

The need to ‘Re-unite EUrope’: the results of another Brexit summit

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Summary

Once again, Brexit dominated proceedings at the European Council, pushing many other crucial issues into the sidelines, but without providing more clarity about where we go from here. Instead, the profound uncertainties and mounting concerns about the manner of the UK's departure were exacerbated, with planning for a no-deal scenario being stepped up. On other key issues, such as Eurozone reform and migration, the results were meagre and disappointing, and the battle over the EU's multi-year budget for

2021-2027 now looks unlikely to be resolved before 2020. This analysis draws seven critical lessons from the Brexit discussions at the EU Summit, analyses the outcome of EU leaders' deliberations in other areas, and assesses the overall 'state of the Union' and the fundamental challenges ahead in an increasing fragmented and polarised EU as we move towards the end of the current institutional-political cycle. It argues that the next EU leadership should follow a shared Leitmotif and strive to 'Re-unite Europe'.

1. Introduction...by means of conclusion

One sentence sums up the EU's December Summit: Brexit once again overshadowed a meeting of the European Council, and the concrete results on the other issues on the agenda were meagre and somewhat sobering.

Brexit virtually monopolised public and political attention in the run-up to, during and in the aftermath of the Summit. The EU27's meeting with Prime Minister Theresa May did not, however, provide more clarity. Instead, it increased the profound uncertainties and concerns surrounding the UK's departure from the EU in March 2019.

On the other main topics on the Summit agenda, there were no significant breakthroughs.

- ▶ The results of the Euro Summit on **EMU reform** are **disappointing**. There was some progress in a few areas (the Single Resolution Fund backstop; European Stability Mechanism reform; the new budgetary instrument for the Eurozone), but the agreed reform package is miles away from what French President Emmanuel Macron and many experts had asked for. The profound differences among the Euro19 are unlikely to be bridged any time soon, and it might take another crisis to produce more substantial reforms.
- ▶ Issues related to **migration** were **shuffled to the Summit sidelines**, with few concrete results, and it is highly unlikely that EU governments will be able to overcome their differences before the May 2019 European elections.
- ▶ The discussion on the next **Multiannual Financial Framework (MFF)** for the 2021-2027 period did not substantially move things forward. The EU27 still have a **long, rocky path ahead**, and it will be left up to the next EU leadership to forge a deal among the member states, probably in 2020.

The December Summit was the last meeting of the European Council before the EU enters the **final stretch of the current 2014-2019 cycle**. The overall record since 2014 is somewhat mixed, and there are **two very different narratives** and views of the current state of the Union.

- ▶ On the one hand, there is a very **positive and optimistic** one characterised by: (i) a consistent trend of positive economic development since 2014; (ii) a high level of resilience; (iii) substantial progress on reforms; (iv) a high degree of unity; and (v) increasing public support for EU membership.
- ▶ On the other, there is a much more **negative and gloomier** one characterised by: (i) fragmentation and distrust; (ii) an inability to achieve structural reforms in critical areas; (iii) a high degree of economic divergence and rising inequalities; (iv) significant differences in how people and policy-makers view Europe's current situation; and (v) persistent threats to liberal democracy and the rule of law.

Paradoxically, both narratives are valid, raising substantial question marks over **which direction the EU and its members will move** in the years to come.

The next EU leadership should follow a shared Leitmotif and strive to 'Re-unite Europe'.

In the run-up to the European elections, the EU is likely to witness an escalating '**battle of (split) camps**' between those who want to push Europe towards a more illiberal direction and those seeking to defend the values of an open and pluralist society. These camps are not

homogeneous but riven with internal divisions for a variety of reasons, none of which will make life easier for the EU and its member states for the foreseeable future.

There is already a high degree of **fragmentation between countries** and **polarisation within societies**, and there is a **danger that this will increase further**. Europe's future will to a large extent depend on the

ability of the Union (both its institutions and member states) to counter the multiple sources of fragmentation and polarisation haunting it. That is why the **next EU leadership** that will assume office after the European elections in 2019 should follow a shared **Leitmotif** and strive to **'Re-unite Europe'** at both the European and national level – for the sake of current and future generations.

2. Expectations before the December Summit

The expectations ahead of the 13/14 December 2018 Summit were rather low. In the run-up to the meeting, there were growing signs that the original agenda meeting would once again be overshadowed by immediate concerns related to Brexit, following Theresa May's decision to cancel the 'meaningful vote' in Westminster on the Withdrawal Agreement initially scheduled for 11 December.

