeans, is paramount to gather support from trade unions and social NGOs, as well as left-leaning politicians and citizens – especially in Southern and Central-Eastern Europe.

In the last section of this paper, we sketch the content of each of those three complementary policy priorities.

3.1 Climate ambition for the Green Deal

The European Commission, the European Parliament, and 24 of the 28 EU Member States already support the objective to make Europe climate-neutral by 2050. This will therefore become the official EU objective in the months to come, most likely under the EU Climate Law that Ursula von der Leyen proposes.

After that, the European Commission should elaborate a policy package to pave the way for the transformations needed to reach climate neutrality. For the energy transition, the European Commission should:

1. Elaborate an ambitious strategy for the deep renovation of European buildings, as they consume 40% of EU energy. We should therefore renovate 3% of all buildings every year – compared to the current rate of 1%-1.5%¹⁰. It also means drastically improving the quality of the renovation: small renovation such as roof insulation is not enough, only deep renovation of entire buildings can bring important energy savings¹¹.

2. Build a comprehensive strategy for clean mobility, as transport consumes 33% of EU energy. The Commission should:

- Help States, regions and cities to **reduce transport needs**. This implies rethinking urban planning to reduce distances between residential areas and the workplace, but also favouring working methods like teleworking.
- Encourage a **shift from dirty modes of transport towards cleaner ones**. For short distances, it is about shifting from using cars to **walking, biking and using public transport**. Several cities are already becoming car-free, like [Pontevedra](#) in Spain. For long distances, it is key that the pollution of the **aviation** sector is reflected in the price of plane tickets, including via a fairer taxation. The EU should also better support innovation in the **railway** sector, including freight and night trains.

¹⁰. Source: European Commission, [A Clean Planet for all – in depth analysis](#), November 2018, Figure 41

¹¹. For instance, [EnergieSprong](#) is already doing whole house refurbishment, delivering Net Zero Energy Buildings.

- Replace polluting transport modes by cleaner options. This involves shifting to **electric vehicles**¹² and agreeing on a date to end sales of new diesel and gasoline cars in Europe (e.g. by 2040). Cities are already investing in fleets of clean buses but the EU and local authorities should do more.

3. Accelerate the change in the electricity and gas sectors. The EU should coordinate the European coal phase-out that currently occurs with uncoordinated national decisions¹³. Renewables should be developed at scale to replace the electricity currently generated by the coal and nuclear units that are phased-out. Coupling the electricity and gas sector is key. The latter should transform itself including through energy efficiency-based business models, 'green gas' and 'green hydrogen'.

4. Engage EU companies to draft an **"EU Business Climate Pledge"**¹⁴ as part of Ursula von der Leyen's "European Climate Pact".

5. Support businesses and citizens in making the greenest choices. This is now well studied¹⁵ and several techniques are experimented in Europe: roll out of smart meters with consumption comparison tools that help consumers optimise their consumption at home (e.g. *Opower*, *Wivaldy*), innovative business models based on zero-carbon energy as a service (e.g. *Centrica*, *Engie*) or mobility as a service (e.g. *Renault Mobility*).

6. Lead by example. The Commission should practice what it preaches, for instance by renovating its own buildings and making more use of trains as a transport mode. It should also create the position of European Commission First Vice-President for Climate – or for the 'Green Deal', charged with overseeing all relevant policies on a daily basis.

3.2 Innovation-based competitiveness for the Green Deal

In the global economy, **the competitiveness of EU businesses rests on their capacity to innovate**. Technology plays an integral part in innovation¹⁶. Yet, most of the innovative efforts required today go beyond technology¹⁷, e.g. innovations related to business models for clean mobility, financing schemes for energy efficiency renovation, behaviours and social norms for tourism, etc.

To build up competitiveness, policymakers and businesses need to **tap the dormant innovative potential in Europe**. The Juncker Commission has done a lot¹⁸. The von der Leyen Commission should furthermore:

1. Better fund innovation, starting by investing at least **€120 billion** in its main Research and Innovation Programme (Horizon Europe) and use other tools¹⁹ to support the development of the existing innovation ecosystem, especially in Central-Eastern Europe.

12. Emilie Magdalinski et al., "Electric Vehicles", Policy Brief, May 2019.

13. Many EU States have decided to phase-out coal: such as France, Sweden, Slovakia Ireland, and Italy (by 2022-2025), Finland, Netherlands and Portugal (2029-2030) and Germany (by 2038). Source: <https://beyond-coal.eu/data/>

14. The content of such pledge is detailed in a forthcoming Jacques Delors Energy Centre note, produced for the Franco-German Businesses Evian Meeting. This pledge draws on the experience led by *U.S. businesses with the Obama Administration*.

15. See for instance ENABLE.EU, *Written synthesis of ENABLE.EU's findings*, June 2019.

16. Thomas Pellerin-Carlin, et al., *Innovation for the energy & climate transition*, Jacques Delors Institute, MOOC, July 2019

17. Climate Strategy & Partners, *Funding Innovation to Deliver EU Competitive Climate Leadership*, October 2018

18. Thomas Pellerin-Carlin, *Invest in the clean energy future we want*, Jacques Delors Institute Policy Brief, January 2019.

19. Eulalia Rubio, Fabian Zuleeg, Thomas Pellerin-Carlin, Emilie Magdalinski, Marta Pilati, Philipp Ständer *Mainstreaming innovation funding in the EU budget*, Jacques Delors Institute, Study, May 2019

2. Tackle the investment challenge.

Europe needs to re-allocate public and private investment, away from fossil fuels and towards clean energy. The European Commission should thus improve **carbon pricing** mechanisms, and deliver on Ursula von der Leyen's **Sustainable Europe Investment Plan to unlock €1.000 billion** of investment in the 2020 decade.

3. Invest in the cleanest and most innovative solutions. Elaborating an EU-wide **"Buy Clean Act"** would provide a significant market to clean innovations, such as low-carbon cement for the buildings sector. EU diplomacy could then engage international partners to adopt similar provisions, thus **ensuring more climate-friendly international trade** and supporting those EU businesses that provide the cleanest options on the global market.

4. Mobilise innovators and entrepreneurs. This is where **EU Research and Innovation Missions** come in, especially the idea to **make a hundred European cities climate neutral by 2030**²⁰. Those cities will be the laboratories of the innovative solutions that deliver climate neutrality.

5. Elaborate an industrial strategy for the transition to climate-neutrality. Europe needs large industrial projects to build the future we want. We now have a blueprint: the **European Battery Alliance**, an initiative developing a competitive, sustainable and circular value chain for battery manufacturing in Europe²¹. It can inspire similar initiatives in other sectors, like green hydrogen, low-carbon cement and steel, etc.

3.3 Social justice for the Green Deal

The energy transition is not *by nature* a social one. Rising energy prices without the proper supporting framework can be unfair and lead to unrest. There are, however, many ways to ensure a socially fair energy transition. The EU, together with Member States, regions and cities, as well as with businesses, trade unions and NGOs, must build a **Social Pact for the Energy Transition**²². This Pact will ensure that **workers** are accompanied in the transition – starting with coal workers²³, develop the **training of young Europeans** in clean energy jobs and **protect European families from energy poverty**.

Concretely, the new Commission should:

1. Allocate adequate EU funding for regions and workers who lose their jobs as a result of the transition. Ursula von der Leyen wants to create the **'Just Transition Fund'** the Jacques Delors Institute called for²⁴. But this is not enough. The EU should also earmark some of its regional and social funding to properly support regions and workers, starting with those affected by the coal phase-out.

2. Create EU centres of excellence for apprentices in specific energy transition jobs (e.g. energy efficiency audits, installation of heat pumps). With the support of grants and an extended Erasmus Pro programme, the EU has the opportunity to make young Europeans key actors of the energy transition.

²⁰ Mariana Mazzucato, [Mission-Oriented Research & Innovation in the European Union](#), European Commission, February 2018

²¹ See European Commission's [Strategic Action Plan on Batteries](#), 17 May 2018

²² Jacques Delors, Sofia Fernandes, Thomas Pellerin-Carlin, ['Europe Needs a Social Pact for the Energy Transition'](#), Brief, Jacques Delors Institute, January 2018.

²³ Thomas Pellerin-Carlin, Monika Oczkowska, [Just Energy transition: A reality test in Europe's Coal regions](#), Jacques Delors Institute, May 2019.

²⁴ Jacques Delors, Sofia Fernandes, Thomas Pellerin-Carlin, ['Europe Needs a Social Pact for the Energy Transition'](#), Brief, Jacques Delors Institute, January 2018.

3. Set the objective of 'zero energy poverty' by 2030. This can build on an ambitious narrative stating that **'not a single European family should suffer from cold at home in winter'**. Such an objective requires clear measures and financing tools to tackle the root cause of energy poverty: energy inefficient buildings. Public money should help renovate buildings rather than subsidise further fossil fuel consumption.

Conclusion

Ursula von der Leyen has chosen to make the 'European Green Deal' the number one priority of her term as President of the European Commission. She will need to deliver concrete steps forwards, including by speeding-up the transition to a clean energy future. To do so, **she needs to build a broad coalition both in Parliament and among EU governments and societies on this priority.**

This is why we argue that **the European Commission should structure the 'European Green Deal' around three complementary policy priorities: climate ambition** to set the direction, **innovation-based competitiveness** to help EU companies develop the clean energy solutions for Europe and the world, and **social justice** to ensure an inclusive transition that improves the living conditions of all Europeans.

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JACQUES DELORS INSTITUTE
BERLIN
Centre for European Affairs at the Hertie School of Governance

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ENERGY CENTRE



L'Europe pour les citoyens



PREMIER MINISTRE

Institut Jacques Delors

18 rue de Londres, 75009 Paris

info@delorsinstitute.eu – www.institutdelors.eu

Jacques Delors Institute – Berlin

Friedrichstraße 194, 10117 Berlin, Allemagne

info@delorsinstitut.de – <https://www.delorsinstitut.de>

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■ LUCAS
GUTTENBERG

Deputy Director at
Jacques Delors Institut
Berlin

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NEW BEGINNINGS

A NEW APPROACH TO EUROZONE REFORM

A new approach to Eurozone reform

The Eurozone is undoubtedly in better shape than when the Juncker Commission took office in 2014. Growth has been robust; unemployment has fallen significantly pretty much across the board. Most importantly, the Eurozone is still in one piece. We tend to forget that it was only in 2015 that Grexit was a real possibility only averted at the last minute.

At the same time, the ECB has been struggling to push inflation rates closer to its objective and has deployed a wide range of instruments along the way. Debt levels greatly vary across member states and some have more ample room for fiscal manoeuvre than others. The Eurozone will thus likely enter any future crisis with a strained monetary policy toolbox and a very unequally distributed capacity to lean against a downturn. This is particularly relevant now that Eurozone growth is slowing down and global downside risks are rising by the day. The next crisis might not be as far away as we think.

The fact that the Eurozone is ill-prepared is also because the last five years have seen little or no progress in building a Eurozone

architecture fit for purpose. Banking Union is still missing relevant parts and, critically, a shared understanding of how "European" our banking system should be. There is no agreement whatsoever what form a common fiscal response to any new crisis should take and whether the European level should play any part. There is simply no common vision of where member states want the Eurozone to go. The Five Presidents' Report in 2015 was the last attempt to provide a (very modest) frame for the Eurozone's future architecture but member states have not yet even endorsed its general direction.

So, the new Commission inherits a rather timid policy package consisting of the backstop for the Single Resolution Fund, a mini-budget for the Eurozone, and a cosmetic reform of the European Stability Mechanism (ESM). This package still requires some political effort to be completed.

Its timidity results, however, not only from the above-delineated lack of shared political vision but also from a lack of trust among member states. Accordingly, a meta challenge for the new Commission is to foster that trust with every action it takes.



In addition, political capital is scarce and needs to be used wisely. Eurozone matters aren't central on anyone's mind for the moment, neither in Brussels nor in the member states, and Eurozone fatigue has set in. Therefore, instead of investing ever more political capital in smaller and smaller technical fixes and improvements, the new Commission should look for the biggest bang for the political buck.

The new Commission faces a dual-pronged challenge at the start of its mandate: On the one hand, the economy has been doing well but is getting worse. On the other hand, the political and institutional foundations of the Eurozone are still shaky and unlikely to improve: a combination that precludes any complacency.

The new Commission should concentrate on two parallel tracks:

- First, it should shift its focus to replenishing political capital and recreating trust by developing new ways to build a lasting consensus on the direction of Eurozone reform.
- Second, it should take targeted steps to prepare the Eurozone for the next downturn, namely
 - * Finalise the current package on the table and improve it where possible;
 - * Make Banking Union work in the next downturn;
 - * Prepare the playbook for a joint fiscal response.

These tasks need to be tackled in parallel. Ideally, we would focus on the former. But the current global environment makes time short.

1 ■ Focus on building political consensus

The binding constraint on practically all future Eurozone reform steps is political as

outlined above; examples of fundamental disagreements include

- Some member states strongly favour a form of common fiscal policy that might include a common safe asset; others are deeply hostile.
- Some think a different regulatory treatment of sovereign debt and a sovereign debt restructuring mechanism are indispensable; opponents find this dangerous.
- For some, the threat of exit is still a viable policy option; for others, this is completely out of the question.

And the list could go on. For all these questions, myriad technical solutions have been produced over the last decade by think tanks, academics, and institutions such as the IMF. But none of these has any chance of seeing the light of day unless the underlying political questions are answered.

The discussion on the new Eurozone budget is a good example: Member states agreed on its parameters without agreeing at the same time on the fundamental question of whether or not they wanted a common fiscal instrument. This led to a very messy process with two undesirable outcomes: First, ministers had to discuss every nitty-gritty detail because the fundamental political orientation was missing and therefore the technical level was unable to prepare the ground for proper debate. Second, the instrument now does not make much sense policy-wise because its objective is not clear.

This kind of dysfunctional process not only leads to suboptimal reform outcomes. It can even be dangerous when reform steps are taken with no clear political consensus on policy direction. [Think of the current ESM reform](#): Some member states wanted to *improve* the usability of the precautionary lending instruments but failed to ensure that all were on the same page when the

technical discussions were opened. As a consequence, usability has substantially *deteriorated* as conditions were hardened up and, rather accidentally, the Eurozone's crisis management arsenal is now smaller than before the reform.

The Commission has also bolstered the dysfunctional process in recent years by trying to bridge political chasms with technical fixes. This often proved both impossible and damaging: The Commission proposed for example [a stabilisation function based on loans rather than transfers](#), assuming that this would alleviate concerns among those member states opposed to common fiscal policy. This technical feature practically killed the macroeconomic impact of the proposed instrument and set the bar very low for all other debate participants to propose similar ideas (cf. the German idea of an unemployment reinsurance based on loans). At the same time, it left the political disagreement intact and indeed stabilisation was excluded from the objectives of a future Eurozone budget in the end.

Thus, to be able to move ahead significantly, the Eurozone needs above all a new way to reach political agreements before kicking off technical work. This will require first that all relevant actors – member states as well as EU institutions – have a clear position. And, second, this necessitates an entirely new process to arrive at these agreements. The Eurogroup has proven to be the wrong forum for this kind of work – this requires the European Council/Euro Summit itself to weigh in.

For the new Commission, this has three important implications:

- **First, it should develop its own clear, and above all coherent, stance on Eurozone reform. Given its political balance, this will be no easy task.**
- **Second, it should push for a new political process better suited to fixing clear mandates for technical work.**

- **Third, it should refrain from making legislative proposals that internalise perceived political constraints in areas where there is fundamentally no political consensus on the right direction of reform. Any proposals to drive the political process should be geared to steering the debate and hence be both bold and coherent.**

The first test here will be the review of the economic governance (Six-Pack/Two-Pack review) this fall and the proposal by president-elect Ursula von der Leyen to revive the idea of a European unemployment re-insurance: In both instances, building political consensus on the right way ahead should take precedence over making detailed technical proposals. This kind of approach will slowly increase trust all round and ultimately prepare the ground for bolder steps.

It is far from guaranteed that such a new process would succeed. But it is clear that without the ambition to find new political agreements, the next five years will see even more limited progress than the last.

2 ■ Prepare the Eurozone for the next downturn

In an ideal world, building a new political consensus would precede any future reform steps. But both the global environment from trade wars to Brexit and the economic situation in the Eurozone itself are such that there is simply no time to wait. The Commission should therefore take concrete steps in three areas:

2.1 Finalise the package on the table

In a series of decisions of increasing granularity, member states have in recent months agreed on a three-pronged package:

- The ESM treaty will be changed to include a possibility for the ESM to be used as a backstop to the Single Resolution Fund (SRF).

- The functioning of the ESM will also be slightly amended, in particular as regards the use of precautionary instruments and the role of ESM staff in designing programmes.

- As part of the overall new Multiannual Financial Framework (MFF), the Eurozone is supposed to get its first common fiscal instrument, now known as the Budgetary Instrument for Competitiveness and Convergence (BICC).

The main political parameters of this package were agreed in [December 2018](#) and [June 2019](#); the new Commission essentially inherits it without significant political wiggle room.

This is especially true for the parts related to ESM treaty reform: With the amended text essentially complete, most discussions now focus on the guidelines supplementing the treaty. The new Commission could help to bring this reform over the finishing line by continuing to provide technical compromise solutions for the remaining questions. But scope is limited to make any meaningful changes on substance.

There is however an exception: The Commission retains a considerable grip on the future of the BICC as it will be part of the MFF and hence member states depend on Commission legislative proposals and on the approval of the European Parliament for it to become law. Within the confines of the December 2018 Euro Summit decision on the BICC's basic parameters, there was scope to build a useful instrument ([here](#) a detailed proposal). But since then, member states have [significantly narrowed down](#) this scope and it is now questionable whether the BICC in its current form would enhance Eurozone architecture.

The Commission can change the scope of the negotiations and make legislative proposals to enact the BICC that ensures it makes real sense. Member states will not be thrilled – but the EP might take a different

view and both co-legislators have to agree. In the end, the BICC will be part of the overall MFF package. Nothing is agreed until everything is agreed.

Concretely, the new Commission should aim at ensuring that the BICC embraces two important features:

- It should be *flexible*: This requires in particular avoiding the *juste retour* logic of the EU budget, i.e. that member states know in advance what they will get in return. If the BICC is supposed to be of any use in a future downturn, money should be able to flow where it is needed most. The mechanics should be sufficiently flexible to allow for just that with no pre-allocated expenditure to member states for the next seven years.

- It should be *scalable*: The funds currently foreseen for the BICC (17 billion euros for 19 member states over seven years) clearly do not suffice to have a sizeable macroeconomic effect. But this is not a problem as long as there is scope to increase the BICC's volume later on. The best way to do this is to include a plug for an intergovernmental agreement.

A BICC that is flexible but not scalable will never be large enough to have an impact. A BICC that is scalable but inflexible will mean that funds will still not flow to where they have the desired effect. So both conditions have to be met. This may well be the only shot we have to create a common fiscal instrument in the foreseeable future – we should not miss it.

Therefore the new Commission should make sure the package makes it over the finish line, but should focus its political energy on making the BICC actually useful by ensuring that is both flexible and scalable.

2.2 Make Banking Union work in reality

The next five years will show whether Banking Union means Banking Union. Large European

banks are now supervised by the ECB. The Single Resolution Mechanism provides a common regime for dealing with ailing banks and should soon be complemented with a backstop for the SRF in case it runs out of money. In principle, this creates the conditions for further financial integration and risk-sharing by moving steadily towards a single European banking system.

But this will only work if the system as a whole is credible – indeed if the promise that member states will no longer deal with banks individually but collectively holds when push comes to shove. For this to work, the issue is not to immediately complete the whole long list of actions usually associated with “completing Banking Union”. Instead, the most important task to prepare for a future crisis is to ensure that the resolution framework is credible and works properly.

Three factors could help here:

- First, even though it has major design flaws, getting the backstop for the SRF approved and ratified significantly increases the available resources for resolution in a major crisis. The option of early introduction should be kept on the table for emergencies.
- Second, the agreed rules should be applied in letter and spirit. Precautionary recapitalisation, which essentially repatriates resolution decisions to member states and reinstates the doom loop between sovereigns and banks, should remain the exception, not the norm. If we come to the conclusion that bail-in rules are too strict, we should change them, not circumvent them.
- Third, there is a gap in Banking Union: Some banks seem, for whatever reason, too locally important to simply be liquidated when they go bust but are from a European perspective not important enough to be resolved by the SRB. Member states can then use their national insolvency frameworks to de facto bail out these banks, which undermines the very premise of Banking Union. A first step to

remedy this problem could include a limited harmonisation of insolvency frameworks for such eventualities.

However, these three aspects will not suffice in the medium to long run: Fundamentally, host member states need to have confidence that in a crisis, their banking systems will not be sucked dry by their banks’ parent companies. At the same time, the development of a pan-European banking system means that complete ringfencing of liquidity also needs to be avoided. Solving the home-host issue boils down to the question whether or not we want a single European banking system – and this issue is, again, fundamentally political. Thus this would be a good starting point for the Commission to start trying to build consensus. Part of this consensus could then also be additional long-term solutions like an agreement on common deposit insurance and a clean solution how to provide liquidity in resolution cases.

Therefore the Commission should focus on first making sure that the backstop becomes a reality, second that Banking Union rules are applied coherently, and third on limited fixes to deal with smaller banks. For all further steps such as EDIS, developing a consensus on what the European banking system should look like in future should be the priority.

