

## **THESEUS Conference**

### **Which Future for the EU: Political Union, *Directoire* or Differentiated Integration? Conference Background Paper**

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The concept of political Union is at the heart of the debate on the future of the EU. But what do we actually mean by 'Political Union'? It seems rather difficult to come up with a general definition of what a political Union is, although head of states and governments and EU leaders agree that this would inevitably imply more integration. The European Union already includes political components and thus has a political dimension<sup>i</sup>. The gradual steps of the European construction offered the EU a supranational power and permanent institutions: the European Commission, the European Council and a directly elected institution: the European Parliament. In this political sphere some competences have been transferred to the EU level whereas some policies remain under national remit or are shared competences where the subsidiarity principle applies. Therefore, the question around the political Union seems directly linked to the level of integration of the European Union and thus to the power of its institutions and legitimacy for its citizens.

The sovereign debt crisis has urged the member states and the EU to move towards a more sustainable and stable framework to enhance deeper integration and to prevent a new European crisis to occur again. In order to save the Eurozone and to cope with this crisis, Germany was notably eager to enforce stronger budget discipline with the Treaty on Stability, Coordination and Governance (TSCG) now signed by 25 member states. There was also critique on the TSCG by some European member states suffering from austerity measures. The EU currently suffers from a lack of legitimacy, illustrated by the poor confidence where 47% of Europeans<sup>ii</sup> state they do not trust the action of the EU, although 40% of the Europeans have a positive image of the EU<sup>iii</sup>. A survey on the assessment on national economy shows that Germany belongs to the group of countries that have a positive opinion<sup>iv</sup>, the rather low confidence on the EU in European countries on the economic situation continue to exceed the 90% in nine member states, especially in Southern and Eastern European countries. This also reflects that with the number of actors present on the European scene, it seems difficult to put a face on Europe's concrete action.

Informal reflections groups, European leaders as well as heads of state and government call for the EU to tackle the cross-cutting challenges the EU is currently facing: ending the crisis in the short-term, enhancing further integration in the long-term while getting closer to European citizens. The Franco-German engine leading EU initiatives so far starts diverging, especially on the means to reach these targets. The French and German previous 'entente' between Angela Merkel and Nicolas Sarkozy faded away with the election of the new President François Hollande, requesting to add growth components that Germany could hardly concede to. What will this political Union look like? Is a two-speed Europe inevitable? What would be the future of the EU in the light of the Franco-German's current divergences?

## **Short-term achievement: strengthening the Economic and Monetary Union and find a way out to the crisis**

Several informal reflection groups, gathering European leaders as well as heads of state and government have emerged in order to find a way out of the crisis but also to provide input to set a stable political framework for the Eurozone and the Economic and Monetary Union.

In June 2012, the so-called 'Gang of Four'<sup>v</sup>, gathered the presidents of the European Council, Herman Van Rompuy, the European Commission, Jose-Manuel Barroso, the European Central Bank, Mario Draghi and the Eurogroup, Jean-Claude Juncker, delivered a concrete road map for the achievement of a genuine Economic and Monetary Union<sup>vi</sup>. This initiative was subject to an interim report delivered lately by Herman van Rompuy<sup>vii</sup>, which marked an important departure. Although the documents foresee merely economic, financial and budgetary proposals, the plan remains deeply political. It proposed that the stabilisation of the Eurozone required key functions to be moved from national level to European level. A plan to federalise the Eurozone with a political framework is becoming a necessity.

In addition, at the last informal meeting<sup>viii</sup> of the 'Westerwelle Group' on 17 September 2012 in Warsaw, Foreign Ministers of eleven member states pleaded for a large-scale European federalism project. At this occasion the ministers discussed how to move towards more European integration. Together with this effective single supervisory mechanism, the Westerwelle group underlined the importance of a common deposit insurance to be implemented as well.

European leaders and Foreign Affairs Ministers are unanimous that strengthening the Economic and Monetary Union is an absolute priority in order to deliver growth, employment and stability<sup>ix</sup>. Alongside the TSCG and the 'six-pack' to implement the new steps for stronger economic governance, a 'two pack' which has been adopted by the European Parliament in May 2012 gave greater power to the European Commission to strengthen the fiscal capacity and discipline in the Euro area.