2.3 Prepare the fiscal response to the next recession

Eurozone growth has slowed down this year – 1.2% compared to 1.8% in 2018 according to the latest ECB projections in June. Germany, the zone’s largest economy, has posted negative growth in the second quarter of 2019. The global outlook looks extremely shaky while Brexit, trade wars, and uncertainties over Europe’s long-term business model loom large. A crisis or even a substantial downturn may not be just around the corner. But we cannot exclude

such a scenario either. The EU should at least be prepared.

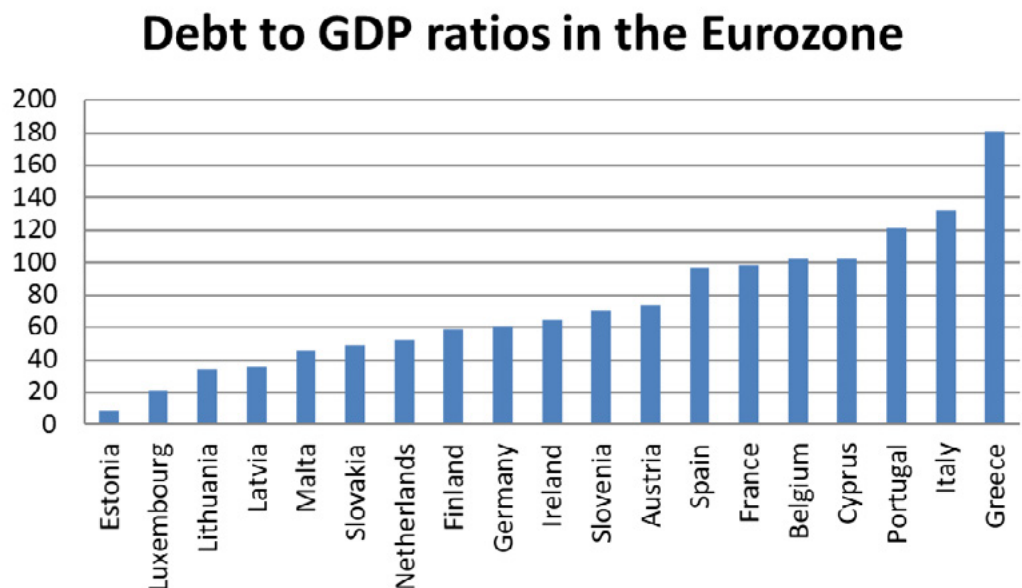
Alas, it does not seem to be so. The ECB, which has done much of the macroeconomic heavy lifting, has strained its arsenal already. This means that any future downturn will likely require a more forceful fiscal response than in the last recession to be contained. But the capacity of member states to respond individually will likely diverge strongly as debt-to-GDP ratios vary substantially. This suggests that those with lower debt such as Germany (60.9%), Ireland (64.8%) or Slovenia (70.1%) will have more room to spend countercyclically than those saddled with higher debt such as Belgium (102.0%), Portugal (121.5%) or Italy (132.2%). It is far from obvious that this distribution of fiscal stimulus would be optimal in every crisis scenario, especially in a Eurozone-wide downturn.

In principle, this problem could be remedied by a common instrument that ensures that fiscal resources go where they are most needed. However, given the failed attempt to create a meaningful Eurozone budget, it is now very unlikely that the Eurozone will have such a tool in place to facilitate a joint response anytime soon.

The new Commission should still try to improve the BICC as much as it can. But it should start in parallel to build an alternative: In the event of a Eurozone-wide recession, fiscal policies should respond in a coordinated way. This cannot be agreed politically under current circumstances. But the groundwork needs to happen now. This preparation could inter alia include a clear idea of how to apply the fiscal rules in a downturn in a way that does not constrain necessary stimulus and an identification of expenditure items at national level that have the biggest Eurozone-wide spill-over effects. Even so, the elephant in the room remains constant: are member states willing to pool fiscal resources in an ad-hoc way and send them wherever they are most needed so as to ensure stimulus happens where it should.

Thus, the new Commission should prepare the playbook for a coordinated response of national fiscal policies to the next recession. This is realistically the only line of defence the Eurozone can rely on if it does not want to leave the ECB out in the cold on its own.

FIGURE ■ Debt to GDP ratios in the Eurozone



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JACQUES DELORS INSTITUTE

BERLIN

Centre for European Affairs at the Hertie School of Governance

Institut Jacques Delors

18 rue de Londres, 75009 Paris

info@delorsinstitute.eu – www.institutdelors.eu

Jacques Delors Institute – Berlin

Friedrichstraße 194, 10117 Berlin, Allemagne

info@delorsinstitut.de – <https://www.delorsinstitut.de>

2 SEPTEMBER 2019

#NEWEU
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NEW BEGINNINGS

A GREENER AND MORE INCLUSIVE TRADE POLICY

■ ELVIRE FABRY

Senior Research Fellow, trade policy and Brexit, at the Jacques Delors Institute – Paris

This series is a cooperation between the Jacques Delors Institutes in Berlin and Paris and makes concrete proposals for the EU's next institutional cycle.

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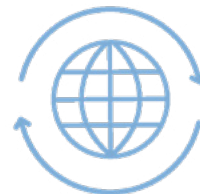
7- MIGRATION

8- EMPLOYMENT & SOCIAL POLICY

9- BUDGET

1 ■ A strategic policy under high tension

• Trade policy priorities will become even more strategic for the next Commission as the geopolitical dimension of trade policy is growing in importance. In the absence of clear foreign policy objectives, the Trump administration's trade policy will take precedence by default. Similarly, China's foreign policy remains primarily commercial. The ability of Europeans to keep the United States at the multilateral negotiating table and bring China back to it will be crucial for the systemic balance over the coming decades.



• The last legislative term has been a transition period for trade policy and marked the end of 'trade as usual'. In the wake of the negotiations for TTIP, strong internal challenges have emerged from civil society since 2014, as various actors intend to have greater influence over this policy area. Externally, unprecedented tensions between major trading powers have arisen since 2018. But a tightening of internal and external policy space foreshadows severe turbulence for the next Commission. In addition to the slowdown in world trade, which is amplified by the confrontation between China and

the United States, there is a great deal of uncertainty about bilateral relations between the EU and the US, as well as the EU and China. The risk is a deterioration in these relationships that would necessitate a more defensive European position and mark a shift in the market access agenda. Moreover, the surge in support for the Greens in the new European Parliament and the need to strengthen the legitimacy of European trade policy call for an active 'greening' of trade policy, or the principles of openness will be seriously undermined.

• A reorientation of European trade policy has already taken place under the Juncker presidency. (for example, by ensuring greater transparency, promoting European standards through offensive bilateral policy, and developing a policy that 'protects without protectionism'). But there are blind spots that require changes in the current trajectory. In the face of Chinese state capitalism and the aggressive protectionism of Donald Trump, Europeans need to ensure that they can defend a globalisation with European characteristics that reinforces multilateral rules. In particular, trade policy issues will require more coordination between the various Commission Directorates General (DG), beyond DG Trade.

2 ■ Long-term challenges and short-term emergencies

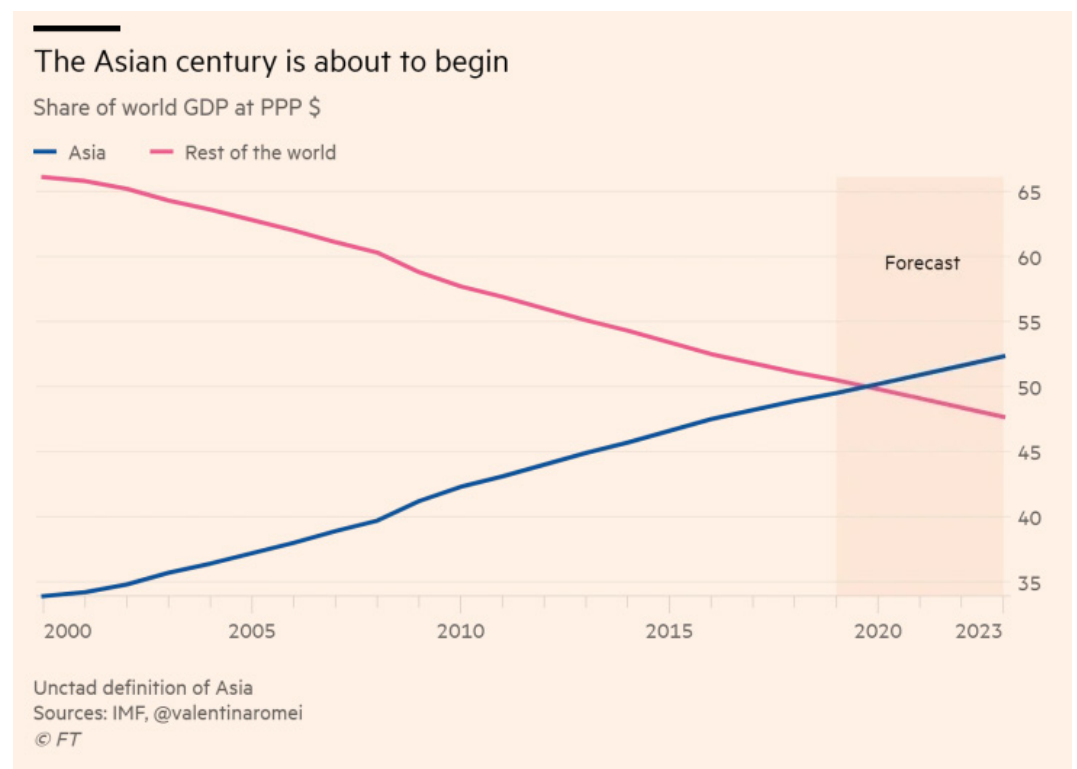
2.1 The European trajectory of engaging in globalisation in the face of a new fragmentation of international trade

The EU is striving to maintain its position as the world's leading trading power through a bilateral policy of opening markets and promoting European standards. It has become more active in recent months as it seeks to take advantage of the disengagement of a protectionist America and in order to respond to the Chinese connectivity offensive (BRI), including in the digital domain. The ageing of the EU's population and stagnating domestic demand are driving the continuation of an aggressive trade policy that meets the appetite for consumption on other continents—not only in Asia but also in Latin America and Africa. Negotiations with various Asian countries are all the more strategic as Asia's weight in the world economy will exceed that of the rest of the world by 2020 as a percentage of GDP at purchasing power parity (PPP).

The explosion of the Asian middle class is accelerating the region's economic integration and the shift in the centre of gravity of international trade towards Asia.

However, the EU also has to deal with the globalisation of market capitalism (removal of trade barriers, "made in the world", ever lengthening value chains, etc.) that seems to be coming to the end. The new American trade policy, based on protectionist isolationism and aggressive unilateralism, affects international trade all the more. Washington tends to sanction countries that do not engage in its campaign against China and is waging a cold trade war. But beyond the challenge of Donald Trump's re-election in 2020, deeper structural changes such as shortening value chains can be anticipated as offshoring costs have stopped falling for the first time since the early 2000s. While much of the growth in world trade will be in the services sector, service delivery remains dependent on geographical proximity. Moreover, a shortening of value chains would find support both in the United States and by some in Europe, as there has been a resurgence in demand for an identity-

FIGURE 1 ■



based economy, or economic nationalism. In addition to the two main economic actors, the state and the market, civil society now has a greater role to play in the conduct of trade policy. It mobilises both for a more active defence of global common goods (such as the fight against climate change) and for a more identity-based approach to production and consumption, which favours the circular economy and national preference.

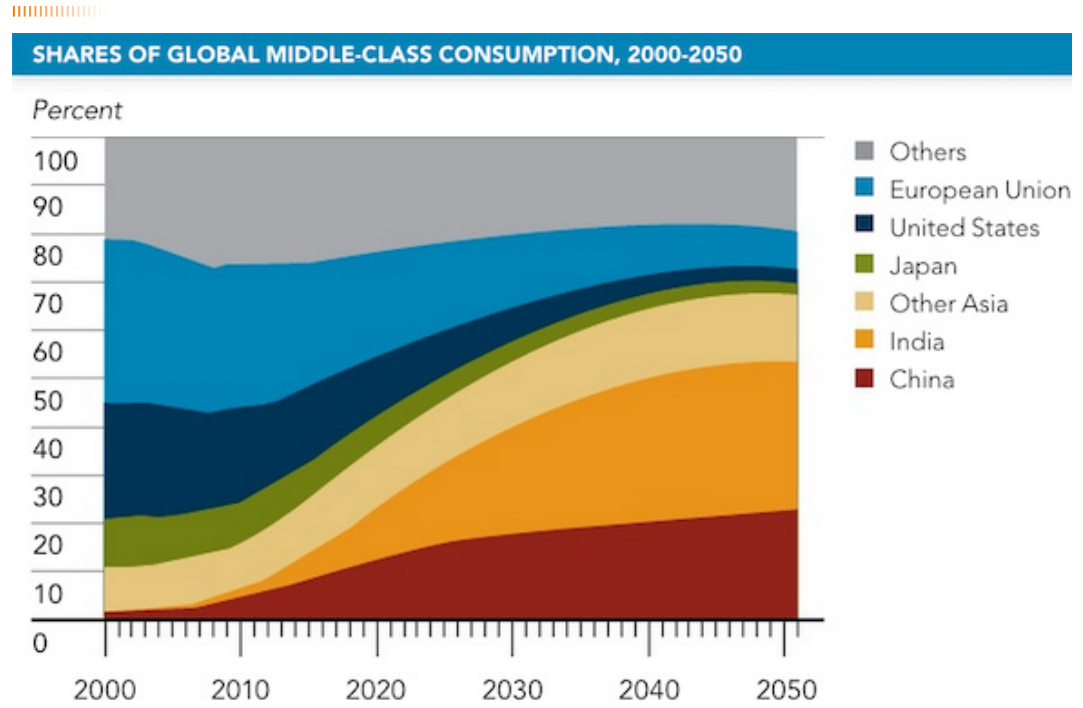
It is too early to conclude that economic disintegration, or *deglobalisation*, is taking place. Rather, at this stage, value chains are shortening at the regional level, which suggest a slowing of globalisation, a *slowbalisation*. But a growing role for identity and the geopolitical dimension of trade policy could accelerate the fragmentation of multilateral rules and lead to disengagement from international value chains. This would lead to more instability and conflict and limit European access to the demand of the global middle class, concentrated in Asia.

2.2 European leadership or isolation as a defender of multilateralism?

The EU is all the more defensive of multilateralism as the United States under Trump gradually disengages—to the point of threatening to block the functioning of the WTO Dispute Settlement Mechanism's Appellate Body at the end of December 2019. Moreover, the reality of Chinese trade distortions contradicts China's official discourse in support of multilateralism. The inertia of the West regarding the lack of Chinese convergence with common liberal standards since its entry into the WTO and the US blockage of WTO reforms in 2008 now call for an offensive policy to obtain guarantees for the reform of Chinese state capitalism as well as better anticipation of the rise of a protectionist India.

The weakening of multilateralism is significant. Since the early 2000s, the development of global governance has been

FIGURE 2 ■



Source: OECD.

hampered by the rejection of rising powers to accept the liberal order that was designed by the West. While various rising powers that remain less open than the West are increasing their influence, the absence of an agreement between China, the EU, the US, which in turn lead the G20 process, is holding back the development of new multilateral rules. In addition, there is a global resurgence of protectionism. The United States and China are only responsible for a sixth of the increase in trade distortions that are attributable to all G20 members between the Buenos Aires Summit in December 2018 and April 2019. Many non-G20 countries have also doubled the use of restrictive measures (such as export subsidies and increased import tariffs) in spite of the G20 commitment to fight protectionism.¹ This makes the EU's leadership to forge coalitions of countries willing to defend multilateralism all the more complex.

2.3 The resurgence of economic sovereignty.

The present geo-economic context is exerting strong pressure on a world economy that is dependent on international trade. Global interdependence and the specialisation of economic actors have become factors of vulnerability. The global slowdown in foreign direct investment reflects this. The new Commission must anticipate not only a shortening but also a risk of a breakdown of value chains. This could be fuelled by Washington's stated desire to apply sanctions more systematically, which would target both companies and third countries on the basis of national security criteria and the principle of extraterritoriality under US law. International dependence on the dollar makes value chains particularly vulnerable to US violations of multilateral rules. Retaliatory measures by trading partners, although legitimate, only exert additional pressure on value chains. The current

¹. Jaw Jaw not War War. Prioritising WTO Reform Options, Simon J. Evenett et Johannes Fritz, CEPR, 2019, p6.

debate on 5G infrastructure is indicative of the strategic challenges caused by European dependence on foreign subcontractors for key components of this infrastructure. At the dawn of the fourth industrial revolution, the challenge of access to rare earths, which are necessary to develop a number of technologies, encourages Europeans to better anticipate and ensure the conditions of their economic sovereignty.

2.4 A European liberalisation agenda with little consensus.

The EU can only exert its full weight against the Americans and Chinese if it has strong cohesion between the capitals and citizen support. The commitment of the outgoing Commission to ensure greater transparency in bilateral negotiations, such as publication of negotiating mandates and position papers, and the strengthening of impact assessments for bilateral agreements, are key measures to restore public confidence. But these procedural changes are insufficient to address the criticism that European trade policy has an unequal impact on Member States, economic sectors and regions. Instead, a growing proportion of Europeans feel relegated to the periphery by this engagement with globalisation. Attention is also focused on the carbon footprint of trade. The outgoing Commission's shift towards a more inclusive and responsible trade policy (*Trade for All*, October 2015; *Managing Globalisation*, May 2017) has not been registered by citizens. The new Commission will have to commit to a more ecological trade policy, which addresses the urgency of combating climate change, protecting biodiversity and ocean governance. Its trade agenda will also have to be more inclusive.

Moreover, while the ability of a new generation of agreements that promote European standards among trading partners is crucial to rebuild political consensus

around European trade policy, the new Commission must also be more vigilant in ensuring that imports comply with European standards. It needs to quickly grasp the shortcomings and failures that exist in the compliance controls that are carried out by Member States, or this issue could soon become toxic for the legitimacy of European trade. The 'Schengen syndrome', a loss of confidence in the security of the external borders of the Single Market, could lead to a protectionist withdrawal. While companies focus on the lack of reciprocity in market access, citizens expect more protection from the EU and demand open trade that is accompanied by more safeguards.

3 ■ Key recommendations

3.1 Defend rules-based trade.

In order to defend the legitimate objective to protect the environment, the new Commission must actively mobilise the full range of instruments authorised by the WTO as long as the damage caused to trade and the environment remains proportional and there is no discrimination in favour of domestic producers. All border restriction instruments would have to be adjusted in line with environmental objectives, such as quantitative restrictions on undesirable products, tariff incentives, and a carbon tax at the border. The same would apply to subsidies, such as restrictions on fossil fuels or fisheries and the development of ecological subsidies.² To be heard during this shift of European trade policy from trade liberalisation to regulated trade, the new Commission will have to ensure from the beginning of its mandate that it adopts key measures that promote European sustainable development standards among its trading partners and ensures compliance

in the Single Market:

- Make the granting of our trade preferences conditional on the ratification and compliance with the commitments of the Paris Agreement.
- Develop traceability of compliance with European sustainable development standards in the production methods of importers, placing the burden of proof with fundamental social and environmental requirements on importers and making compliance subject to sanctions.
- Commit to reducing emissions from maritime and air transport and strengthen multilateral initiatives (IMO, ICAO).
- Carry out an audit of customs authorities³ in all Member States to assess the security and fiscal impact from deficiencies in control procedures and resources. Establish additional European capacities, such as European customs bodies financed (in part) by recovered customs duties.

3.2 Ensure more inclusive trade.

- Establish a systematic evaluation of the cumulative sectoral, territorial and cumulative impact of agreements ex-ante and ex-post to ensure that the risks involved are properly anticipated and that the redistributive effect of these agreements on employment is better monitored.
- Replace the Globalisation Adjustment Fund with a European Transition Support Fund⁴ that is better endowed and would make it possible to take into account the combined effect of economic transitions, such as the restructuring of international trade, robotisation, as well as digital and energy transitions.

2. "Time to green EU trade policy; but how?", Pascal Lamy, Geneviève Pons, Pierre Leturcq, JDI, July 2019.

3. https://www.eca.europa.eu/Lists/ECADocuments/SR17_19/SR_CUSTOMS_EN.pdf

4. « Vers un fond européen d'accompagnement des transitions », Sofia Fernandes et Justine Daniel, JDI, 11 October 2018.

3.3 Strengthen multilateral rules.

- To overcome the deadlock of the WTO Appellate Body, the outgoing Commission's proposal to implement an ad hoc arbitration system, authorised by Article XXV of the Dispute Settlement Understanding,⁵ will help to resolve an open crisis of multilateralism. But this option, which could only be temporary, would be limited in scope in a scenario where the United States isolates itself permanently and protectionism is increasing throughout the world.
- Since it is necessary to both try to keep the United States in the WTO and to obtain Chinese concessions on WTO rules on subsidies, the EU should exercise its right to request the publication of the Dispute Settlement Body's report on China's market economy status. Last June, Beijing suspended its complaint against the EU in exchange for keeping the judgment that denied it market economy status from public eye. Brussels would thus increase its pressure to reform Chinese state capitalism.
- The EU's active engagement in establishing plurilateral coalitions, such as the EU-US-Japan plurilateral initiative to restrict subsidies and transfers of forced technology, would also be all the more necessary to promote the adoption of new multilateral rules. In addition to some key areas in which Europeans have a specific vision of globalisation to defend, such as storage and control of data (GDPR), sustainable development (e.g. the abolition of fossil fuel subsidies.), investment (i.e. the Multilateral Investment Court), the EU should also lead a multilateral initiative to safeguard access to rare earths.

- The dispute between Airbus and Boeing, which will continue with the reciprocal application of countervailing measures, should have prepared Brussels to better understand Beijing's growing competition in this sector. It should negotiate with Washington a framework for civil aviation subsidies and take this initiative to the multilateral level in order to set a precedent for strengthening WTO rules on subsidies in this specific area.
- To reduce asymmetries in market access and regulatory frameworks between rich and poor countries (for example on subsidies), the Commission should support a review of special and differential treatment by replacing the binary distinction between developed and developing countries with a graduation process.⁶
- To have an international impact at a time when services and digital regulations are being developed, the next Commission should actively complete the Single Market for services and accelerate the establishment of a European digital space at the same time.

3.4 A systemic approach to trade distortions that calls for better coordination of trade policy with other European policies (such as competition, research, and industry)

- In parallel with its multilateral commitment, the next Commission must put in place offensive measures to protect European interests and exert pressure on countries that maintain trade distortions. The major competition distortions threatening the EU are above all linked to the

5. « Sauver l'organe d'appel de l'OMC ou revenir au Far West commercial ? », Elvire Fabry et Erik Tate, JDI, 29 May 2018.

6. For the Many not for the Few: a Progressive Model for Trade and Investment, N. Benasconi & alt. FEPS, December 2018, p15.

levers of unlimited subsidies to state-owned enterprises in some third countries. This issue requires the coordination of measures that will involve several Commission DGs and should start with:

- Adopting the international instrument on government procurement to ensure greater reciprocity with third countries and shift the burden of proof on foreign companies to ensure compliance with the WTO Agreement on Subsidies and Countervailing Measures.
- Promoting the use of the euro in international markets, including through bilateral trade negotiations, to anticipate a more systematic use of extraterritoriality by the United States.
- Implementing a global strategy for a level playing field that combines defensive issues (rapid implementation of the FDI control mechanism, identification of Single Market vulnerabilities—particularly in transport, customs or digital infrastructures—strengthening European competition policy to give it an external dimension) and offensive issues (such as European investment in disruptive innovations and the protection of strategic assets).

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PREMIER MINISTRE

Institut Jacques Delors

18 rue de Londres, 75009 Paris

info@delorsinstitute.eu – www.institutdelors.eu

Jacques Delors Institute – Berlin

Friedrichstraße 194, 10117 Berlin, Allemagne

info@delorsinstitut.de – https://www.delorsinstitut.de

2 SEPTEMBER 2019

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■ NICOLE KOENIG

Deputy Director at
Jacques Delors Institut
Berlin

This series is a cooperation between the Jacques Delors Institutes in Berlin and Paris and makes concrete proposals for the EU's next institutional cycle.

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NEW BEGINNINGS

BOLSTERING EU FOREIGN AND SECURITY POLICY IN TIMES OF CONTESTATION

Wanted: A Europe that protects and defends

The European Union (EU) is facing a challenging strategic context. In the past five years, its neighbourhood has been characterised by bloody conflicts such as those in Ukraine, Syria and Libya. Their repercussions, in terms of terrorism and migration, have been directly felt by Europe's citizens. Russia has been playing an increasingly aggressive role in the neighbourhood and has undermined the EU's internal cohesion through disinformation campaigns and cyberattacks. The foundations of the rules-based multilateral order have been under attack not only from Russia and China, but also from the EU's chief ally, the United States (US). President Trump has vocally criticised the EU's efforts at attaining greater strategic autonomy. On top of all this, the United Kingdom (UK), one of the EU's few economic, diplomatic and military heavyweights, is preparing to leave the EU.



These developments have prompted Europe's citizens to call for a stronger EU role in the world. This demand rests on stable public preferences for closer European cooperation on foreign, defence and security policy.¹ Expectations have risen given the repeated political promises of a 'Europe that protects' as well as maximalist visions such

as that of an 'EU army'. The prominence of EU foreign and security policy in the campaign for the European Parliament election shows that these policy areas are increasingly moving out of official channels often hidden from view into the public

domain. Protecting citizens and defending interests and values are key priorities for the EU's next legislature as witnessed by the strategic priorities of the European Council² and the Political Guidelines of the Commission President-elect.³

This briefing argues that the EU is heading towards a capabilities-expectations gap 2.0: expectations on it to boost its international role are rising, but so are domestic and international obstacles. To narrow this gap and shape a new beginning for its foreign

1. European Commission, „Eurobarometer Surveys: 1999-2018“, <https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Chart/index>

2. European Council, „A new strategic agenda 2019-2024“, June 2019. <https://www.consilium.europa.eu/en/press/press-releases/2019/06/20/a-new-strategic-agenda-2019-2024/>

3. von der Leyen, Ursula, “Political Guidelines for the next European Commission 2019-2024”, July 2019. https://ec.europa.eu/commission/interim_en#political-guidelines

and security policy, the EU should start with the right institutional set-up, raise the European Defence Union (EDU) to the next level and revitalise its foreign policy. This will require a joined-up effort by EU institutions and member states.

1 ■ Towards a capabilities-expectations gap 2.0

The EU is facing a paradox. On the one hand, EU foreign, security and particularly defence policy is among the few areas where there has been measurable progress in recent years. In 2016, the EU Global Strategy was published, promising strategic autonomy. The outgoing Commission, supported by France and Germany, relaunched the debate on the extension of qualified majority voting (QMV) to the Common Foreign and Security Policy (CFSP).⁴ Furthermore, the EU and its member states took important steps to establish the foundations of the EDU (see Box 1).

On the other hand, the EU often failed to live up to its ambition to influence international

developments. The US withdrawal from the Iran nuclear deal underlined the limits of Europe's strategic autonomy. The EU did not exert decisive political influence on conflicts in its neighbourhood such as in Syria and Libya. The member states failed to speak with one voice on key international dossiers such as the crisis in Venezuela and Chinese human rights violations. The debate on extending QMV to CFSP is bogged down due to sovereignty concerns in smaller, Eastern and Southern European member states. The EDU's foundations are being built, but defence experts already deplore the lack of ambition at work. In addition, there is a risk of a disconnect between the development of joint capabilities and the political will to use them. The continuous refusal of the member states to use the Battlegroups – the EU's battalion-sized (about 1,500 personnel) rapid response force rotating since 2005 – remains a telling example.

What is new about today's capabilities-expectations gap, a long-standing characteristic of EU foreign and security policy, is how it is exacerbated by domestic and international developments. The member states failed to speak with a single voice in the past due to their different

BOX 1 ■ The foundations of the European Defence Union

- A total of 25 member states activated **Permanent Structured Cooperation (PESCO)** and agreed on legally binding commitments as well as 34 projects.
- The European Commission paved the way for the establishment of the **European Defence Fund (EDF)** projected to provide €13bn under the next Multiannual Financial Framework (MFF) for collaborative defence research and development.
- The member states launched the **Coordinated Annual Review on Defence (CARD)**, a mechanism to promote information exchange and synchronisation of national defence investment planning.
- The EU established the **Military Planning and Conduct Capability (MPCC)** within the European External Action Service (EEAS) to plan and lead non-executive military operations within the framework of the Common Security and Defence Policy (CSDP).
- The High Representative for Foreign Affairs and Security Policy (HR/VP) proposed the **European Peace Facility (EPF)**, an off-budget instrument that would provide €10.5bn for 2021-27. It would cover the common costs of military operations, contribute to military peace operations led by other international actors, and support third countries with military infrastructure and equipment.
- The **EU and NATO** published two Joint Declarations to give new impetus to their partnership and agreed on 74 concrete actions.

4. European Commission, "A stronger global actor: a more efficient decision-making for EU Common Foreign and Security Policy", Communication, September 2019.

https://ec.europa.eu/commission/sites/beta-political/files/soteu2018-efficient-decision-making-cfsp-communication-647_en.pdf

strategic cultures and outlooks. Now, the challenge of building consensus is intensified by more populist and nationalist foreign policies in some member states as well as the elaborate divide-and-rule tactics of external actors, notably China. The EU has long since recognised the need for combining civilian and military instruments within a comprehensive approach. However, dealing with today's hybrid threats and the rise of geo-economics requires a comprehensive approach that goes beyond classical EU external action and genuinely brings together internal and external policies – economic, monetary and foreign policy.

To narrow this capabilities-expectations gap 2.0, the EU should use the changing of the guard in Brussels as an opportunity to take decisive steps to shape this fresh start.

2 ■ Starting with the right institutional set-up

There are no institutional fixes to the above-mentioned challenges. Yet, starting with the right set-up is necessary to promote joint thinking, ensure coherence and build on existing progress.

According to the Treaties, the European Council should identify the EU's strategic objectives and define general guidelines for the CFSP, including defence and other areas of external action. To strengthen its ability to play this role, it could meet once per year in the format of a '**European Security Council**'. This should not be a new institution, but rather a new meeting format. As suggested by Jean-Marc Ayrault and Frank-Walter Steinmeier in 2016, the foreign, defence and interior ministers should prepare these summits.⁵ The HR/VP should make full use of his seat in the European Council and kick-start the discussion by presenting forward-looking priorities for putting the

Global Strategy into effect. This would follow logically from the retrospective discussion of the Strategy's implementation reports in the Council.

The aim of this annual meeting would be threefold: First, it would force the European Council to focus there and then on foreign and security policy alone and to agree on concrete annual priorities while implementing the EU Global Strategy. Second, its preparation would promote the promised comprehensive approach across governance levels. Third, it could be a venue for discussion with key non-EU European partners. Post-Brexit UK and Norway could, for instance, be regular invitees. The European Security Council could thus also inform European positions in NATO and within the European Intervention Initiative.

The next few years will also see a growing supranational dimension in European defence cooperation. Given the future establishment of the EDF, the Commission will take on a greater role in this field. To allow it to lead on industrial consolidation and link the EDF with related regulatory matters, a **Directorate-General for Defence Industry and Space** (DG Defence) should be established. This new and relatively small DG should bring together the defence-related competences currently spread across various DGs: the management of the EDF, the Commission contribution to military mobility as well as defence-related aspects of space policy and cybersecurity. To ensure coherence within the Commission this new DG should coordinate on a monthly basis with other relevant DGs (notably GROW, MOVE, CONNECT and TRADE) within the Project Team on Defence Union. A dedicated Defence Commissioner would provide the necessary political leadership behind defence industrial consolidation and could act as a single interlocutor for the member states as well as the EU's more intergovernmental bodies.

⁵ Ayrault, Jean Marc and Steinmeier, Frank-Walter, "A strong Europe in a world of uncertainties", June 2016. <https://www.auswaertiges-amt.de/en/aussenpolitik/europa/160624-bm-am-fra-st/281702>

The member states tend to view the establishment of a DG Defence with scepticism. They fear that a powerful DG Defence could escape their control and answer more to industrial than to political and strategic considerations. To dissipate these fears and ensure a direct link between the supranational and intergovernmental, the internal and external dimensions of defence, the **Defence Commissioner should be placed under the authority of the HR/VP** in his role as Vice-President of the Commission. The HR/VP should also chair the Commission Project Team on Defence Union, the Defence Commissioner acting here as his deputy. This set-up would ensure coherence between DG Defence on the one hand, and the Council, EEAS and EDA on the other. It could also lead to new synergies such as targeted Commission contributions to PESCO projects.⁶

3 ■ Raising the European Defence Union to the next level

The European Defence Union is still in its infancy and its ability to deliver depends on the next steps towards maturity. One important next step for defence industrial consolidation will be **more convergent arms export policies**. Many of the collaborative capability projects rely on exports beyond the EU's borders to be economically viable. The unfolding bi- and mini-lateral agreements (e.g. the forthcoming Franco-German one) are necessary but could also lead to fragmentation. The EU should thus work towards a more uniform implementation of the 2008 Common Position on Arms Export Controls. This is an area where the member

states are reluctant to delegate sovereignty. However, they could establish a peer review mechanism within the Council's Working Party on Conventional Arms Exports to foster information exchange and develop more convergent risk analyses.⁷

Another important next step is strengthening the EDU's operational arm. The Council decided to **upgrade the Military Planning and Conduct Capability** (MPCC) by extending its mandate to executive military operations of Battlegroup size by 2020. The upgrade should be used as an opportunity to strengthen the MPCC's civil-military dimension, currently only reflected in a small coordination cell that connects it with its civilian counterpart, the Civilian Planning and Conduct Capability (CPCC). The CPCC and MPCC should be placed under one institutional and physical roof. This would facilitate more coordinated planning and thus reflect the nature of today's hybrid threats. In addition, it would underline the EU's added value vis-à-vis NATO and could dissipate fears of unnecessary duplication.

The upgrade of the MPCC should go hand-in-hand with a systematic discussion of the **usability of the Battlegroups**. This should include reflections on their potential contribution to territorial defence. According to NATO expert Jamie Shea, using a Battlegroup as part of the Enhanced Forward Presence or in the Black Sea could be imagined.⁸ It could contribute to burden-sharing and thus illustrate the added value of the EU's defence initiatives both to Eastern European member states and to the US.

Finally, the EU should **deepen cooperation with NATO**. This implies focusing on areas

⁶. For a more detailed analysis on DG Defence, see: Koenig, Nicole, "Why we need a Commission DG Defence", policy brief, Jacques Delors Institute Berlin, August 2019. https://www.delorsinstitut.de/2015/wp-content/uploads/2019/08/20190819_DGDefence_Koenig.pdf

⁷. Besch, Sophia and Oppenheim, Beth, "The EU needs an effective common arms export policy", Centre on European Reform Bulletin, June 2019. <https://www.cer.eu/publications/archive/bulletin-article/2019/eu-needs-effective-common-arms-export-policy>

⁸. Shea, Jamie, "Piecing Together Security for A Stronger Europe", in: "Vision for Europe Report", Friends of Europe, May 2019. https://www.friendsofeurope.org/wp/wp-content/uploads/2019/06/foe_vision-for-europe_web.pdf

where potential synergies are greatest and finding pragmatic ways of working around the well-known political obstacles. Hybrid threats and cyber are key areas of cooperation where mandates increasingly overlap. EU and NATO staffs should work towards harmonising the respective hybrid playbooks to outline a division of labour and modes of cooperation in crisis prevention and response. They should closely coordinate on cyber security and defence in light of the EU's new Cyber Diplomacy Toolbox and the PESCO project on cyber rapid response teams and mutual assistance. The two organisations could also develop creative ways of sharing resources, for instance by establishing expert rosters to which they both nominate the same personnel.

4 ■ Revitalising EU foreign policy

In implementing the EU Global Strategy, there has been a strong focus on defence policy. In the coming years, the EU will have to do more to systematically build up its foreign policy muscle.

Jean-Claude Juncker, Ursula von der Leyen, and Josep Borrell have advocated the **extension of QMV to CFSP**. However, given obvious national sovereignty reflexes, progress requires persuasion and can only be gradual. It might thus be worth exploring some lower-hanging fruits. One option would be making civilian crisis management a first test case for QMV. This area is usually less controversial than others and is one where agreement does not entail participation. A second path worth exploring is the ad hoc extension of QMV via the enabling clause (Art. 31(2) TEU): the European Council (or

European Security Council) could agree on issue-specific or regional strategies to be implemented by the Council via QMV.

Taking gradual steps will not help address immediate foreign policy priorities. In an interview in May 2019, Borrell deplored the fact that the Foreign Affairs Council was “more a valley of tears than a centre of decision-making”.⁹ When faced with a crisis, it expressed concern and moved on to the next topic. It would be illusionary to think that the new HR/VP could bring about consensus on every issue. However, as Chair of the Foreign Affairs Council, he should use his agenda-setting power to **focus the debate on a more limited number of strategic items** where the EU can add value through its combined civilian and military instruments. Priority items that will require the HR/VP's leadership and vision throughout the next five years include: developing a strategic agenda for the Balkans, engaging with Turkey beyond membership, and responding to China's growing strategic rivalry. Ahead of Council meetings, the HR/VP and EEAS should consult with the Commission Project Teams he steers and with the member states to produce input papers setting out clear-cut and ambitious policy options.

Bridging the widening capabilities-expectations gap and deepening institutional silos will require more than smart institutional reforms and leadership. The EU should thus use the coming years to forge a longer-term vision for developing the CFSP. The Council should establish a high-level working group given the task to produce a **visionary Report on the Future of EU Foreign Policy**. Akin to the Werner Report on the Economic and Monetary Union of 1970,¹⁰ it should sketch the longer-term objectives (10-15 years) and the necessary steps towards

⁹. Borrell, Josep and Torreblanca, José Ignacio, “Borrell returns: His vision for Europe”, Commentary, European Council on Foreign Relations, May 2019. https://www.ecfr.eu/article/commentary_borrell_returns_his_vision_for_europe

¹⁰. Werner Group, “Report to the Council and the Commission on the realization by stages of economic and monetary union”, Luxembourg, October 1970. https://ec.europa.eu/archives/emu_history/documentation/chapter5/19701008en72realisationbystage.pdf

them. This group should include a diverse set of member state experts. Meetings could be jointly prepared by the Strategic Policy Planning division of the EEAS and the European Policy and Strategy Centre in the European Commission. This would ensure that the two sides of the EU's foreign policy 'brain' inform this longer-term vision and make it their own.

Conclusion

To address geo-economic competition and a growing number of hybrid threats the EU's new leadership team will have to closely integrate internal and external policies. The European Security Council should provide annual guidance on putting the Global Strategy to work. The Council should launch a process outlining the longer-term vision on how EU foreign policy should develop. The new Commission should become a driving force behind defence industrial consolidation. The role of the HR/VP as a linchpin between the intergovernmental and supranational levels should be strengthened. He should focus on a select number of priorities and push the Council towards greater effectiveness by presenting ambitious policy options. Some of the proposed steps may seem unrealistic now, but the past five years have shown that bold steps are indeed possible if external and internal pressures generate sufficient political will.

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Institut Jacques Delors

18 rue de Londres, 75009 Paris

info@delorsinstitute.eu – www.institutdelors.eu

Jacques Delors Institute – Berlin

Friedrichstraße 194, 10117 Berlin, Allemagne

info@delorsinstitut.de – <https://www.delorsinstitut.de>

2 SEPTEMBER 2019

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■ PAUL-JASPER
DITTRICH

Research fellow at
Jacques Delors
Institut Berlin

This series is a cooperation
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NEW BEGINNINGS CHALLENGES FOR EU DIGITAL AND INNOVATION POLICY

1 ■ State of Play

Digital policy was a core issue for the Juncker Commission. From 2014-2019 it oversaw the final negotiations around and implementation of the General Data Protection Regulation (GDPR), subjected the market dominance of large American tech platforms to exhaustive scrutiny and introduced an ambitious set of policies designed to update its regulation of the digital economy via the Digital Single Market (DSM) package. As many as 28 of 30 DSM legislative proposals were agreed between Parliament, Council and Commission before the end of the five-year mandate in April 2019.

Any political and economic assessment of the outgoing Commission's digital policy must, however, remain mixed. Especially when it comes to GDPR and tackling the market dominance of large online platforms, the EU has started to show a new political assertiveness by standing up for its values of privacy and fair competition. The economic impact of the Juncker Commission is less



impressive. The DSM was a large package of legislation but its overall economic benefits seem so far to fall short of expectations¹. In 2014, the Commission claimed that a fully integrated Digital Single Market could boost the European economy by 415 billion euros per year.² These benefits are still nowhere to be seen, partly because many of the new rules adopted with the DSM package were updates of older legislation, for example in copyright. In terms of harmonisation within the Single Market opportunities were missed. The new Commission will have to come up with a robust and effective package to increase the opportunities of the Single Market for European start-ups as well as deploying its new instruments for innovation funding more strategically.

The new Commission also needs to pick up where the last one left off on pressing questions of platform regulation and navigate the conflict between the US and China which is in part a conflict about digital infrastructure and technological sovereignty.

1. Paul-Jasper Dittrich, [Balancing Ambition and Pragmatism for the Digital Single Market](#), 07.09.2017.
2. European Commission, [Digital single market. Bringing down barriers to unlock online opportunities](#). Homepage.

2 ■ Analysis

Two issues are likely going to dominate the debate on digital policy in the EU in the next five years:

- Regulating online platforms (competition, liability, hate speech, algorithmic accountability)
- Improving the parameters for European start-ups and industries undergoing digitalisation

Several aspects can be highlighted here: The EU has shown in recent years that no one should underestimate its power to shape the rules for the global digital society. In the next five years the global debate on the power of platforms will only intensify and probably be accompanied by another one on how to deal with large private sector platforms subject to the intervention of an authoritarian state government such as China's. Despite conventional wisdom to the contrary, there are signs that the European tech ecosystem is slowly but [steadily catching up](#) in terms of investment, sophistication and talent. The tech industry is one of the EU's most dynamic sectors, growing [five times faster](#) than the rest of the economy. Europe's traditional industries are, on the other hand, still in the early stages of their digital transformation and have the most to gain from productivity-enhancing technologies such as machine learning. With an improved regulatory environment it could flourish even more. New instruments for funding innovation and research in the next Multiannual Financial Framework (MFF) should accompany this push.

Going forward, the next Commission's digital policy should hence be driven by two main guiding principles:

1. Protect EU regulatory sovereignty when dealing with large platforms and foreign governments

2. Help start-ups and industries undergoing digitalisation to make better use of the Single Market

2.1 Protect EU regulatory sovereignty

Technological sovereignty over key technologies will become a strategic aim of the new Commission as initial statements by the new Commission president would suggest.³ While this is an important goal, the EU should not forget that it might also have to protect its regulatory sovereignty – the ability to enact legislation in line with its interests and values. As large private sector platforms, for example, increasingly govern the public sphere with their terms and conditions, the EU must ensure that this governance is in line with its core values.