In addition, Herman Van Rompuy, the president of the European Council is undertaking consultations with the member states on an "integrated budgetary framework" for the Eurozone, including a solidarity fund to improve competitiveness<sup>x</sup>.

Following the interim report of President Herman Van Rompuy, EU leaders have agreed at the European Council Summit on 18 and 19 October 2012 to complete a European banking union by January 2014. This agreement on an integrated financial framework however shows some discordance between France and Germany. They do not agree on the agenda for the Eurozone banking supervisor. The French leaders are in favour of having this system of supervision working by the end of 2012<sup>xi</sup>. Putting forward the difficult legal questions that remain to be solved as well as the quality of such a framework, the German Chancellor managed to delay the launch of the supervisor to the course of 2013. France showed its discontent and would have preferred the supervisor to start the recapitalization of the banks at an earlier stage allowing member states to solve their financial deadlock.

Although France and Germany agree that the political dimension of the Union should be enhanced, their position on the steps to be taken diverges. France first wants to set up a budgetary union, a banking union and a social union before a political Union while Germany prefers the other way around.

## **Long-term aim: proceeding to further European integration, a 'federation of nation states' or towards two-speed Europe?**

During his speech on the state of the Union on 12 September 2012, the President of the European Commission called for a 'federation of nation states'. The question is however in the current debate what kind of 'Federal Union' are we actually talking about: a banking union, transfer union, political union or fiscal union?

The sovereign debt crisis rang the bells to European leaders and heads of state and government that finding a way out of the crisis was not the only priority but that a new political framework, a 'political Union', is needed in order to enhance further integration. A real political framework would also provide more transparency and legitimacy where the citizens could assess the action of the EU.

The strongest symbol of European integration so far, the creation of the Euro, illustrates well the inevitable feature of having a multi-speed Europe. Inevitably the single currency could not have been adopted if 17 member states had not decided to go ahead on their own.

In the current debate, the discussion on the future of Europe encompassed systematically the issue of two-speed Europe. The 'architect of the EU', Jean-Claude Piris, former head of the EU Council's legal service, backed the idea that a two-speed Europe is inevitable given that only some member states are eager to be part of further integration and willing to transfer more competences to the EU level. Differentiated integration also implies that while other countries would like to work more closely together, it remains open for countries to join when they like to do so<sup>xii</sup>. France and Germany also share the idea that 'two-speed Europe' has become a reality and that the 17 countries of the Eurozone should step forward with more integration.

In addition to this debate, France and Germany speak with one voice concerning the financial transaction tax followed by Belgium, Austria, Slovenia, Portugal and Greece, all expressing their intention to open an enhanced cooperation procedure under the EU treaty<sup>xiii</sup>. Indeed the EU Treaty foresees possible actions to address more integration thanks to the enhanced cooperation mechanism. As this possibility of using enhanced cooperation could be even further explored without additional Treaty changes, the French President particularly cherishes this option.

The question on setting-up a separate budget for Eurozone countries is subject to lively debates. France and Germany with other EU countries backed the proposal of the European Council President's to set up a special budget for the Eurozone<sup>xiv</sup>. Germany would like to look at individual arrangements of contractual nature with the EU institutions. In parallel current talks are ongoing on the Multi-Annual Financial Framework 2014-2020. Growing tensions rose between Germany on one side and Britain and France on the other side<sup>xv</sup> after the proposition of the Commission to raise the next EU budget. Not only has no compromise on the Annual Financial Framework 2014-2020 been reached during the EU budget summit of 22 and 23 November 2012, but it has also confirmed the remoteness between France and Germany<sup>xvi</sup> with their financial priorities standing apart. Yet new alliances have been emerging, with Germany notably committed not to isolate the United Kingdom in the negotiations. Future bilateral talks until early 2013 hopefully promise to be more fruitful in order to reach a common deal on the EU budget during the next EU summit. Lively debates have taken place between the European leaders and the Eurozone heads of state and finance ministers who coined the idea that an additional chamber, a so-called 'Eurozone Parliament'<sup>xvii</sup>, composed of a smaller group of MEPs, could be an option.