In the last five years the EU has shown that it can both enact legislation driven by values such as (the right to) privacy and is not afraid to scrutinise market dominance of online platforms. The GDPR, legislative initiatives such as the Platform-to-Business regulation and ongoing discussions on the market power of platforms, hate speech as well as the ethical use of algorithms, all show confidence and determination to shape and steer the digital transformation in accordance with European values and interests. The GDPR has already set global standards and is imitated by governments from [Japan](#) to [Brazil](#). Rules on the transfer of private data from the Single Market are becoming a pillar of trade agreements (like [JEFTA](#)) and have handed European officials a strong lever in trade negotiations.

The outgoing Commission has become more active when it comes to monitoring online platforms and sanctioning and regulating their behaviour. The EU is also [seen as spearheading](#) the global push towards stronger regulation of some of the business practices of platforms as well as stepping up antitrust measures from competition authorities. The Platforms-to-Business (p2b) regulation

3. Ursula von der Leyen, [A Union that strives for more. My agenda for Europe](#). Political Guidelines for the next European Commission 2019-2024.

which Parliament passed in April 2019 is the first of its kind that specifically [addresses platforms in their role as online intermediaries](#).

Data sharing brings benefits for consumers and spurs competition

Another area where the EU should develop new regulation that reinforces its commitment to fair competition and upholding its values is data sharing. The GDPR has established a legal framework for the portability of personal data. Data can be transferred between companies upon the informed consent of the data subject. However, the specific conditions and requirements for this data portability are not spelled out in detail in the GDPR. Data sharing does have benefits for consumers and competition: Consumers would enjoy a better choice and more personalised services without having to unknowingly give up their privacy. The digital economy as a whole would benefit from higher competition as better-designed data portability will decrease the lock-in effect of many platforms and make it easier for start-ups to attract new users.

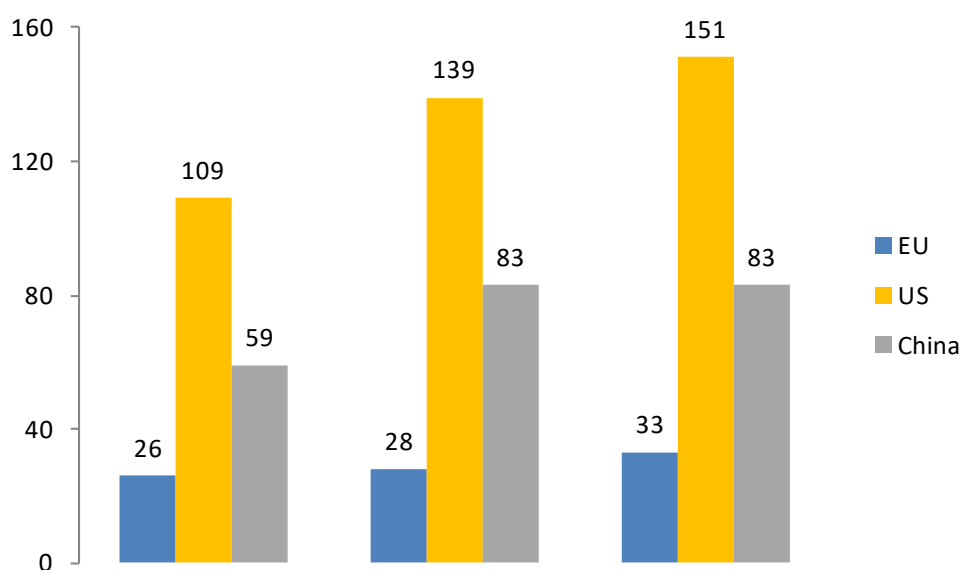
2.2 Start-ups and industries need better framework conditions to grow

For all the talk about the comparatively weak European tech ecosystem and lack of “tech giants,” the European start-up and technology scene is genuinely making real progress. According to the State of European Tech 2018 report⁴, a record number of European tech companies reached a 1 billion dollar (‘unicorn’) valuation in 2018 and Europe produced three out of the ten biggest venture-backed public listings of tech companies worldwide, with Spotify the most famous example. \$23 billion were invested into tech in 2018 compared to just \$5bn five years ago and the numbers are still rising: The second quarter of 2019 alone saw a record €9.3bn VC investment into European tech.⁵

1. A fragmented Single Market

But, despite these recent advances, the European start-up ecosystem is still nowhere near reaching its full potential. The relative weakness when it comes to the number of “unicorns” (see below) and tech start-ups,

FIGURE 1 ■ Number of unicorns (start-ups valued at €1 bn or higher), source: DG Research and Innovation



4. Atomico, *The State of European Tech 2018*.

5. Maija Palmer, *European tech has record quarter with €9.3bn VC investment*, Sifted, 01.07.2019

especially in the AI-sector, constitutes a serious economic disadvantage. Large tech companies and platforms with hundreds of millions of users, more data and the ability to make massive investments are certainly at an advantage in disrupting entire industries (for example Google and autonomous driving or Facebook and payment systems). Scale-ups remain difficult. Various reasons lie behind this impasse. Access to finance remains problematic, especially in later-stage funding rounds. Different languages make it harder to enter new markets. One reason, however, is directly linked to a core EU element : The Single Market is still too fragmented for many companies, especially from the services sector, to penetrate new national markets.⁶

2. AI for European industries

Europe's older industries, meanwhile, should also not be written off too early. The focus on the European lack of "tech giants" and software prowess in the consumer sector often overlooks Europe's [traditional strength in industrial production](#), business services, process innovation and other sectors less visible to private citizens and consumers. It is here where the EU remains not only globally competitive but where the greatest economic benefits from AI [are to be gained](#).

Data, cooperation and skills are the most urgent issues for the EU to tackle. Most European industrial companies retain their own troves of highly specialized data about their business processes or product lines. Such, usually non-personal, industrial data could generate more value and be used to make productivity gains if it were combined with process data of other companies plus available public data. Another success factor behind faster diffusion of AI-technology to European companies is

enhanced cooperation between companies and universities. AI-researchers are globally sought after but European SMEs and universities often struggle to recruit and keep such highly skilled specialists. A high percentage of top-tier talent is in fact still poached by large American tech corporations whose attractiveness to AI-researchers in terms of salary and working conditions can be matched by only a few European corporations and universities.

3. Innovation and the research-investment gap

Last but not least, the new Commission will have to address innovation and innovation funding. As the 2017 Commission report on innovation (Lamy Report) noted: "the EU's innovation deficit is not due to a lack of knowledge or ideas, but because we do not capitalise on them."⁷ The bloc has top universities and its publicly-funded theoretical research, for example on AI, is among the best in the world. Europe (including Switzerland and Turkey) is home to [the largest share of the top 100 AI research institutions](#) worldwide. Yet, when it comes to the use of new technologies in innovative products and services and investment in disruptive innovation, the EU still trails behind many other countries. There is ample room for improvement. Firstly, there is less capital available for funding at the seed stage. Secondly, because capital is comparatively scarce in the growth or scaling-up stage for innovation founded out of university campuses. Research institutions and private companies have weaker links with each other than they do in the US. The EU also lacks an equivalent of DARPA, the American government agency in charge of mission-led research and strategic procurement administered by the US Pentagon, which helped bring to life many ground-breaking

⁶. Paul-Jasper Dittrich, [How to Scale Up in the EU? Creating a better Integrated Single Market for Start-Ups](#), 10.11.2017.

⁷. European Commission, [Investing in the Future we want](#), Report July 2017.

innovations, from the Internet itself to GPS and the touch screen.⁸

How can the new Commission address these problems, spur the growth of innovative companies and fund disruptive innovation in the EU? One possible way forward is to efficiently use and further develop [the new tools of Horizon Europe](#), the successor programme to Horizon 2020. Two instruments could become particularly relevant: The European Innovation Council (EIC) and the new focus on strategic missions.

3 ■ Recommendations

The focus for 2019-2024 should be on five areas: Artificial Intelligence (AI), a new data strategy, pan-European innovation ecosystems, a plan to curb excessive platform power and, finally, a new approach to funding and scaling innovation in the EU.

3.1 Speed up the diffusion of AI to European industries

The strengthening of the EU's industrial core and its existing prowess in B2B services (logistics, process optimization...) could be achieved through a policy mix that encourages and incentivises data pooling between companies, establishes better links between researchers and industry and creates new coalitions for re-skilling industrial workers.

- **Encourage data pooling** among companies, the public and potential third actors by developing new rules for commonly shared data pools and establishing procedures and safety standards for these.
- **Incentivise the formation of deeper links** among European AI-departments, administrations and local companies, start-ups and larger corporations as part

⁸ Philipp Ständer, Paul-Jasper Dittrich, [A European agency for disruptive innovation: How could it look like and what would it do?](#), Blog Post, 11.12.2017.

of a strategy to develop local ecosystems. This could be done by awarding grants for cooperation projects and installing test beds, for example in the areas of mobility, logistics or connected factories.

- **Build a new coalition on reskilling workers** for the digital transformation of European industries together with technology companies, industry leaders and SMEs.

3.2 Data sharing

- **Facilitate GDPR-conform data portability via a sector-based approach.** One recent example for such sector-based regulation to facilitate data portability and enhance competition is the Payment Services Directive (PSD2). This enjoins upon financial services actors to set up the technical means to **give access to a customer's account data**, for example, of transaction banking history to Third Party Providers (TTPs). The Commission should closely monitor its effect on data portability practices and then create similar provisions for sectors such as healthcare, education and/or retail.

3.3 Pan-European innovation ecosystems

- **Help start-ups to make better use of the Single Market.** This can be done through support programmes for entrepreneurs, including help desks for administrative procedures (in the form of one-stop shops), simplified access to incubation or acceleration programmes and public funding.
- **Revive the idea of 3-year regulatory visas for start-ups.** With regulatory visas, – [a plan the Commission already had in 2014](#) – young companies with a digital business model could apply to earn a special regulatory status. Companies that acquire this status

could then, for example, be allowed to apply their own country's health & safety and taxation regulations when they enter another country's market for a period of time, e.g. three years or until they reach a certain revenue or market share threshold.

3.4 Platform regulation

- **Take steps against the proliferation of hate speech online and disinformation.**

Social media platforms need to be held accountable for their actions against hate speech and extremist propaganda. A new agency tasked with oversight of social media platforms should be created and given the right to look into the inner mechanics of these platforms, monitoring whether they take effective measures against disinformation. In this process it will be very important to take civil society actors on board as neutral third parties.

- **Monitor the impact of the P2B-regulation.** The Platform-to-business (P2B) regulation will enter into force in mid-2020. It is the first piece of regulation which directly addresses platforms as intermediary actors and balances some of the power asymmetries between businesses selling on platforms and the platforms itself. One of the main tools to do so is via transparency requirements. It should be closely monitored

whether the regulation has the intended effect of keeping platforms from engaging in unfair behaviour towards businesses (for example by self-referencing its own products). If these effect do not materialise the regulation should be tightened.

3.5 Innovation funding

- **Use the new mission instruments in Horizon Europe to help address/solve the climate crisis,** for example, by involving public procurement in setting the targets for missions. A mission in this sense might be to reduce CO2-emissions in European cities by funding research for new intelligent traffic systems that help to reduce congestion and pollution.

- **Encourage more university researchers to start their own companies** by using the new pathfinder grants of Horizon Europe to provide seed funding for such university-based start-ups .

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Institut Jacques Delors

18 rue de Londres, 75009 Paris

info@delorsinstitute.eu – www.institutdelors.eu

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Friedrichstraße 194, 10117 Berlin, Allemagne

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2 SEPTEMBER 2019

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■ THIERRY CHOPIN

Professor of Political Science at the Catholic University of Lille (ESPOL), Special Advisor at the Jacques Delors Institute

This series is a cooperation between the Jacques Delors Institutes in Berlin and Paris and makes concrete proposals for the EU's next institutional cycle.

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NEW BEGINNINGS

EUROPEANS FACE THE RISK OF DEMOCRATIC REGRESSION: WHAT CAN BE DONE?

The principles of liberal democracy and the rule of law have played a structuring role in the history of European integration, which reflects the desire to promote fundamental rights and human dignity after the crimes committed during the Second World War. These principles are the legal and political foundations of the EU. For several years, however, liberal democracy has been called into question under pressure from populist and extremist political forces. Surveys have shown that public opinion is increasingly dissatisfied with democracy, which can be interpreted as a risk of democratic regression. Even if simple solutions do not exist, it is essential to develop a strategy to combat these developments.¹



1 ■ Democracy and the rule of law in Europe: major pillars of the EU

The Member States of the EU are united in a 'Union of Law' and are required to respect the legal commitments to which they have subscribed. Whether this occurs within

the framework of the treaties or during the creation or implementation of secondary legislation, the effective application of these commitments is guaranteed by judicial mechanisms. This community is based on its own legal system, with an autonomy that has been firmly established under national law. In this perspective, the logic of power, which has characterized relations between European states since the 17th century, must give way to the law, which limits the power of states. In the process of European integration, Europe has rediscovered a long-hidden tradition: constitutionalism.

As it is intimately linked to the liberal idea of constitutional guarantees for individual freedoms and rights, the European integration process is an ideal field for constitutionalism. After the Second World War, emphasis was placed on fundamental rights, as shown by the case law of the Court of Justice and the European Court of Human Rights (ECHR) from the late 1960s and early 1970s onwards. Politically, until the fall of the Berlin Wall, the possibility for 'any European State [to] apply to become a member of the Community' (Article 237 of the Treaty of Rome) was only relevant

1. I would like to thank Sébastien Maillard, Martin Michelot, Laurent Pech and Sébastien Platon for their comments on this text. Of course, I retain sole responsibility for the proposals of this paper.

to countries west of the Iron Curtain. For the southern countries (Spain, Greece and Portugal) it became an option after the end of dictatorships and authoritarian regimes. Only after the collapse of the Soviet Union were the countries of Central and Eastern Europe and the Baltic states able to join the EU. In 1991, the Treaty establishing the European Union (TEU) stated that '[t]he Union is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of law, principles which are common to the Member States' (Article 6) and that '[a]ny European State which respects [these] principles [...] may apply to become a member of the Union' (Article 49); in 1993, the European Council in Copenhagen defined criteria that need be respected, both economic and political. Today, compliance with Article 2 of the TEU2 and the Charter of Fundamental Rights is a sine qua non, not only for accession, but also for participation in the EU.

This has a profound implication: European integration cannot be reduced to a simple alliance between sovereign states.³ If this were the case, the EU would simply be an intergovernmental entity and would not have gone as far in its integration as to enshrine it in treaties that take precedence over national law, including national constitutions. Opinion surveys suggest that the majority of

public opinion is in favour of participation in this Union⁴ and support for the euro is remarkably stable.⁵ Europeans are united for historical and geopolitical reasons. This is where Europe's founding value lies: first integration created the conditions for peace and anchored democracy before it built strength through unity. In other words, Europe's founding value lies in the need to remain geopolitically united and to protect itself from authoritarian or even totalitarian temptation. Europeans feel European because they know that their fate, both past and future, is inseparable and that they are community of shared destiny. The European construction redeemed the collective suicide of the world wars and sublimated national political rivalries by rejecting power politics. The de facto solidarity created by the internal market was intended to create common interests and a high degree of interdependence that discouraged national egoisms. This logic was achieved thanks to the initiative of Jacques Delors, supported by François Mitterrand and Helmut Kohl. After peace and unification, the idea was that prosperity and solidarity should guide the project for a Unified Europe. The euro has become a symbol of this union because it provides a concrete guarantee that we will not separate (attacking one of the members means attacking the single currency and thus collectively attacking all Member States).⁶

2. Article 2 of the TEU defines the fundamental values on which the EU is founded: "respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail."

3. Contrary to what is claimed, for example, by Gideon Rachman (2019), "[Europe is an alliance, not a union of values](#)", Financial Times, 21 January 2019.

I would like to thank Jean-François Jamet for our discussions on this point.

4. See [Eurobarometer Survey 90](#), European Parliament, October 2018 -

5. 75% of respondents in the euro zone support the single currency, while 20% oppose it. It was only in the spring of 2003 that the euro found such support among citizens. Among euro area countries, support is lowest, but rising in Italy (63%, +2pp) and highest in Slovenia (86%, +2pp). Source: Eurobarometer Standard Survey (EB 90), October 2018.

6. For example, the Baltic States feel threatened in their borders and security by Russia in particular, which has resulted in a strategy of strengthening integration with the adoption of the euro, which is perceived to assure greater solidarity.

Both logics (integration into a community of destiny and intergovernmental) coexist and Member States can behave as members of an alliance according to their national interests. European integration will not make state sovereignty disappear. But the originality of this 'union' is that its nature is very different from an alliance that is solely based on the sovereignty of States. An alliance does not create a new form of sovereignty, whereas EU law does.⁷ This is one of the problems of the Brexiteers who would like a simple alliance (like the alliance with the United States or with other Commonwealth states) without European sovereignty. The foundation of European cohesion, underlying fundamental values and development of policies, is the need to remain united. A simple alliance does not provide this guarantee of permanence.

2 ■ The EU faces the risk of democratic regression

The stability of such a legal order, composed of States that have freely and under sovereignty decided to associate themselves in a wider Union to exclude any risk of conflict between them for the long term, requires a minimum degree of political homogeneity. This, in turn, implies a consensus on common political values, which come from the European intellectual and political tradition of political liberalism that is in the spirit of Enlightenment philosophy: respect for and rights of the human person, all fundamental freedoms, equality of citizens before the law, the rule of law, parliamentary democracy and, fundamentally, the idea that the protection of freedoms is a priority and implies both the guarantee and impartiality of the State. These values have been implemented in light of the historical experience of European peoples, particularly following the horrors and tragedies of the 20th century. They

are centred around a number of essential elements: the renunciation of force and the preference for peaceful settlement of conflicts through negotiation in mutual respect; the emphasis on solidarity and the search for social justice, which confers an important role on the State; a vision of international relations that relativizes the notion of state sovereignty; as well as a strong spirit of moderation, tolerance, openness and mistrust towards political passions, particularly those unleashed in the name of religions or nations or in the name of the 'will of the people'. These ideas are expressed in the European political project, as initiated by the founding fathers in the 1950s, which is now a value in itself: the claim whether or not one is 'European' (i.e. being a 'partisan and defender of European integration') has become an essential marker of political positioning that is comparable to the cleavage between left and right.

These values are now being challenged by the governments of an growing number of EU member states. The crisis of the European project is linked to the crisis of liberal democracies⁸ even if the latter does not specifically concern Europe, as shown by the cases of Donald Trump in the United States or Jair Bolsonaro in Brazil. But for several years opinion surveys have shown a growing dissatisfaction with democracy that can be interpreted not necessarily as a rejection, but rather as the risk of a 'deconsolidation of democracy'.⁹

7. It should be stressed that the concept of "European sovereignty" is not legally established and that there is a discussion on this topic following its use by Emmanuel Macron in his [speech at the Sorbonne](#).

8. Letta, E. (2018), "Ho Imperato", Edizioni Il Mulino, p. 57-77.

9. Mounk, Y. (2018), "People vs. Democracy. Why our Freedom Is in Danger & How to Save It", Harvard University Press. Part 1, Chap. 3.

FIGURE 1 ■
 ■■■■■■■■■■

Dissatisfaction with how democracy is working increased in many countries

% who say they are dissatisfied with the way democracy is working in their country



Note: Statistically significant changes in bold. The chart was updated on April 30, 2019.
 Source: Spring 2018 Global Attitudes Survey, Q4.

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This is reflected in a number of different developments: growing, often sustained, mistrust of parliamentary and representative democracy that is competing with a strong demand for direct democracy; growing scepticism about the usefulness of voting

that is questioned by one third of respondents; demand for an authoritarian form of power that is exercised by a 'strong man' that is desired by a third of respondents in the EU. These trends are even more significant with young people and respondents that have

lower levels of income and education.¹⁰ Moreover, liberal democracy is strongly challenged in Europe. It is under pressure from populist and extremist political forces which, despite their diversity, lay claim to be 'illiberal democracy' as is the case in Hungary and Poland. The rise of populism is accompanied by a desire to dissociate the two components of constitutional and liberal democracy that have been at the heart of our democratic systems since the end of the Second World War. Deprived of the principles of limited and moderated power, illiberal democracy is in reality a smokescreen that masks an evolution towards 'majority authoritarianism',¹¹ whose characteristics are becoming increasingly clear: reference to the sovereignty of the people as the exclusive basis for the democratic legitimacy of power; strengthening of the executive power on the basis of the legitimacy that is conferred by elections and citizens' votes; willingness by authoritarian leaders to avoid questioning of their power; reduction of uncertainty in electoral competition in order to closely control political life; (legal or illegal) capture of the opposition and intervention against them to reduce their role and weaken them at the expense of the rule of law in order to better control the state apparatus; intervention in the media to control information and communication; reduction of academic freedoms; desire to establish hegemonic control over the economy; etc.

30 years after the fall of the Berlin Wall, a new East-West divide seems to be re-emerging around values. The wave of contestation of European values, while taking specific forms in each Member State, is a general phenomenon that affects the entire EU. However, the capacity to resist this phenomenon varies according to several cleavages, including that between 'East and

West'. The weaker capacity for resilience by liberal democracy in the East is mainly due to several factors.

- First, the young Central and Eastern European democracies are based on more fragile structures, as evidenced, for example, by the chronically low levels of voter turnout and the structural weaknesses of the media sector.

- Second, the societies of Central and Eastern Europe have, by and large, not overcome their traumas that fuel mistrust and even resentment towards the West. The rejection of European values is also fuelled by a variety of feelings and even resentments that must be taken seriously: the conviction of being the eternal victim, the fear of suffering a 'diktat'; and the obsessive attachment to the ethnically and culturally homogeneous character of society, which developed under tragic circumstances during the 20th century, but which, after 40 years of communism, became second nature of their societies.

- Third, Central and Eastern European public opinion is very sensitive, even susceptible, to anything that may create feelings of being or appearing to be 'second-class Europeans'. However, there is a long list of subjects on which Central Europeans feel their Western European fellow citizens treat them with condescension or bad faith. For values, the critical subject is the application of a 'double standard' on the memory of the two totalitarianisms that bloodied European history in the 20th century. In these circumstances, it is essential that the recapturing of support for European values doesn't exaggerate, misinterpret or exploit these real differences between 'East and West'.¹²

10. See Reynié, D. (2019) (ed.), "Fragiles démocraties", Fondation pour l'innovation politique, May 2019.

11. Chopin, T. (2019), "'Démocratie illibérale' ou 'autoritarisme majoritaire'? Contribution à l'analyse des populismes en Europe", Policy Paper No 235, Jacques Delors Institute, 19 February 2019.

12. Rupnik, J. (2019), "East-West, Reality and Relativity of a Divide", Policy Brief, Jacques Delors Institute, 29 March 2019.

3 ■ What can be done?

3.1 The central role of the Court of Justice

The Union is based on a community of values as specified by the Treaties.¹³ Some Member States do not respect EU law or the principle of the rule of law¹⁴ and thus call into question the fundamental values on which the EU is based. Article 7 of the TEU allows the Council to ‘determine that there is a clear risk of a serious breach by a Member State of the values referred to in Article 2’ and, where appropriate, to ‘determine the existence of a serious and persistent breach by a Member State’ of those values. While these legal provisions may act as a deterrent, the effectiveness of this mechanism may have been questioned because of its inability to correct potential deviations from the rule of law.¹⁵ In addition, as a result of a number of factors, the Commission is increasingly politicised, in particular because of its political responsibility towards the European Parliament.¹⁶ This politicization necessarily affects the perception of its independence and neutrality and thus its ability to exercise

some of its powers, particularly of a judicial nature, when it exercises its role as the guardian of the treaties. Thus, in addition to strengthening existing legal instruments (soft law and instruments provided for by the Treaties)¹⁷, it is the Court of Justice, a genuine constitutional court of the Union (failure to comply with its decisions may result in severe financial penalties), which has a central role to play in protecting fundamental European values and the rule of law, regardless of (or in addition to) the cases and procedures laid down in Article 7. This is the way that has been successfully used to ask Poland to suspend the provisions aimed at lowering the retirement age of Supreme Court judges, which was considered to infringe the principle of an independent judiciary.¹⁸

3.2 Budget conditionality or a strengthened fight against fraud and corruption?

In parallel with the negotiations on the next Multiannual Financial Framework (MFF), which will start in 2021, the European Commission has published a legislative

¹³. Article 2, TEU.

¹⁴. According to the European Commission, the concept of the rule of law in Europe presupposes the following elements: ‘legality, which implies a transparent, accountable, democratic and pluralistic process for enacting laws; legal certainty; prohibition of arbitrariness of the executive powers; independent and impartial courts; effective judicial review including respect for fundamental rights; and equality before the law.’ See Communication from the Commission to the European Parliament and the Council, ‘A New EU Framework to Strengthen the Rule of Law’, COM (2014) 158 final, p. 4.

¹⁵. See Michelot, M. (2019), “The Article 7 Proceedings Against Poland and Hungary : What Concrete Effects?”, Blog Post, Jacques Delors Institute, 6 May 2019.

¹⁶. Art. 17, §8, TEU.

¹⁷. Pech, L., Kochenov, D. (2019), “Strengthening the Rule of Law Within the European Union: Diagnoses, Recommendations, and What to Avoid”, Policy Brief, Reconnect, June 2019.

¹⁸. In its judgment of 24 June 2019, the ECJ held that these provisions are contrary to EU law (Case C-619/18). See Pech, L., Platon, S. (2019), “The beginning of the end for Poland’s so-called ‘judicial reforms’? Some thoughts on the ECJ ruling in Commission v Poland (Independence of the Supreme Court case)”, EU Law Analysis, 30 June ; and also, from a more political point of view, Buras, P. (2019), “The EU must defend its rule-of-law revolution”, European Council on Foreign Relations, 11 July 2019.

proposal (under discussion in the Council) to introduce a new procedure to make the payment of EU budgetary resources conditional on respect for the rule of law. Some recent works show that budget conditionality can be a useful instrument to influence the actions of member states in areas where there are common consensual objectives but no common legally binding rules (for example, making the disbursement of European funds to promote growth and convergence conditional on measures that support these objectives)¹⁹. On the other hand, budget conditionality is unlikely to be an effective solution to political conflicts over the violation of fundamental European values and the rule of law.²⁰ In the latter case, the threat and implementation of financial sanctions could easily be politically instrumentalized by using the 'victim's resentment' that characterizes Central and Eastern European societies and by intensifying the denunciation of the EU as a scapegoat. In addition, many recent studies show that the rise of populism is linked to the issue of regional inequalities.²¹ In this light, financial sanctions, in particular lack of disbursement of cohesion funds by the EU,²² must be rigorously assessed in advance as

there is a risk to further promote the rise of illiberal populist political forces. At the same time, it is essential to strengthen control over the use of community funds (which account for 95% of public investment in Hungary, for example) in order to ensure that they are not misappropriated and do not finance a rent-seeking economy. It is therefore necessary to strengthen the EU's role in the fight against corruption, which is an aspect of the current democratic regression.²³

- A concrete initiative would be to strengthen the mechanisms for monitoring the use of European funds, for example by strengthening the role of the European Anti-Fraud Office (OLAF).

- In addition, it is necessary to strengthen the common fight against corruption by relying on the European Public Prosecutor's Office. Such initiatives would address the perception of many citizens that the EU is not capable of maintaining and strengthening security and the rule of law²⁴.

19. Schneemelcher, P., Haas, J. (2019), "Rules Enforcement in the EU: Conditionality to the Rescue?", Policy Paper, Jacques Delors Institute, Bertelsmann Stiftung, May 28 2019.

20. 20 Michelot, M. (2018), "Quelle réponse européenne aux défaillances de l'état de droit?", Institut Jacques Delors, Policy Paper n°221, 4 avril.

21. Voir Wishlade, F. (2019), "The Rise of Populism, Regional Disparities and the Regional Policy Response", Research Paper, N°109, European Policies Research Centre, University of Strathclyde, Glasgow ; Dijkstra, L., Poelman, H., Rodriguez-Pose, A. (2018), "The Geography of EU Discontent", Working Paper, 12/2018, European Commission.

22. It should be stressed here that the Commission's proposal provides that, in the event of suspension of European funds, the Government must nevertheless finance the planned projects from its own resources (Article 4(4) of the proposal: "Unless otherwise provided in the decision adopting the measures, the imposition of appropriate measures shall not affect the obligation of the public entities referred to in paragraph 1(a) or the Member States referred to in paragraph 1(b) to implement the programme or Fund allocated by the measure, and in particular the obligation to make payments to the recipients or final beneficiaries").

23. See the corruption perception index assessed by Transparency International: for example, in 2017, Hungary is at the level of its Balkan neighbours.

24. Pech, L., Kochenov, D. (2019), 'Strengthening the Rule of Law Within the European Union: Diagnoses, Recommendations, and What to Avoid', op. cit.

3.3 An indispensable political strategy

- The first step is to recognize the depth and urgency of the problem: it is an intellectual, political and cultural struggle.²⁵ The key lies in education and culture policies.
 - It is essential to strengthen young people's ownership of democratic culture and the rule of law. Civic attitudes play an important role in the development of illiberal forms of populism and education can make a positive contribution to combating the risks of democratic regression.²⁶
 - Moreover, beyond the civic dimension, the lack of pride and attachment to Europe's spiritual and cultural heritage is a sign of weakness in the face of internal and external threats. It is urgent for European education systems to realise that, in the face of the ever-increasing superficiality conveyed by the media and social networks, it is necessary to give priority to depth, the long term, and to high standards and quality. In this perspective, two fields need to be invested in.
 - (1) On the one hand, the introduction of a genuine European dimension to primary and secondary education, with an emphasis on history and culture, on the diversity and richness of local and national realities, but also on their common roots, as well as on the cross influences between them.
 - (2) On the other hand, education on the media literacy, with critical thinking at the heart of this approach.
 - The EU cannot and must not be the main vehicle for this renewal of the education system: it is up to the member states and their educational communities to assume responsibility. But the EU can contribute, by focusing first and foremost on its existing expertise, particular encouraging mobility²⁷ and providing quality support.

- The other key is to be found with European political elites, who must seize the discourse on European values and stimulate it consistently, in a credible and audible way.
 - For too long, the discourse on the European project has been bogged down in a double impasse. First of all, it is dominated by technical issues and tends to be reduced to a complex discourse that fails to convince or mobilize citizens around deeper meaning beyond questions of standards and financing. Moreover, the discourse on the European project takes place before a small audience and is mainly addressed to the convinced. The problem of an inaudible European discourse is largely linked to the inadequacy of political mechanisms at the European level. It leads to the weakness of European political representation and a European public space that is perceived and identified as such by the citizen.
 - Beyond the need to bring European political actors into national public spaces and to further decompartmentalise them, a new political discourse on European values must include the ability to address two other major issues.
 - (1) On the one hand, we must build and internalize a discourse on the pride of being European, not because we forget or disguise the crimes and tragedies of our past, but because we know how to recognize them, learn from them and find in the glorious elements of our common heritage resources for action in the present. Far from resembling nationalism, imperialism or Eurocentrism, this pride must remain humble, without however preventing us from expressing, loud and clear, the unwavering attachment to European values—especially in the face of the alternatives that are on offer in the world today.
 - (2) On the other hand, it is necessary to restore credibility to the main actors in the

25. Chopin, T., Macek, L. (2018), "Une Europe des valeurs ? Un combat à mener", Telos, 9 July 2018.

26. Voir Abiodun Olatokun, M. (2019), "The Rule of Law Should be Taught in Schools", Reconnect, June 17.

27. Versini, C. (2018) 'For an "Erasmus Teens"', Paris : Jacques Delors Institute, September 2018.

European discourse and to find answers to the increasingly widespread mistrust that is fuelled by the discreditation of elites. Without the awareness of elites and a real change in their behaviour, this mistrust cannot be reduced and any discourse on values risks being disqualified *a priori*.

Simple and quick solutions do not exist. Beyond financial or diplomatic sanctions, we must lead by example. It is also necessary to deconstruct the available counter-models, comparing point-by-point how the EU, despite its weaknesses and imperfections, continues to distinguish itself as a continent that strives to respect the balances between freedom and social justice and between freedom and security. By instilling new dynamism and self-confidence in Europeans, supporters of European values will be able to break the 'illiberal' dynamic, which is not inevitable, neither in the East nor in the West.



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JACQUES DELORS INSTITUTE
BERLIN
Centre for European Affairs at the Hertie School of Governance



L'Europe pour les citoyens



PREMIER MINISTRE

Institut Jacques Delors

18 rue de Londres, 75009 Paris

info@delorsinstitute.eu – www.institutdelors.eu

Jacques Delors Institute – Berlin

Friedrichstraße 194, 10117 Berlin, Allemagne

info@delorsinstitut.de – <https://www.delorsinstitut.de>

2 SEPTEMBER 2019

#NEWEU
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#MIGRATION

NEW BEGINNINGS A FRESH START IN EU ASYLUM POLICY

■ LUCAS RASCHE

Policy Fellow at
the Jacques Delors
Institute Berlin

This series is a cooperation
between the Jacques Delors
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proposals for the EU's next
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& SOCIAL POLICY

9- BUDGET

1 ■ Moving out of crisis mode

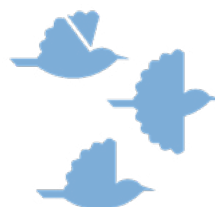
It is time to move EU migration policy out of its prolonged crisis mode. In the first six months of 2019, approximately 31,700 migrants **arrived** in the EU.¹ Compared to the same period in 2016, this amounts to 87% fewer arrivals. With the **number** of first-time asylum applications similarly falling – from around 1.2 million (2016) to roughly 157,000 in the first **quarter** of 2019 – Commission President-elect Ursula von der Leyen has rightly pointed to the need for a “fresh start on migration” in her **political guidelines**.

As part of this fresh start, EU institutions need to acknowledge that today's challenges are different to those Europe faced at the height of the ‘migration crisis’. The policing of borders on the Aegean Sea and along the Balkan route has reduced arrivals to a minimum. Instead, refugee camps on the Greek islands are increasingly overcrowded, with the **Council of Europe's** anti-torture committee describing conditions there as “inhumane and degrading”. Moreover, the central Mediterranean route is becoming increasingly **deadly**: while one person in 30 did not survive this passage in 2017, the rate increased to one in 16 (2018) with a **recent shipwreck** off the Libyan coast seeing more

than 150 people losing their lives. Changes in migratory routes are accompanied by the growing popularity of far right parties, which have entered national governments in Italy (Lega) and (temporarily) in Austria (FPÖ).

As well as requiring a response to these new challenges, the fallout of the ‘migration crisis’ continues to undermine EU political cohesion. For one thing, the Schengen area has been subject to ‘temporary’ internal border controls for more than three years. Currently, six Schengen states continue to **maintain** border controls

(Norway, Sweden, Denmark, Germany, Austria, France). The repeated extension of what is intended to be a temporary measure of last resort increasingly defies EU legislation. Member states keep changing the legal bases for reinstating, but de facto prolonging, border checks, attracting serious **criticism** from the European Parliament. The frequently cited **justification** that internal border controls constitute a necessary response to secondary movements of asylum seekers does not hold water in light of the current low in arrival numbers. These internal border checks contradict the vision of a “fully functioning Schengen Area” as put forward by von der Leyen. They also



1. The numbers refer to arrivals in Bulgaria, Cyprus, Greece, Italy and Spain.

undermine what more than two thirds of the EU population **perceive** as “one of the EU’s main achievements”.

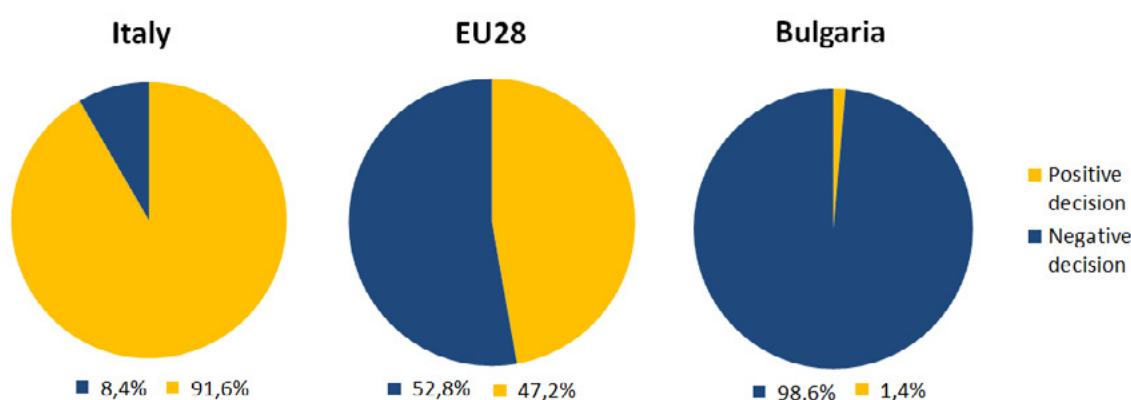
Moreover, efforts to revise the Common European Asylum System (CEAS) have reached an impasse. None of the seven legislative proposals to reform the CEAS has been finalised since they were put forward in 2016. Reforming the Dublin Regulation has proven to be particularly problematic, as member states struggle to agree on a common understanding of solidarity. The stalled negotiations led to a toxic atmosphere among member states and contributed to disputes over the responsibility to transfer asylum seekers rescued in the Mediterranean. While public concern about migration has declined, a recent **Eurobarometer** survey found that 69% of the EU’s population continue to favour a common EU migration policy. EU institutions thus start the next legislative cycle with a clear mandate to deliver a way out of the current solidarity impasse.

2 ■ Structural problems: Diverging asylum standards & solidarity impasse

The retreat to internal border controls and the endless quarrel over who is responsible for receiving migrants rescued in the Mediterranean are symptoms of two structural problems that must be addressed by EU institutions.

The first structural problem lies in the fact that existing CEAS rules are unable to deliver the required harmonisation of national asylum standards. With too much flexibility and too few incentives for compliance, national asylum systems differ significantly in the degree to which they have been institutionalised. This is reflected in the varying quality of reception conditions – which has led to the **temporary suspension** of Dublin transfers to Greece – and asylum processes. Although the Qualification Directive lays down legal provisions for a common understanding of who **should** benefit from international protection, in reality decisions on who **does** receive protection diverge substantially among member states. In 2017, an asylum seeker from Afghanistan had a 91.6% chance of receiving international protection in Italy, while his or her chance was only 1.4% in Bulgaria (see chart 1).

CHART 1 ■ Asylum recognition rate for Afghan nationals (2017)



Note: The chart refers to 'first instance positive decisions', not to 'all positive decisions'.

Source: Migration Policy Institute (MPI)

TABLE 1 ■ Allocation of asylum decisions across EU member states (2015-2017)

	Number of asylum decisions	Share of asylum decisions
European Union	2,664,120	100%
Germany	1,404,550	53%
France	276,340	10%
Italy	239,455	9%
Sweden	205,405	8%
Other EU member states	538,370	20%

Note: Table refers to first instance decisions.

Source: Eurostat

Such **discrepancies** between recognition rates result from the Qualification Directive’s vague terminology, which gives member states substantial discretion in interpreting its legal provisions. As a result, some member states are more attractive than others when it comes to applying for international protection. Together with other important factors, such as existing family links, language barriers or the receiving country’s GDP, the differing implementation of CEAS rules has contributed to a disproportionate allocation of responsibilities for registering and processing asylum claims to a handful of EU member states. The number of asylum decisions taken by individual member states illustrates this: Between 2015 and 2017, more than half of all asylum decisions in the EU were taken by the German authorities (53%). As table 1 shows, 27% of the remaining decisions were taken by France, Italy and Sweden while the other 24 member states processed merely 20% of all such decisions.

In the absence of a truly *common* European asylum system, reinstating border controls is therefore used to convey the message that governments are ‘in control’ of migratory movements. As pointed out **elsewhere**, all six member states currently upholding internal border controls are governed by centre-right governments that face severe pressure from far right parties with strong anti-immigration positions. While **Denmark** is a special case in that regard, this dynamic is particularly evident in Germany, where the *Alternative für Deutschland (AfD)* is spurring fears over

immigration, as well as in France, where the *Rassemblement National* secured the first place in the 2019 European Parliament elections.

The second obstacle to be tackled resides in the struggle to agree on a common understanding of solidarity, which by itself undermines any progress in reforming the Dublin Regulation. Given that von der Leyen explicitly mentioned her ambition to “relaunch the Dublin reform”, it will be crucial for EU institutions to find common ground on two main points of contention regarding the relocation of asylum seekers. Thus far, the proposals tabled by the Commission, the European Parliament and the Bulgarian and the Austrian Council Presidencies have **failed to create agreement** on whether the revised Dublin rules should include a *temporary or permanent* relocation mechanism and whether contributions to that mechanism should be *voluntary or mandatory*.

Forging a compromise in the Council has proven particularly difficult. While some member states – among them France and Germany – favour a binding relocation scheme, the Visegrad countries remain vehemently opposed to any idea of a mandatory quota. The group already undermined previous relocation efforts by not, or barely, contributing to the implementation of the 2015 emergency scheme for the relocation of asylum seekers from so-called ‘hotspots’ in Italy and Greece. Slovakia and Hungary, which joined the

Czech Republic and Romania in voting against the mechanism in the Council, even tried to annul the decision by turning to the European Court of Justice. Despite their case being [dismissed](#), these experiences render overruling the Visegrad countries in the Council through a renewed use of qualified majority voting an increasingly divisive and, in the end, ineffective tool.

The recent decision by eight member states (France, Germany, Portugal, Luxembourg, Ireland, Lithuania, Finland and Croatia) to relocate among themselves migrants rescued in the Mediterranean is hence a necessary step to overcome the persisting solidarity impasse. The continuous ship-by-ship approach not only threatens political cohesion among EU countries but is also proving [ineffective](#). Out of the roughly 16,600 people who have been rescued and brought to either Italy or Malta since June 2018, other EU countries have promised to relocate around 1,900 in response to the pair's decision to close their ports to NGO vessels. Yet, merely 840 people have thus far been relocated or less than 50% of pledged relocations.

3 ■ Putting the New Pact for Asylum & Migration into practice

Moving out of 'crisis mode' should be the EU's main objective with regard to migration policy in the forthcoming legislative cycle. To do so requires strategically rethinking how to tackle both structural problems and the ad hoc approach for migrants rescued in the Mediterranean. Three objectives should guide the "New Pact for Asylum and Migration" proposed in von der Leyen's political guidelines to this end.