However, along the lines of integrating a budgetary framework and a fiscal union, Merkel is rather in favour of creating a European super-commissioner for the Eurozone with a veto right on national budget, although this would require a Treaty change. While France puts the emphasis on solidarity

and joint liability for each others' debts, Germany is voicing more structural measures and controls via this supranational authority<sup>xviii</sup>. Lately, German Finance Minister Wolfgang Schäuble has suggested calling the new position a 'currency Commissioner'<sup>xix</sup>. European Central Bank Chief Mario Draghi backed the proposal of Germany whereas Hollande still emphasizes the need to introduce Eurobonds and therefore concentrates on introducing more solidarity instead of control.

### **Proceeding to strengthening democratic legitimacy and accountability of the EU**

The European Union already possesses permanent institutions; however the European Union's leadership represented by too many actors tarnishes its visibility towards the citizens as well as the legitimacy of its institutions and its activities.

Although the current debate focuses on securing the budgetary, economic and financial frameworks to cope with the crisis and to step forward with deeper integration, the issue of democratic legitimacy and accountability has also been put forward as a key element to bring the institutions closer to the citizens and to make it more visible for them. The Lisbon Treaty has improved the EU's democratic accountability by providing more powers to national parliaments in order to hear the voice of citizens better. However, the diversity of actors makes it difficult for citizens to identify who exactly 'leads' the European Union.

Further institutional changes for more visibility would however require Treaty changes. The President of the European Commission and Angela Merkel speak with one voice calling for Treaty changes in order to enhance further integration. However, France is rather reluctant to make any Treaty change at this stage<sup>xx</sup>. If any Treaty change takes place it should include a social dimension<sup>xxi</sup>. President of the Commission Barroso also proposed to boost the ability of European political parties to represent citizens<sup>xxii</sup>. This proposition mainly foresees to provide a European-level legal status for European political parties and their affiliated foundations.

The European Council Conclusions of 18-19 October 2012 are rather brief on the topic of democratic legitimacy and accountability. It merely calls to secure a debate on the European Semester both at the European Parliament and at national parliaments. In that regard Article 13 of TSCG already provides a frame to improve the level of cooperation between national parliaments and the European Parliament. A policy brief published by the Fondation Schuman in September 2012 also proposes that the implementation of Article 13 would increase the involvement on the part of the national parliaments in the decisions taken concerning budgetary control and thereby strengthen their legitimacy (see also NPEC study<sup>xxiii</sup>). However, the strengthened role of EU institutions must be accompanied with a commensurate involvement of the European Parliament in EU procedures' voiced in the Interim report of the European Council. President Herman van Rompuy has not been reiterated in the European Council Conclusions.

The current debate in some member states also put forward a proposal to create a Eurozone parliament. While this proposition would enable a move towards more integration and to build an additional bridge between EU citizens from 17 member states to step forward and increase legitimacy, others argue that it threatens the current power of the European Parliament.

While Germany is eager to step forward with a political Union, France is still eager to ensure solidarity among the European Union and stresses that there will not be a political Union before a social Union has been implemented. At this stage, while the President of the European Commission and the German Chancellor would like to insert more European integration in a new Treaty, the French President would only agree if a solidarity component has been included as well, notably a mechanism mutualising debt. In parallel it is also increasingly argued that the European project should include a social component<sup>xxiv</sup>. Especially the French public opinion and leaders argued that a

social dimension at the EU level would contribute enormously to bring European citizens closer to the Union as this means a direct tangible factor for EU population' daily lives.

An alternative to modifying the Treaty has been voiced lately in a policy paper from the Fondation Robert Schuman<sup>xxv</sup>. In this paper it is clearly questioned whether the community method and the intergovernmental methods are still adequate to face the current challenges for further integration. The paper advocates the convention, as a better way to take into account the European interest on highly political issues. Another way suggested by the Fondation Robert Schuman to strengthen the European leadership is to merge the Presidency of the Commission with that of the Council, in order to have one face to represent European citizens. One person for both functions would improve the visibility of the European leadership and would contribute hopefully to increase the European legitimacy.

### Questions for discussion

1. Although the Franco-German couple has been an engine for the different stages of the EU construction and integration, can the divergence of views constitute a brake? Is there a need for Franco-German coherence<sup>xxvi</sup>
2. Which are the different types of solidarity vital for a political Union and would there be a consensus between France and Germany?
3. Would the Franco-German divergences lead to a political division between Germany together with the northern member states on one hand and France and southern member states on the other hand?
4. What other alternatives can be imagined to improve the democratic legitimacy of the EU?
5. How to embrace differentiated integration without disuniting the Union?

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