3.1 A credible narrative

The idea that national governments and the EU had 'lost control' over immigration has been a frequent talking point in the public debate and has since guided policy responses. With right-wing populists [warning](#) that Europe was facing "an exodus of biblical proportions", the EU and its member states put strengthening external border controls at the centre of their communication strategies. However, a one-sided focus on this control narrative faces a simple problem: it implicitly makes 'zero immigration' or 'closing the Mediterranean route' its ultimate objective. Eventually, such unrealistic promises undermine the EU's credibility in delivering policy solutions and will further strengthen right-wing populist parties. Stepping out of the perpetual crisis-referencing would therefore require a credible narrative which moves well beyond the excessive focus on border controls². Instead, EU actors should employ an evidence-based communications strategy that is built on two parameters:

First, protecting human rights should be at the centre of this new narrative. According to [Eurobarometer](#), the majority of Europeans feel their governments should help refugees. This response has been stable over the years and even rose a jot between 2015 and 2017. Every EU country subscribes to the Geneva Convention and to the Union acquis, which are basic to EU membership and should thus constitute the focal point of a strong counter-argument against the exclusionary language of right-wing populists.

Second, a credible migration narrative should endorse the simple truth that migration reflects human reality and will likely increase over time. Instead of focussing on reducing it to a minimum, questions as to how to shape human mobility in a way that reaps its benefits and diminishes its negative side effects should underpin the EU's communications strategy.

2. Jérôme Vignon, *For a European Policy on Asylum, Migration and Mobility*, Report, Paris: Jacques Delors Institute, November 2019, p.10-14.

3.2 Mutual recognition of positive asylum decisions

With the aim of revoking disparities between national asylum systems and reducing secondary movements, the Commission has already proposed turning the Qualification Directive into a regulation, which would have direct effect in national law. Further harmonising the criteria establishing who receives international protection is certainly helpful. However, one must prevent lowering asylum and subsidiary protection standards for the sake of harmonisation. In this regard, there must be a guarantee that the [proposal](#) to establish a European Union Agency for Asylum (EUAA) does equip the agency with a mandate to “ensure greater convergence and address disparities in the assessment of applications for international protection”.

Revising the Qualification Directive should further be complemented by a legal instrument that allows for the mutual recognition of positive asylum decisions among EU member states. Article 78(2) TFEU calls on the European Parliament and the Council to provide the CEAS with “a uniform status for asylum for nationals of third countries, valid throughout the Union”. However, only negative asylum decisions taken in one member state are currently recognised by other EU countries. Establishing a truly uniform asylum status, valid across the EU, thus requires member states to attach the same legal effect to all (negative and positive) asylum decisions taken in another EU country. This should also imply that refugees and beneficiaries of subsidiary protection receive the same rights and entitlements attached to their status in every member state. Currently, asylum seekers face the dilemma that their application is either rejected and this then applies across the entire EU or is accepted but confined to within the boundaries of a single member state. To incentivise integration mutual recognition and the transfer of rights could be granted after [two years](#) of legal and continuous stay in the member states that

issued the asylum decision (as opposed to the current period of five years under the Long Term Residence Directive). This would render irregularly moving to a second member state and making a subsequent application there less appealing.

3.3 Complement the CEAS reform with short-term measures to save lives at sea

Reforming the CEAS is a top item on the outgoing Commission’s list of unfinished business.

With regard to breaking the current deadlock on the Dublin file, von der Leyen says that “a new way of burden sharing” is needed. However, in search of more pragmatic solutions that can move negotiations forward, the Commission – and the European Parliament – should continue to insist on mandatory member state contributions to a possible relocation scheme. To incentivise member state participation, a new system of responsibility sharing could, for example, provide additional funding to municipalities that offer to host relocated asylum seekers.

Almost 20 years after the cornerstone for today’s CEAS was laid in Tampere, establishing a truly common asylum system requires EU member states and institutions to establish a fresh consensus on the way asylum seekers are allocated across the EU. Yet, searching for an EU-28 solution must not become a pretext for standing idly by as more people lose their lives while crossing the Mediterranean. Longer-term reform efforts should therefore be complemented with two short-term measures.

First, the “stable mechanism” for relocating asylum seekers rescued in the Mediterranean, recently agreed upon by eight EU member states, should be solidified. In practice, this would mean finding a legally binding framework that turns the current de facto coalition of some willing EU countries into a de jure alliance. Taking GDP (40%),

population size (40%), previous asylum applications (10%) and unemployment (10%) into account, a fixed share of migrants should be allocated to each participating Member State. Replacing voluntary commitments with a fixed quota ensures that rescued asylum seekers are indeed transferred from their point of disembarkation. The mechanism should also establish clear legal prescriptions on the definition of the “next place of safety” in order to clarify the current grey area in international law and avoid constant bargaining over what constitutes an adequate port of disembarkation.

Second, the EU should establish a search and rescue (SAR) operation in the central Mediterranean under the auspices of the European Border and Coast Guard (EBCG). The responsibility to conduct SAR can no longer be transferred to the Libyan authorities, given their problematic human rights compliance and the horrendous situation in Libyan migrant detention centres. The current proposal to revise the EBCG mandate [includes](#) a substantial increase in its budget, from EUR 2.9 billion (2014-2020) to EUR 11.3 billion (2021-2027), and envisages a standing corps of 10,000 border guards to be established by 2024. As noted in a European Parliament [report](#), enhancing budget and staff should go hand in hand with strengthening the EBCG mandate to conduct search and rescue operations. Von der Leyen herself has said that “we need a more sustainable approach to search and rescue”. Following the quasi suspension of Operation Sophia and the restrictions placed on humanitarian NGOs, there is a pressing need for comprehensive and coordinated efforts to save lives at sea. Thus far, worries that SAR activities would constitute an additional pull factor, attracting ever more migrants to embark on the perilous journey, have been a major reason for reducing the European presence in the Mediterranean. Yet, several [studies](#) comparing periods of high and low SAR activities have shown that the presence of SAR operations has little impact on the number of attempted sea crossings.

Such misleading arguments cannot stand in the way of an urgently required humanitarian response to the deadly situation in the Mediterranean.

Conclusion

EU institutions are equipped with a strong mandate to move migration policy out of the crisis mode which has paralysed overdue reform efforts and undermined the Union’s political cohesion. The majority of EU citizens supports helping asylum seekers and demands that this be done via a common European approach. To fulfil that mandate, EU institutions need to address the structural problems of EU migration policy and the imminent crisis in the Mediterranean. Three recommendations to underpin von der Leyen’s New Pact for Asylum and Migration are made here in this regard:

- First, a new narrative should guide EU migration policy. Instead of the current emphasis on border controls, the focus should be on protecting human lives and creating solidarity among the member states.
- Second one must further harmonise national asylum standards and complement existing rules with a legal instrument that allows for the mutual recognition of positive asylum decisions. Both provisions would dis-incentivise secondary movements and thereby undermine the justifications for retaining internal border controls.
- Third, it is necessary to complement longer-term efforts to reform the CEAS with two short-term measures for saving lives at sea: solidify the ‘stable mechanism’ for relocating rescued asylum seekers by establishing a fixed quota for participating member states (i) and establish a search and rescue operation, coordinated by the EBCG (ii).

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JACQUES DELORS INSTITUTE
BERLIN
Centre for European Affairs at the Hertie School of Governance

Institut Jacques Delors

18 rue de Londres, 75009 Paris

info@delorsinstitute.eu – www.institutdelors.eu

Jacques Delors Institute – Berlin

Friedrichstraße 194, 10117 Berlin, Allemagne

info@delorsinstitut.de – <https://www.delorsinstitut.de>

2 SEPTEMBER 2019

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■ **SOFIA FERNANDES**

Senior research fellow, economic and social affairs at the Jacques Delors Institute Paris

This series is a cooperation between the Jacques Delors Institutes in Berlin and Paris and makes concrete proposals for the EU's next institutional cycle.

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NEW BEGINNINGS

OBJECTIVE 2024: BETTER LIVING AND WORKING CONDITIONS FOR ALL EUROPEANS

1 ■ **Renewing the ambition of the European project and meeting citizen expectations**

Promoting improved living and working conditions of Europeans “so as to make possible their harmonisation while the improvement is being maintained” was the ambition of the European project as defined by its founders in 1957. This objective has been complemented by other social goals such as the promotion of full employment, social justice, social progress and cohesion as well as the fight against social exclusion and discrimination. Over time, they have fuelled the creation of a social dimension to the European project, despite the EU's limited competences in this field.

Yet, honouring the objectives of the Treaties is not the only justification for EU action in the social field. Since the beginning of the European integration process, this normative argument has been based on a functional justification, linked to the need to balance economic liberalisation with the protection

of workers' rights in order to guarantee the proper functioning of the single market. Nevertheless, while it is crucial to ensure that economic competition does not foster social competition with a race to the bottom of the social ladder, the functional justification for EU action in the social field goes beyond the issues that are strictly related to the single market. For the proper functioning of the common currency area and in order to avoid a negative impact of the single currency on the national

welfare states, Economic and Monetary Union must also have a social dimension.¹ Finally, the functional argument today is also based on the need to modernise national welfare states—or, more generally, the ‘European social model’—in the face of common challenges. Indeed, it is through their joint action that member states will be able to provide effective responses to the social challenges of the current transitions, particularly the digital, ecological and demographic ones.

However, the main argument for stronger EU action on social and employment issues



1. See Sofia Fernandes, ‘The Reform of the EMU: What Social Dimension?’, Report 118, Jacques Delors Institute, 19 February 2019.

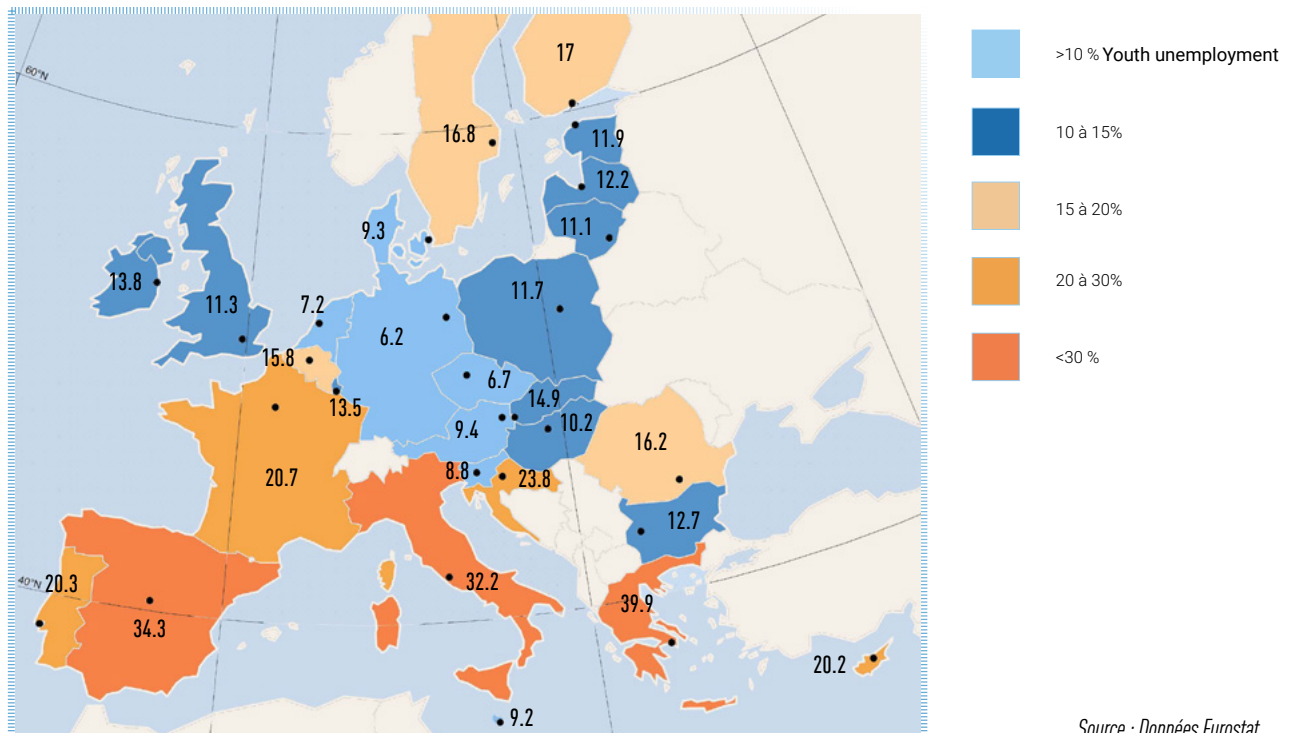
today is not normative or functional, but political. Many Europeans no longer see the benefits of the EU and identify it with developments that, instead of protecting them, feed their social and economic insecurity (these include globalisation, the disappearance of public services, the emergence of new forms of work and the risk of job insecurity, among others.) It is necessary to respond to the feeling of fear that fuels Euroscepticism and support for nationalist parties. Young people worry that they will not be as successful as their parents; the middle class is distressed about social downgrading; some workers are anxious that their jobs will disappear. As Jacques Delors recalled in 2016, 'if European policy-making jeopardises cohesion and sacrifices social standards, there is no chance for the European project to gather support from European citizens'. In this vein, **if European leaders want to strengthen the political legitimacy of the European project and (re) gain the trust of citizens, it is essential to put Europe back on the path of upward social**

convergence and to ensure greater social equity and tax justice. Citizens expect the European project to deliver improvements in their living and working conditions; the EU must live up to these expectations. We must return to the initial ambition of the European project and put it at the heart of the agenda of the next Commission, just as its new President claims.

2 ■ State of play: a new impetus that needs to be consolidated and put into practice

The 2008 economic crisis left deep scars in the social fabric of many member states. Despite the real decline in unemployment, levels remain high in many countries, especially among young people (see Map 1). Income inequality increased in a majority of EU countries (sixteen of them) between 2009 and 2017 (see Figure 1). The differences in at-risk-of-poverty rates between countries are

MAP 1 ■ Youth unemployment rate in EU countries in 2017



Source : Données Eurostat

significant, ranging from around 9 percent in the Czech Republic to over 23 percent in Romania and Bulgaria.²

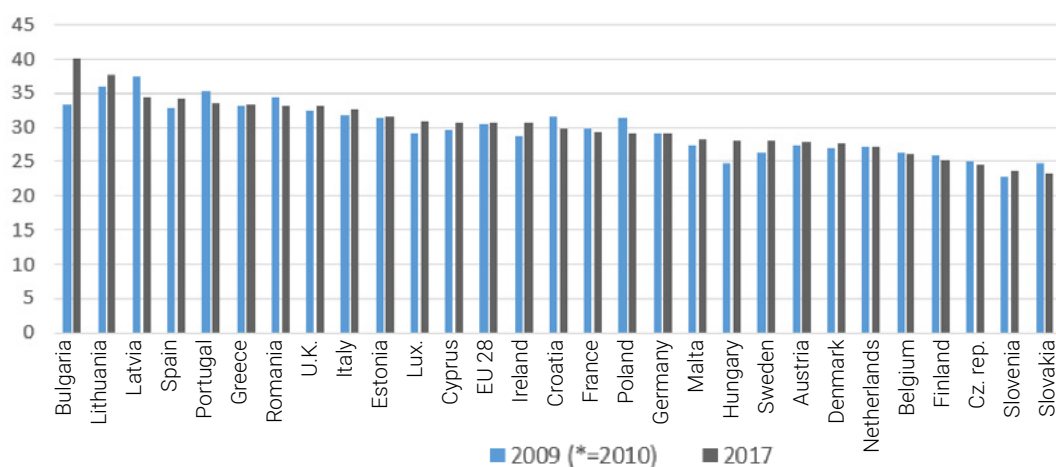
In such a context, EU countries also face common challenges that have an impact on employment and social protection systems. This is particularly the case with population ageing, but also with other ongoing transitions in the labour market, including ecological and digital transitions, such as the advent of artificial intelligence. According to a recent European Commission report, digitisation has created two million jobs in the last decade and forecasts indicate the potential for 1.75 million new jobs by 2030.³ On the other hand, between 14 and 47 percent of jobs are at risk of automation in the EU. For its part, the energy transition has created more than two million jobs in Europe in the renewable energy and energy efficiency sectors and many more jobs will be created in the coming years⁴. But the transition also implies that jobs will disappear, particularly in fossil fuel and carbon-intensive sectors of the economy.

The impact of the ongoing transitions on employment is not only quantitative but also qualitative. The digital transition also entails a risk of job insecurity, including new labour relations. This requires, in particular, the

modernisation of social security systems in order to guarantee coverage for all workers. These challenges, which affect all member states, will naturally be met with a more effective response if it is based on joint and coordinated action by the twenty-seven EU countries.

In 2014, when he became President of the European Commission, Jean-Claude Juncker affirmed his desire to put social policy back at the heart of the European project, hoping that the EU would have a “social triple-A rating”. Since then, a number of important proposals have emerged, most importantly the 2017 proclamation of the European Pillar for Social Rights (EPSR) (see Box 1). But over the past five years, the Commission’s commitment has also been reflected in many other initiatives, such as new European laws (in particular on the posting of workers, the reconciliation of private and professional life, as well as transparent and fair working conditions), a relaunch of the European social dialogue, a new social scoreboard to monitor the social performance of Member States, a recommendation on access to social security for all workers and the creation of the European Labour Authority by the end of 2019.

FIGURE 1 ■ Gini coefficient in the EU28 countries in 2009 and 2017 (scale from 0 to 100)



Source : Eurostat Data

2. At-risk-of-poverty rate, Eurostat, 2018.

3. Michel Servoz, 'The future of work? Work of the future!', European Commission report, 3 May 2019.

4. Sofia Fernandes, « Chap.4 : Un pacte social pour la transition énergétique », *Making the energy transition a european success*, Rapport, Paris: Institut Jacques Delors, 2017.

Box 1 ■ The twenty rights and principles of the European Pillar of Social Rights

The Pillar enshrines 20 principles and rights in the following fields.



Equal opportunities and access to the labour market

- ▶ Education, training and lifelong learning
- ▶ Gender equality
- ▶ Equal opportunities
- ▶ Active support for employment



Fair working conditions

- ▶ Secure and adaptable employment
- ▶ Wages
- ▶ Information about employment conditions and protection in case of dismissal
- ▶ Social dialogue and involvement of workers
- ▶ Work-life balance
- ▶ Healthy, safe and well-adapted work environments and data protection



Social protection and inclusion

- ▶ Childcare and support for children
- ▶ Social protection
- ▶ Unemployment benefits
- ▶ Minimum income
- ▶ Old-age income and pensions
- ▶ Healthcare
- ▶ Inclusion of people with disabilities
- ▶ Long-term care
- ▶ Housing and assistance for the homeless
- ▶ Access to essential services

These initiatives have made it possible to breathe **new life into the construction of a social Europe, even if citizens are not yet seeing the benefits**. However, they are not sufficient, in particular because the European Pillar for Social Rights is not legally binding on member states. For the principles to have a real impact on the lives of citizens, they must be translated into concrete achievements, both by the EU and by member states. This is why **it is essential that the next Commission is involved in a continuous process**. Although it can define its own priorities, it must start by translating the twenty principles of the European Pillar for Social Rights into concrete achievements. The credibility of the EU is at stake.

3 ■ Faced with divisions, what method should be used to move forward?

The difficulties that exist today to strengthen the social face of the EU are largely due to the divisions between the different actors: between countries, between political families and between the representatives for workers and companies. A two-pillar strategy must be implemented to overcome the current barriers.

Above all, it is necessary to build compromises between all actors on **the implementation of the principles of the**

pillar, by defining a social action plan for 2024 in which the initiatives—legislative, financial and cooperation—to implement the EPSR are clearly identified. It needs to be ensured that all member states—both those more and those less welcoming of the role of the EU in the social field—, the four main political groups in the European Parliament (EP), as well the trade unions and employers can identify with some of the initiatives (in return, they should accept initiatives that do not have their full support at the base). The adoption of such an operational and concrete action plan will provide medium-term visibility on the initiatives of the next Commission in the social field. This was the approach adopted in 1989 by Jacques Delors, following the adoption of the European Charter of the Fundamental Social Rights of Workers, whose rights had been translated into concrete initiatives, particularly legislative ones. They were then grouped together in a social action programme that was implemented in the 1990s. Just as it was then, the commitment and action of the European social partners remains a necessary condition for the successful implementation of the action plan. It will therefore be essential that the Commission commits itself to strengthening bipartite and tripartite social dialogue at European, national and sectoral level.

However, the Europe of today is not the Europe of Jacques Delors. Today European member states are more heterogeneous,

both in their performance and social standards and in their political will to strengthen the social dimension of the EU. If it is not possible to move forward with all twenty-seven, enhanced cooperation may be a better solution than inaction. Despite the efforts of the next Commission to build compromises, we can anticipate that not all proposals will necessarily have the support of all countries. The second part of the next Commission's strategy must therefore be to **accept the possibility of a differentiated social integration**. Countries that want to go further must be given the opportunity to do so, as has been done for the euro. The countries that are forging ahead must play a leading role, but it should be possible for others to join them at any time. EU history is a reminder that this approach has been successfully adopted in the past. Indeed, when the Maastricht Treaty was signed, the protocol on social policy was adopted only after the United Kingdom had been granted an opt-out. A few years later, the United Kingdom under the Tony Blair government joined the other member states in incorporating a social chapter into the Amsterdam Treaty.

4 ■ A social action plan with five priorities

Europe is often perceived as economically liberal. If it wants to strengthen its social face and achieve real improvements in the living and working conditions of all Europeans, the next Commission must include concrete initiatives in its Social Action Plan for 2024. They should be based on five closely linked and overlapping priorities, as identified below.

4.1 Re-launching the European 'convergence machine'

Historically, the EU has been a 'convergence machine', as the World Bank once put it. But convergence has become less visible today, particularly between Eastern and Western/Northern European countries, despite much stronger economic growth in Eastern Europe in recent years. This decade has instead seen divergence between the countries of the north and the south of the euro area.

While a consensus between the different actors on the need to strengthen the process of European convergence seems possible, the different measures that will be put forward to achieve this objective will not be consensual. Some will argue that more solidarity between countries is needed and others will stress the need for a common set of minimum rules on certain aspects of social and employment policies. Yet others will stress that the key is the implementation of national reforms. The correct answer is that the convergence that the EU needs will be the result of a combination of these different elements.

Solidarity is at the heart of the European project. If we want convergence in the social performance of member states, for example a reduction in the unemployment rate, a reduction in the number of poor people, or an increase in the percentage of workers benefiting from lifelong learning, there must be solidarity that is expressed through budgetary transfers between countries to support these objectives. The Structural and Cohesion Funds aim to achieve such economic, social and regional cohesion between countries and between the different regions of the same country. More specifically, the European Social Fund Plus (which will bring together a set of European funds in the social field from 2021 onwards) will be endowed with 100 billion euros for the 2021-2027 period, according to the Commission's proposal. Although this amount is higher than the current

Multiannual Financial Framework, if the next Commission can not increase this budget envelope, it will have to focus on **improving the effectiveness of European funding**.

In order to limit the risk of social divergence in the event of a cyclical crisis, the next Commission should complement the existing solidarity instruments with an insurance instrument for euro area countries. In the event of a crisis, this will prevent member states from having to engage in a process of internal devaluation, such as wage cuts – as we have recently seen in Greece and Portugal – which carry high social costs. The idea has been debated for several years and many studies have been carried out on this issue; it is now time to make it a reality and to set up **a European unemployment (re)insurance system for the euro area countries**,⁵ as announced by the Commission President-elect Ursula von der Leyen.

Some countries will emphasise the importance of reforms, for example to improve education, lifelong learning systems, or early childhood care. So far, monitoring of national performance and reforms has been based on non-binding actions, such as monitoring through a table of social indicators and by providing political incentives for reforms, including country recommendations within the framework of the European Semester. While some are considering strengthening the power of European authorities through coercion, including social policy conditionality attached to European funds, this does not seem to be the right approach. It is difficult to imagine that a country like Romania or Bulgaria could be deprived of European funds if wages do not increase fast enough or if poverty does not fall at the desired rate. In the social field, the EU must base its action on carrots rather than sticks. Political incentives must be reinforced by financial incentives. In its proposal for a Multiannual Financial Framework for 2021-2027, the

Commission proposed to provide the EU with a new reform support programme that would provide technical and financial assistance for the implementation of reforms in each member state. This programme would thus have a budget of 25 billion euros over seven years. The proposal, which has yet to be validated by the member states and the EP, would be a welcome financial incentive for states that undertake reforms to respond to the Commission's recommendations in the social or employment field (e.g. reforms of their apprenticeship systems or adult training). It is therefore important for this proposal to be approved by the new EP and national governments.

However, EU action cannot exclusively be based on funding and cooperation that relies on political and financial incentives. While the objective is not to harmonise national welfare systems, there is need to establish a **common set of minimum social standards that reflect the EU's priorities for action**. For example, gender equality, a priority for the EU, is a goal that is currently reflected in some common minimum standards, in particular on the minimum duration of maternity, paternity and parental leave. There is now a set of European laws on working conditions that will have to be updated to meet the challenges of the digital, ecological and demographic transitions. In the area of wages, if the objective is to have remuneration that allows for decent living conditions, it should be considered to establish a **common minimum standard for minimum wages**, for example at least 60 percent of the national median wage. But if the objective is wage convergence – or, as the European Trade Union Confederation (ETUC) calls it 'the same wage for the same work with the same productivity' – EU action on wages must not be limited to the minimum wage. The EU must encourage member states to put in place policies that **translate labour productivity gains into**

5. See Frank Vandenbroucke and Francesco Nicoli, 'European Unemployment Insurance: What Citizens Really Think', Policy Brief, Jacques Delors Institute, 13 February 2019.

higher wages. As the European Trade Union Institute points out, labour productivity is now growing at a faster rate than wages in many low-wage countries. An upward wage convergence is necessary; this will contribute not only to improve working conditions in these countries, but also to stop brain and youth drain (or, at least, to offer those leaving the country the prospect of return and thus ensure circular mobility within the EU).

4.2 Investing in human capital and tackling inequalities

The EU's financial instruments must serve not only cohesion between member states but also the fight against social and regional inequalities within each country. There is a growing feeling among Europeans that economic liberalisation exacerbates social inequalities. Tackling these inequalities must be a priority for the EU and social investment remains a powerful lever for action. In 2013, the Commission presented its social investment package, which provided guidance to member states on how to develop more efficient social policies. It is necessary to reconnect with this agenda. **The EU must invest directly in human capital** – which it does through the European Social Fund, the Erasmus+ programme or the European Globalisation Adjustment Fund – but it must also ensure that the budgetary constraints faced by many EU countries do not lead to a reduction in investment in early childhood, education or lifelong learning. In this context, the next European executive should examine the possibility of establishing a 'golden rule' for social investment, according to which some social expenditure would be exempt from public deficit calculations when the Commission assesses compliance with European budgetary rules.

With regard to direct EU action, European grants must be complemented by an efficient system of loans for social investments. It is

therefore important to support the outgoing Commission's proposal to provide the future European investment fund '**Invest EU (which will succeed the 'Juncker Plan' from 2021 onwards) with a social investment and skills component** with a budget of four billion euros.⁶

This social investment strategy must also pay **particular attention to young people**. National governments should welcome the EP's request to triple the budget of the Erasmus+ programme for the 2021-2027 period, so that more young people benefit from mobility. It is also important to pay particular attention to **equal access to mobility opportunities for all**. The EU must continue to support the development of national apprenticeship schemes, through technical and financial support, with an emphasis on the **mobility of apprentices**. The EU has a crucial role to play in enhancing the image of apprenticeships, which are today often perceived as a path for students who are less successful in school. The Erasmus Pro initiative must be strengthened to reach more young people and the Commission should consider creating '**European Excellence Professional Centres**', which would complement the existing European offer at doctoral level (European University Institute) and master's level (College of Europe), in particular by promoting the professions that are involved in the energy and digital transitions.

4.3 Ensuring a fair transition to a digital and low-carbon economy

The parallel transitions to a digital and low-carbon economy are leading to profound structural changes, also on the labour market. Despite the opportunities they offer, the transitions are also associated with fears and it is crucial to manage them so that no one is left behind. As these are shared challenges for all member states, they call

⁶. See Eulalia Rubio and Fleurilys Virel, '[InvestEU Fund: A Rebranded Juncker Fund?](#)', Policy Brief, Jacques Delors Institute, 26 September 2018.

on the EU to take action, in particular to anticipate the skills needed for new jobs and to adopt support measures for workers on the losing side of the transformation.

Investing in human capital is therefore necessary not only to combat inequalities but also to prepare workers for the jobs of tomorrow; this requires the acquisition of new skills and for some people even professional requalification. Indeed, ecological and digital transitions lead to the creation of new jobs—and the potential for job creation must be maximised through European industrial and innovation policy. In other words, it must be **ensured that workers have the skills that companies need**. Given the scale of the challenge, the Commission must play a more active role in supporting national lifelong learning systems. In this context, the Commission could draw on the French experience of the Personal Activity Account, which in particular guarantees the portability of acquired rights to training if a worker changes jobs, becomes unemployed or decides to become self-employed. The French case could inspire the creation of a Personal Activity Account in each country. As a second step, the Commission (through the future European Labour Authority) could propose the **creation of a European Personal Activity Account**, which would include not only training benefits but also a history of pension or unemployment benefits, in order to facilitate the portability of benefits from one country to another.

The transitions also lead to the destruction or redefinition of existing jobs. In this context, the European Globalisation Adjustment Fund (EGF) must be extended and strengthened to become a **'European Transition Support Fund'**⁷ that lives up to its name and supports the retraining of workers who are victims of major restructuring events, whatever the

cause. To have a real impact, the intervention capacity of this fund must be increased to at least 500 million euros per year (the amount available to the EGF when it was created in 2007), compared to the 225 million euros that were proposed by the current Commission for the 2021-2027 period.

The European labour market is also affected by new industrial relations, particularly within the sharing economy. The EU must ensure that the associated risk of job insecurity is limited. The EU recommendation on **access to social security for all** is a welcome initiative, but it is only a first element of a major project that should be at the heart of the work of the next Commission.

However, ensuring a transition to a low-carbon digital economy goes beyond employment and social security issues. As illustrated by the yellow vest crisis in France, the impact on household purchasing power must also be taken into consideration; other social issues deserve particular attention, such as the impact of these transitions on health or social inclusion/exclusion. As early as 2016, the Jacques Delors Institute called for the adoption of a social pact for the energy transition,⁸ which would make it possible to address the various social issues involved in the transition. A similar approach will probably be needed for the digital transition.

4.4 Striving for more social equity and tax justice

The EU must demonstrate that it represents the interests of all Europeans, including the most disadvantaged and those furthest from decision-making centres. The initiatives presented above would strengthen social equity in the EU, but the EU must also engage

7. See Sofia Fernandes and Justine Daniel, 'Towards a European Transition Support Fund', Policy Paper 231, Jacques Delors Institute, 11 October 2018.

8. See Jacques Delors, Sofia Fernandes and Thomas Pellerin-Carlin, 'Europe Needs a Social Pact for the Energy Transition', Policy Brief, Jacques Delors Institute, 29 January 2018.

in a proactive and visible approach in favour of the most deprived. The 2010 target to reduce the number of people affected by (or at risk of) poverty by at least twenty million in ten years will not be achieved. This failure should encourage the next Commission to adopt a **European anti-poverty plan** based on the best national practices in this field and maximising the impact of EU support – in financial and coordination terms – for national initiatives.

It is also urgent to make **tax justice one of the priorities of the next Commission**. All EU countries are now facing a challenge in financing their welfare states. In the name of budgetary constraints, governments must reduce their spending, which often includes social spending. At the same time, there is a growing sense of injustice among the population in many countries in the face of countries' inability to tax digital giants and the non-cooperative tax game that now exists between EU countries. The latter, in particular, has led to a reduction in corporate tax rates in recent decades and fuelled a system of tax optimisation within the EU that enables companies and taxpayers to minimise their tax burden.

Of course, the EU's action will be limited by the unanimous vote in the Council on tax matters. But the Commission must have an ambitious agenda in this field. It must put a new proposal for the **taxation of digital giants** on the table, continue to work on **combatting tax evasion and fraud** in the EU and breathe new life into the debate on **corporate tax policy convergence**.

4.5 Ensuring fair mobility of workers

Free movement is an important individual right of Europeans; EU citizens consider it one of the main benefits of the European project. But intra-European mobility also fuels mistrust of the EU among many citizens. Organizing fair mobility is thus fundamental for both mobile and non-mobile workers.

Countries that host mobile workers fear the risk of social dumping or social benefit tourism. To limit these risks, it is necessary to review European legislation, as was done in 2018 with the revision of the posted workers directive. But if new rules are needed, it is equally important to ensure that they are respected. In order to better **combat abuse and fraud** and to ensure **better access to information for mobile citizens**, the next Commission will be able to build on the new **European Labour Authority** that will be set up at the end of 2019 and is expected to grow in strength over the next five years.

Intra-European mobility also poses a set of challenges for countries that send mobile workers, including youth and brain drain and a shortage of workers in some economic sectors. It is therefore all the more important to promote real economic and social convergence within the EU, in particular through cohesion policy.

Ensuring the fair mobility of workers also means removing the barriers to free movement that still exist within the single market. The Commission will have to continue to work on the **automatic recognition of diplomas and qualifications**, the **portability of social benefits** and access to job offers across the EU by improving the **EURES network**.

Conclusion

The Juncker Commission has given a new impetus to the agenda for a social Europe and it is crucial that the next Commission continues this momentum. The divisions between member states on social issues are well known. The rise of populism and social protest, however, calls for new compromises and consensus. There also has to be a realisation that Europe must value its social model, which distinguishes it in the world. The quest for social justice in Europe is once again emerging and it is also being decided on fiscal issues, which has remained the black sheep of European integration.

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BERLIN
Centre for European Affairs at the Hertie School of Governance

Institut Jacques Delors

18 rue de Londres, 75009 Paris

info@delorsinstitute.eu – www.institutdelors.eu

Jacques Delors Institute – Berlin

Friedrichstraße 194, 10117 Berlin, Allemagne

info@delorsinstitut.de – <https://www.delorsinstitut.de>

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■ EULALIA RUBIO

Senior Research Fellow, economic and social affairs, EU budget at the Jacques Delors institute

This series is a cooperation between the Jacques Delors Institutes in Berlin and Paris and makes concrete proposals for the EU's next institutional cycle.

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NEW BEGINNINGS

AN EU BUDGET IN SUPPORT OF THE NEXT COMMISSION'S AGENDA

While being largely absent of the European election campaign, the negotiations over the next Multi-Annual Financial Framework (MFF) will take up a prominent place in the EU agenda in the coming months. The European Council and the Parliament have just 18 months to reach an agreement on the next seven-year EU budget covering the 2021-2027 period and this has to be done in parallel to the finalisation of 45 regulations setting the legal basis of the various EU spending programmes.

A crucial question for the months ahead is how much leverage the new Commission will have to adjust planned EU spending for 2021-2027 to its own political agenda. This is not a minor issue. Supporting the new EU Commission's ambitions in various policy fields will require more or different EU funding. And in her "agenda for Europe", the president-elect Ursula von der Leyen has taken various engagements with clear budgetary implications. This includes, for instance, the launch of a "sustainable Europe investment plan" able to mobilise up to €1trillion of private investment over the next decade, the creation of a "Just Transition Fund" to support people and regions most affected by the energy transition, the promise to triple the Erasmus+ budget, to prioritise investments in Artificial Intelligence or to spend 30% more than we do today on external action investment.



This paper analyses the budgetary implications of the next EU Commission's agenda and discusses the capacity of the new EU executive to align planned EU spending to its policy priorities. It formulates some general recommendations to the new EU Commission on how to work together with the Parliament to influence the ongoing MFF negotiations and specific recommendations on how to align the next MFF and related sectoral spending programmes to an ambitious EU policy agenda in the fields of energy and climate, digital, social, migration, EMU, security and defence and respect of democratic values.

1 ■ MFF 2021-2027 negotiations: where do we stand

The Union counts with different EU-level investment instruments but the EU budget remains the most important one at the hands of the Commission. It only accounts for 2 % of total public spending but has a significant impact on certain territories and policy domains. Besides, thanks to the increasing use of financial instruments and conditionalities, EU spending has a non negligible capacity to influence national investment choices and mobilise additional private investment in support to EU's objectives.

Agreeing on the Union's multi-annual budget is always difficult but the ongoing negotiations of the next Multi-Annual Financial Framework (MFF), setting the amount and structure of EU spending for the 2021-2027 period, are particularly tough. The post-2020 budget has to adjust to the Brexit gap, a financial shortfall estimated [€84-98 billion over seven years](#) caused by the UK's departure. This needs to be compensated by unpopular cuts to cherished programs (agriculture, cohesion policies..), increases in Member States' contributions, the introduction of new resources or a combination of all these options. On top of that, the EU is confronted by new spending needs in areas such as migration and border control, security and defence and digital transformation, which require between €91 and €390 billion of additional resources between 2021-2027 according to the Commission¹.

The previous Commission did a good job in trying to "square the circle". [The MFF proposal](#), presented in May 2018, offered an intelligent political compromise to Member States. Richer countries would agree to moderately increase their contributions to the EU budget to keep EU spending for the remaining 27 Member States roughly at the same level (at real terms) after Brexit. Poorer countries, in exchange, would consent to a certain degree of spending re-allocation, with significant increases in new spending priority areas (80% increase for security and defence, 160% increase for migration and border control, 60% increase in research, innovation and digital) and moderate increases or reductions in cohesion and agriculture (+6% and -4% respectively). This would be completed with the introduction of new sources of revenue (such as a small levy on corporate profits and a share of the proceeds from the EU Emissions Trading System) to make the numbers work and partially offset the impact of Brexit on [member states net contributions](#).

Despite the Commission's balanced approach, MFF negotiations in the Council have followed the same old dynamics than in past budgetary negotiations. After roughly one year of discussions, various net payers have made clear their opposition to any increase of net contributions, countries benefiting most from agriculture and [cohesion](#) have built up coalitions to preserve the [existing envelopes](#) in these two areas and a majority of Member States continue to reject any reform of the system of EU own resources. There is thus a strong risk of ending with a Council compromise in autumn 2019 or early 2020 based on a EU budget close to 1% of EU GNI, no increases in new spending areas and heading (agriculture) largely preserved from cuts. One crucial factor is the new Parliament's reaction to the Council proposal. It should be remembered that the votes of an absolute majority of elected MEPs are required to approve the MFF. In a new and more fragmented EU Parliament, obtaining this absolute majority could be difficult, particularly if the Council comes up with a proposal much below the 1.3% GNI budget requested by the [previous European Parliament](#).

2 ■ How much scope to re-align EU spending with a new Commission's agenda?

A particularity of the current MFF negotiation is that it coincides in time with a change in the EU executive. It is the first time this has happened since the creation of EU multi-annual financial frameworks in 1988, and offers an opportunity for the new EU Commission to try to align EU spending to its political agenda. The Juncker Commission did not get this chance. It took office in November 2014, less than one year after the adoption of the EU multi-annual budgetary framework covering its whole executive

1. Bruegel's calculus, based on European Commission's Communication 'A new, modern Multiannual Financial Framework for a European Union that delivers efficiently on its priorities post-2020 – The European Commission's contribution to the Informal Leaders' meeting on 23 February 2018', COM(2018) 98 final

term (2014-2020). As a result, it had very little capacity to influence EU spending and had to struggle to finance one of its flagship priorities, the Investment Plan for Europe (also known as "Juncker Plan").

The von der Leyen Commission cannot remake a MFF proposal from scratch but it can have some leverage on MFF negotiations. While playing its role of 'honest broker' and facilitator of the negotiations, it should actively support the Parliament on four basic horizontal MFF points that are important to secure an appropriate and well-functioning EU budget for the years ahead:

- **The maintenance of an adequate overall volume of EU spending** for the next seven years. The 1.3% GNI requested by the Parliament is not a realistic target but the Commission should make clear that going below the 1,11% GNI proposed by the previous Commission would require making difficult choices – either accepting significant reductions in real prices to EU cohesion and agriculture programmes or renouncing to increases in new spending priority areas. It should provide information on the consequences of these choices, both to the two EU budgetary co-legislators and to the wide public.
- **The introduction of new EU own resources.** Including new sources of funding is essential to maintain the overall size of the EU budget while avoiding a major increase of some Member States' net contributions. The Juncker Commission has proposed three new EU own resources² which, together,

would finance up to 12% of the EU budget but nothing prevents the von der Leyen Commission to develop new proposals if the latter have more potential to reach consensus among the 27 Member States. This could be, for instance, the Carbon Border Tax proposed by President von der Leyen in her "[Agenda for Europe](#)", or an EU-wide aviation tax, which has been recently discussed in the Ecofin Council³.

- **Removing all corrections.** The end of the 'UK rebate' offers **a formidable opportunity to eliminate all rebates and corrections** which are a source of distortion in the financing side of the EU budget. This has to be done carefully, as a sudden removal of corrections may entail a sudden and drastic increase of some countries' net contributions⁴. The Juncker Commission has proposed to phase-out all corrections in five years but there is strong opposition from the concerned member states. More time may be given to phase-out all corrections but the Parliament and Commission should not renounce to the principle of eliminating them all over time.
- **Providing appropriate flexibility.** The 2015 refugee crisis put into evidence the rigidity of the seven-year EU budgetary frameworks. In the following programming period, it is essential to bring more flexibility to the EU budget and make it easier to adjust EU spending to unforeseen events. The Juncker Commission has proposed a Union Crisis Reserve which would be financed, inter alia, by de-committed appropriations (that is, funds that have been programmed in

2. The three new own resources proposed are: 20% of the revenues coming from the European Emissions Trading System, a 3% call rate applied to a new Common Consolidated Corporate Tax Base and a new national contribution based on the volume of non-recycled plastic packaging waste in the country.

3. The Dutch government raised the proposal of creating an EU-wide aviation tax at an Ecofin Council in February 2019 and the Commission has prepared an analysis of the costs and benefits of setting such a tax ("Leaked EU report boosts case for jet fuel tax", Financial Times, 13 may 2019).

4. Particularly of Austria, Germany, the Netherlands and Sweden, which are currently benefiting from a rebate on their financial contribution to compensate for the UK rebate.

previous years but ultimately not spent). So far this proposal is rejected by the Council⁵ but the Parliament and Commission should insist on that. It could provide a sizeable amount of money⁶ to react to unexpected circumstances.

In addition to these four horizontal points, the Commission and Parliament should work together to better align the MFF proposal and the thirty-seven sectoral programmes to a new, ambitious five-years political agenda. For some of these programmes (e.g. the EU's research programme for 2021-2027, Horizon Europe) there is already a partial agreement between the Council and the Parliament but as long as the regulation is not formally adopted the new Parliament is not legally bound by issues agreed by the previous Parliament and can always re-open the negotiated agreement. In other cases (e.g. the regulations setting the basis of the Common Agriculture Policy) neither the Parliament nor the Council has taken a position and thus there is still more leverage to change the original proposal.

In the following we will discuss in more detail how should EU spending be adjusted to an ambitious EU Commission's agenda in the fields of energy and climate, digital, social, migration, EMU, security and defence and respect of democratic values, as covered in this "New beginnings" series.

3 ■ Energy and climate: an EU budget fit for the "Green Deal"

As argued by Pellerin-Carlin (2019), President von der Leyen has taken a clear commitment to make Europe climate-neutral by 2050⁷. To achieve this, she has announced her intention to launch a "Sustainable Europe Investment Plan" able to mobilise €1trillion over the next decade.

We do not yet know what will be included in the "sustainable Europe investment plan" but if roughly limited to "turning parts of the European Investment Bank into Europe's climate bank", as as her 'Agenda for Europe' seem to imply, it will fall short of the ambition required.

- First, while increasing the share of EIB investment on low-carbon projects is important, it is equally important to make sure that the EIB no longer invests in fossil-fuel and high-carbon infrastructures which would lock-in the EU economy into the wrong long-term path.
- Second, investment needs are especially important in areas in which the EIB does not have a strong expertise, such as the improvement of energy efficiency of buildings (which are small-sized projects and require not only funding but a good knowledge of local markets and assistance to create project pipelines).

5. Not surprisingly, as from the point of view of national ministries of finance, the current system is preferable: at present, non-spent commitments translate into a reduction of the overall EU payments and thus a reduction of Member States' contributions to the EU budget.

6. The total amount of EU structural funds de-committed from the 2007-2014 was EUR 4.4 billion and this only includes de-committed amounts from cohesion policy (DG budget, Analysis of the budgetary implementation of the European Structural and Investment Funds in 2017, May 2018).

7. Thomas Pellerin-Carlin et al., "The European green deal starts with the energy transition", New beginnings, Jacques Delors Institutes in Paris & Berlin, September 2019

- Third, ultimately the EIB lending policy depends on Member States not on the Commission, and it is already moving to the right direction according to [recent news](#).

Greening the EIB's action is welcomed but if the new Commission wants to get serious on climate it should also focus on increasing the climate ambition of the next multi-annual EU budget. The proposed 2021-2027 MFF has a stronger focus on climate but there is still room for improvement⁸.

- The climate mainstreaming target⁹ has been increased from 20% to 25% and more ambitious climate targets have been set for some sectoral programmes and funds (see table 1). However, EU methodologies used for climate tracking are weak and climate targets in some programmes are aspirational, meaning that they are expected results rather than legally-binding criteria included in the planning process. As a result, there is a risk that all turns into an ex-post accounting exercise with little real impact.
- Support to fossil fuels has been explicitly excluded from cohesion policy but the new MFF can still continue to support high carbon projects through other programmes.
- Climate considerations are particularly weak in areas which are crucial from a climate perspective and are substantially supported by EU funds, notably agriculture.

A first step to strengthen the climate dimension of the next MFF would be to **rise the climate mainstreaming target for the whole MFF to 30%**, as requested by the Parliament. This would require adjusting all sectoral climate targets accordingly and making them legally-binding. The Commission and the Parliament should also work together to reinforce the green architecture of the new CAP¹⁰, phase-out EU support to climate-harmful projects and improve climate tracking methodologies. They should also free significant resources to accompany those individuals and territories most affected by the energy transition, by creating new instruments or reforming the existing ones (see section 3.2).

Finally, one should not forget that public investment represents a minor percentage of total investment in Europe. A move towards a low-carbon economy requires changes in regulations and taxation aimed at re-orienting private capital from high to low carbon investments. To this end, the new Commission shall continue the implementation of the Juncker Commission's plan to integrate sustainability elements into the financial system's regulations (the Action plan on Sustainable Finance) but should also work for the establishment of an appropriate carbon price for all economic sectors. A general EU carbon tax covering all economic activities is technically and politically unrealistic but the von der Leyen Commission could propose **a stronger coordination of national energy taxation schemes, a more specific tax on aviation or a EU Carbon Border tax** as proposed by President von der Leyen which could eventually serve to finance the EU budget (see above).

⁸. For a more in-depth discussion on the climate dimension of the MFF proposal see Giuli, Marco, "Paris-proofing the next Multi-Annual Financial Framework", European Policy Centre, Discussion Paper, 25 June 2019 and Trilling, Markus, "Climate mainstreaming and climate proofing: horizontal integration of climate action in the EU budget – assessment and recommendations", CAN Europe, August 2018.

⁹. The climate mainstreaming target sets the overall minimum amount of EU spending that has to be dedicated to climate action.

¹⁰. For an in-depth discussion on ways to greening the new CAP see Matthews, Allan, "the greening architecture in the new CAP", CAPreform.eu, 20 June 2018

TABLE ■ Climate targets in selected EU programmes (2014-2020 and proposed climate targets for 2021-2027)

PROGRAMME	CLIMATE TARGET 2014-2020	PROPOSED CLIMATE TARGET 2021-2027
HORIZON 2020/HORIZON EUROPE	35%	35%
ERDF (EUROPEAN REGIONAL DEVELOPMENT FUND)	12-20%	30%
EAFRD (EUROPEAN AGRICULTURE FUND FOR RURAL DEVELOPMENT)	30%	30%
CEF (CONNECTING EUROPE FACILITY)	--	60%
EFSI/INVESTEU	40% for infrastructure window	30% the whole instrument, 50% for infrastructure window

3.1 Digital: More support to disruptive innovation and digital transformation

A powerful EU digital strategy requires changes in regulations but also significant backing from public budgets. Public spending is needed both to support the generation and market uptake of strategic disruptive innovations, which are too risky to be financed by the market, and to ensure a wide diffusion of digital skills and technologies across the whole society and economy.

As argued by Dittrich (2019¹¹), public investment in support to digital transformation is even more important in the EU than in other parts of the world for at least three reasons:

- The lack of “tech giants” such as the GAFAs in the US (Google, Amazon, Facebook, Apple), able to make massive investments in advance software and technologies,
- The under-supply of private venture capital compared to the US or Israel, which play an essential role in helping high innovative start-ups both in the early and the expansion phase and

- The EU’s strong attachment to a valued-based, inclusive capitalism, which implies a strong commitment to combat geographic and social digital divides.

Over the last years, the Juncker Commission has shown a commitment to strengthen the role of the EU budget in support to disruptive innovation and digital transformation:

- In 2017, the Commission created the European Innovation Council (EIC) a one-stop-shop providing tailor-made support to innovators that have the potential to develop market-creating innovations at EU and international levels. The EIC started as a pilot under the current EU’s research programme (Horizon2020) but it is supposed to receive a significant budget upgrade under the EU’s research programme proposed for 2021-2027, Horizon Europe, and to expand the range of products offered
- A new Digital Europe Programme has been proposed in the next MFF. With an envisaged budget of €9.2bn, the new Programme aims to scale up existing EU spending in support to advanced digital technologies and better coordinate all digital investment in a more strategic, mission-oriented approach. The

¹¹ Paul-Jasper Dittrich, “Challenges for EU digital an innovation policy”, New beginnings, Jacques Delors Institutes in Paris & Berlin, September 2019

programme will focus in particular on: a) increasing strategic investment in three key digital areas (High Performance Computing, Artificial Intelligence and Cybersecurity) and b) ensuring the wide use of advanced digital technologies and skills across the economy and society.

The von der Leyen EU Commission must maintain this commitment and consolidate the work of the Juncker Commission in this field. It should strive to avoid any reductions in the budget of these two new instruments (the EIC and the new Digital programme) during the MFF negotiations. It could also make proposals to improve the design and implementation of both the EIC and the new European Digital Programme in order to improve their impact:

- With respect to the first (European Innovation Council), it is important to reinforce the synergies and to ensure complementarity between the EIC and the Knowledge and Innovation Communities sponsored by the EIT (EIT KICs). It is also important to ensure complementarity between the EIC and the new EU Investment vehicle replacing the Juncker fund after 2020, the InvestEU Fund, which is also expected to support the market deployment of radical innovations.

- With respect to the second (the Europe Digital Programme), the programme largely relies on coordinated and strategic co-investments with the Member States through the so-called “Digital Innovation Hubs”. These Hubs are deemed to play an important role to stimulate the uptake of Artificial Intelligence, HPC and Cybersecurity by all industry and public sector organisations in Europe and in supporting advanced digital skill training.

The new Commission should make sure that there is a strong commitment by all Member States to set up these Hubs and co-finance the actions taken by these Hubs.

- Finally, the €700mn earmarked for advanced digital skills under the Digital Europe Programme should be complemented with more funding from ESF+ and the European Globalisation Adjustment Fund in support to basic digital skills. This would be in line with President von der Leyen’s commitment to the Parliament to “get Europe up to speed on digital skills” by updating the Digital Education Action Plan.

3.2 Social: increasing the overall coherence, flexibility and performance of EU spending

In the social field von der Leyen has taken various strong commitments with budgetary implications, such as tripling Erasmus+ budget (going beyond the Juncker Commission’s proposal to almost double the envelope), creating a European Child Guarantee (also proposed by the European Parliament) or setting up a new “Just Transition Fund” to help individuals and regions most affected by the transition towards a low-carbon economy.

However, there is little leverage to expand the overall budget for EU social spending. The Juncker Commission’s MFF proposal for 2021-2027 already envisages an increase by 11% in current prices of the EU funding for social, employment and health, which is more than the increase experienced in the last MFF period (+9% from 2007-13 to 2014-20)¹², and any further rise would have to be compensated with cuts elsewhere.

¹² The Juncker Commission has proposed to merge the former ESF with other EU social programmes (the Youth Employment Initiative, the Fund for European Aid to the Most Deprived, the Employment and Social Innovation programme and the Health programme). The 11% increase in current prices is the difference between the budget for all these instruments in the MFF 2014-2020 (excluding UK transfers) and the new ESF+ budget, in current prices. Source: Darvas and Moes, [How large is the proposed decline in EU agricultural and cohesion spending?](#), Bruegel blogpost, may 2018

Rather than pushing for more resources, as argued by Fernandes (2019¹³) the new Commission should aim to improve the policy coherence, pertinence, flexibility and performance of the various existing EU funding streams in support to cohesion and social investment. Concretely, the Commission should concentrate on four aspects:

- First, EU funds should be more used to support reforms at national level or the implementation of EU social legislation. The introduction of a Reform Support Programme (RSP) providing technical and financial support for the implementation of reforms and the establishment of more precise and better monitored conditionalities for cohesion policy, called “enabling conditions”, are positive improvements in this respect. However, with a budget of €25bn for the whole 7-year period to cover all EU member states’ reform requests, one should not over-estimate the potential of RSP to support reforms. The capacity of the new “enabling conditions” to induce change is also dubious, as the fulfilment of these conditions will be monitored by the same Member States.

Second, an increase of Erasmus+ programme shall be accompanied by **an extension of the scope of the programme.** In particular, the new Erasmus programme should reinforce the initiative “Erasmus pro” in support to long-term mobility of apprentices, an initiative launched in 2017 and inspired on a 2015 paper by the Delors Institute¹⁴, and support “Erasmus teens”.

- Third, the EU budget should allocate significant resources to accompany those individuals and territories most affected by the energy transition. Von der Leyen has proposed to this end the creation of an

“European just transition fund”, a project the Jacques Delors Institute has also called for. However, the capacity of this Fund may be very limited if reduced to a budget of €5bn as proposed by the Parliament. It is therefore advisable to accompany the creation of this new Fund by changes in the criteria for allocation and disbursement of all EU cohesion funding. In particular more prominence shall be given to climate indicators for the allocation of cohesion and structural funds and a minimum of ESF and ERDF resources shall be earmarked to actions helping regions and individuals losing their jobs as a result of the energy transition. This could be complemented by reforms in the scope and functioning of the European Adjustment Globalisation Fund in order to convert it into an effective [European Transition Support Fund](#).

3.3 Migration: financing the new European Border and Coast Guard and re-aligning policy priorities

President von der Leyen has taken a strong commitment as regards the deployment of a European Border and Coast Guard Agency (EBCG). In her “Agenda for Europe”, she committed to have a EBCG with the 10,000 border guards operational by 2024, instead of 2027 as envisaged by the previous Commission. She will have to convince the Parliament and the Council of endorsing this new target. In effect, there is already a partial agreement between the two legislative authorities on the EBCG regulation, which envisages a standing corps of 5,000 EU border guards being operational by January 2021 and a gradual increase until reaching the number of 10,000 EU border guards by 2027.

The new President of the Commission has

¹³. Sofia Fernandes, “ [Objective 2024: better living and working conditions for all Europeans](#)”, New beginnings, Jacques Delors Institutes in Paris & Berlin, September 2019

¹⁴. Delors, J. et.al., “Erasmus pro: For a Million young european apprentices by 2020”, Tribune, Jacques Delors Institute, 12 may 2015

also proposed a New Pact on Migration and Asylum, which would include the relaunch of the Dublin reform of asylum rules and a shift from case-by-case to a more permanent solutions for burden-sharing of rescued migrants. Most of these actions require legislative reforms but the EU budget can also play an important role in supporting national policies on border management, asylum and migration integration. This support is provided by two funds, the Asylum and Migration Fund (AMF) and the Integrated Border Management Fund (IBMF).

The 2021-2027 MFF proposal envisages important increases for these two Funds (AMF and IBMF). Yet, the increase is more pronounced for the IBMF fund (+67% in constant prices) than for AMF (61%). Besides, whereas the resources for decentralised agencies in the area of border control would increase significantly to support the new EBCG, the MFF proposal does not foresee any significant reinforcement of the European Agency on Asylum (EASO)¹⁵. Altogether, this reflects the emphasis of current EU policy on border management rather than asylum and integration.

The new Commission should try to re-balance financial resources between these two Funds ([border control and asylum/integration](#)). In addition to that, **more EU funding is needed in support to national asylum and migration integration policies**. The tiny amount reserved for the Asylum and Migration Fund (AMF) for the whole seven-year period is clearly insufficient – it represents just around two thirds of what Germany currently spends, at federal level only, for the internal dimension of asylum management in a single year¹⁶. The AMF shall be complemented with funding from EU cohesion and structural funds. In particular, cohesion and structural funds should play a role in providing support to municipalities

participating in the relocation of asylum seekers.

3.4 EMU: a pragmatic proposal of BICC, able to evolve in the future

In the field of the Economic and Monetary Union, the new President of the Commission committed to “help deliver a Budgetary Instrument for Convergence and Competitiveness for the euro area to support Member States’ growth reforms and investment”. This is arguably less ambitious than Juncker in his inaugural speech, who advocated for a “targeted fiscal capacity at Euro zone level”, but this is understandable given the enormous political difficulties to make progress on this issue and the strong disagreements that persists between euro area members.

After difficult negotiations, the Eurozone leaders have recently agreed on a compromise that set out a number of parameters for the [euro area budgetary instrument](#). The proposal currently under discussion (the so-called BICC, “Budgetary Instrument for Investment and Competitiveness”) is far from being the sort of stabilisation function the euro area needs.

- The explicit objective is not to provide stabilisation but to support structural reforms and public investment projects in line with the priorities set out in the European Semester and selected under the guidance of the Euro-group
- The instrument is part of the MFF and there is no mention to other potential sources of revenue to fill it. As a result, it is expected to have a very small size, around the €17bn for seven years envisaged in the Commission’s MFF proposal.

¹⁵. Alessandro d Alfonso 2019, [External border control and asylum management as EU common goods. A budgetary perspective](#), EUI Papers, RSCAS 2019/05 Robert Schuman Centre for Advanced Studies

¹⁶. D’Alfonso 2019, *op.cit.*

- Disbursement of funds is not automatic and does not follow countries' short-term needs. It is made by the Commission upon analysis of Member States' reform and investment proposals. On top of that, "net returns" considerations are taken into account, meaning that the available funds per country are expected to be within an acceptable range of the contributions of that country to the EU budget.

While the instrument currently under discussion is disappointing, there is some scope for improvement. As noted by Guttenberg (2019¹⁷), unless other EMU reforms which are entirely intergovernmental (such as the reform of the European Stability Mechanism), the BICC proposal is part of the MFF package and, as such, shall be based on a Commission's legislative proposal and be approved by the European Parliament together with the Council. Thus, the new Commission has some capacity to improve the current BICC proposal and, working hand-in-hand with the Parliament, to force member states accept some modifications. Following Guttenberg, at a minimum the Commission should make sure that the BICC includes two important features:

- Flexibility, that is, the ability to allocate money according to changing short-term economic needs. As long as BICC's explicit objective is not supporting stabilisation but promoting structural reforms and specific investment projects, the allocation of funding has to involve an analysis of Member States' specific reforms and investment proposals. However, when assessing Member States' requests, the Commission shall take account of the country's economic situation and there should be some margin to change allocations according to shifting economic circumstances. Finally, the money granted to countries should in any case be constrained by "net return" considerations.

- Scalability, that is, the potential to significantly increase the size of the instrument in the future. The BICC proposal shall allow for the inclusion of additional resources to the instrument in the future should the political context allow for more ambition. These extra resources can be in form of Member States' contributions based on an intergovernmental agreement, an assigned revenue or a new EU own resource financed by contributions of the Member States participating in BICC.

3.5 Foreign policy, security and defence: strengthening the European Defence Fund

In the field of security and defence, over the last years we have witnessed the European Commission taking on a greater role in European defence cooperation. This development has led to the creation of the European Defence Fund (EDF). Established on pilot basis in 2017, the EDF constitutes the first-ever EU budget instrument providing support in the field of defence. Its goal is to finance joint defence research and capability development projects between Member States as well as to promote joint public procurement. The EDF proposed budget for 2021-2027 (€13bn) is negligible when compared to the total defence expenditure at national level, but the new EU Fund can provide substantial economies of scale, reducing costly duplications and fragmentation in Member States' defence research and capability development and creating significant savings from joint procurement.

In her "Agenda for Europe", von der Leyen underlined her intention to strengthen the EDF but gave no specific indications on how to do it. Apart from making sure that there are no cuts in the financial envelope, as argued by Koenig (2019¹⁸), an important

17. Lucas Guttenberg, "A new approach to eurozone reform", New beginnings, Jacques Delors Institutes in Paris & Berlin, September 2019

18. Nicole Koenig, "Bolstering EU Foreign and security policy in times of contestation", New beginnings, Jacques Delors Institutes in Paris & Berlin, September 2019

step to strengthen the EDF would be to concentrate all the different tasks related with the implementation of the EDF into a new DG defence. At present, the EDF is implemented by various Commission's DGs- particularly DG Growth, in charge of the selection and management of EDF projects and DG Ecfm, in charge of its financial management. As noted by Koenig, bundling these different tasks together is important to ensure an efficient functioning and give to the instrument the necessary political drive. It is also essential to clarify the relationship between the EDF and the European Defence Agency (EDA), which has a mandate from Member States to strengthen the industrial and technological base of the defence sector, including by fostering joint research and procurement.

3.6 A well-designed "rule-of-law" conditionality and stronger mechanisms to fight fraud and misuse of EU funds

In her "[Agenda for Europe](#)", von der Leyen underlined her intention to make the rule of law an integral part of the next MFF. There is now large consensus both in the Council and the Parliament to introduce this link between the EU budget and the respect of rule of law. However, the 'rule-of-law mechanism currently under negotiation, based on a Commission's proposal of May 2018, presents two important shortcomings:

- It gives wide discretion to the Commission to assess what constitutes a "general deficiency" in rule-of-law justifying the activation of the mechanism.
- While the regulation states that the suspension of payments to the government should not affect the obligation of the latter to make payments to final beneficiaries (farmers, regions, researchers..) in practice there is no mechanism to ensure that the sanctioned government will step in with its own resources to secure the payment of

beneficiaries in full and on due time.

The Commission should work hand-in-hand with the Parliament to correct these two deficiencies. In addition to that, **it should reinforce the mechanisms to fight the fraud and misuse of EU funds** by strengthening the role of the Office European Union's Anti-Fraud Office (OLAF) and extending the competences of the forthcoming European Public Prosecutors' Office (EPPO) as argued by Chopin (2019¹⁹).

Conclusions

The von der Leyen Commission starts its mandate in the middle of the negotiations of the next Multi-Annual Financial Framework (MFF) which will set the amounts and type of EU spending for the 2021-2027 period. It cannot re-draft the MFF from scratch but has some leverage to influence the ongoing negotiations of the MFF and related EU spending programmes, particularly if working together with the new Parliament. Juncker did not have the same luck: he arrived in power in 2014, just after the adoption of the EU long-term budget covering its whole executive term (2014-2020). He could not influence major EU spending decisions and had indeed to struggle to finance its main flagship priorities, the Juncker Plan.

Ursula von der Leyen would be well advised to take lessons from the past and fight to adjust planned EU spending at the level of her ambitions. Indeed, MFF negotiations may be, together with Brexit, her first "litmus test". If she is capable of partnering with the new Parliament and delivering on her budgetary promises, she will demonstrate to her critics that she is not the "puppet" of the Council and that she has full legitimacy to head the Commission despite her contested nomination process.

¹⁹. Thierry Chopin, "[Europeans face the risk of democratic regression: what can be done?](#)", New beginnings, Jacques Delors Institutes in Paris & Berlin, September 2019

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JACQUES DELORS INSTITUTE

BERLIN

Centre for European Affairs at the Hertie School of Governance

Institut Jacques Delors

18 rue de Londres, 75009 Paris

info@delorsinstitute.eu – www.institutdelors.eu

Jacques Delors Institute – Berlin

Friedrichstraße 194, 10117 Berlin, Allemagne

info@delorsinstitut.de – <https://www.delorsinstitut.de>