In the week of the Summit, President Donald Tusk put Brexit officially on the European Council's agenda, declaring that EU leaders would "not renegotiate the deal, including the backstop" but indicating that the EU27 would be "ready to discuss how to facilitate UK ratification" of the Withdrawal Agreement endorsed by the EU27 and the UK government in November. The EU27 would listen to Mrs May's assessment and then discuss the matter among themselves. With time running out, President Tusk also announced that EU leaders would have to "discuss our preparedness for a no-deal scenario".

In a last-ditch effort, Prime Minister May visited The Hague, Berlin and Brussels to test the waters for a potential 're-negotiation' of parts of the deal, while at home she was confronted with a vote of confidence the day before the Summit. She survived the vote, but 117 out of 317 Conservative members of parliament voted against her, fuelling huge uncertainties about how things would unfold at the European Council meeting and in the days and weeks to come.

Besides Brexit, the original agenda of the December Summit included a long list of other topics including EMU reform; migration; the 2021-2027 MFF; the Single

Market; climate change; disinformation; the fight against racism and xenophobia; Citizens' Dialogues and Citizens' Consultations; preparations for the Strategic Agenda; security and defence; and a number of issues related to external relations (Russia sanctions; the Azov Sea; Summit with the League of Arab States; the EU-Japan Economic Partnership Agreement).

The low expectations for concrete outcomes from the December Summit were in stark contrast to the optimistic mood when the Leaders' Agenda was unveiled in October 2017.

The low expectations for concrete outcomes from the December Summit were in stark contrast to the optimistic mood when the Leaders' Agenda was unveiled in October 2017. Then, there were (high) hopes that the last summit before the EU entered the final stretch of the current legislative cycle would be a decisive moment to push Europe forward. This spirit of renewed optimism regarding Europe's future fuelled hopes that the potential window of opportunity that had opened after the elections in France and Germany would be exploited. However, this optimism had already been dented by the [June 2018 Summit](#), when EU leaders failed to overcome long-standing blockages and red lines in key policy areas. As a consequence, nobody expected that the December Summit would be much different.

3. The Brexit saga – seven main takeaways from a ‘gigantic and unfortunate mess’

Brexit captured almost all the public and political attention shortly before and during the December Summit. The leaders of the EU27 listened to Prime Minister May’s assessment and proposals, then discussed the issue among themselves and adopted Conclusions. However, the meeting with Mrs May did not provide more clarity. Instead, it increased the profound uncertainties and worries surrounding the UK’s withdrawal from the EU.

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The following seven main takeaways aim to shed some light into what happened at the Summit, without trying to answer the many open questions related to Brexit – an impossible task given the complexity of what could be described as a ‘gigantic and unfortunate mess’.

- ▶ **Takeaway #1: the EU27 felt that Prime Minister May did not know what she wanted:** As at the informal Salzburg Summit in September, EU leaders had the impression that the UK Prime Minister did not know what she wanted from them, giving the impression that she was remaining confused despite her lengthy presentation at the beginning of their meeting. She made three demands to “soften” the Irish backstop: (i) the negotiations on the future agreement should be concluded by December 2021 at the latest; (ii) the non-binding Political Declaration should be converted into an annex to the Withdrawal Agreement to make it legally binding; (iii) preparations for trade talks should start as soon as Commission and European Parliament gave their consent (i.e. before Britain leaves at the end of March). The EU27 were particularly bewildered by the first two demands: individual heads of state or government repeatedly asked her to clarify her position, but were not satisfied with her responses, although Mrs May insisted at her press conference after the Summit that she had been “crystal clear” on what she needed on the backstop having heard the views of UK members of parliament.
- ▶ **Takeaway #2 – EU27 stuck firmly to the Withdrawal Agreement:** EU27 leaders were adamant that the Withdrawal Deal is not negotiable. In their Conclusions, they reconfirmed the results of the extraordinary meeting on 25 November where the EU27 and the UK government endorsed the

Withdrawal Agreement and the Political Declaration, stating that the Union stands by this agreement and intends to proceed with its ratification as soon as possible. The Conclusions explicitly and very clearly state that the Withdrawal Agreement “is not open for negotiations”. European Parliament President Antonio Tajani echoed this, saying: “The Withdrawal Agreement on the table is the only deal possible.

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- ▶ **Takeaway #3 – the EU27 tried to help Prime Minister May (as much as possible):** EU leaders signalled their readiness to assist Mrs May in her efforts to get the agreed deal passed in Westminster. In the words of President Tusk: “We will not negotiate the deal, including the backstop, but we are ready to discuss how to facilitate UK ratification.” The EU27 were very keen to offer explanations, political assurances or any clarifications that might help persuade the House of Commons to support the deal on the table, especially concerning the Irish backstop. The Summit Conclusions underline that the backstop is intended as an “insurance policy” to prevent a hard border on the island of Ireland and to ensure the integrity of the Single Market. The EU27 (once again) underlined that the backstop is an *ultima ratio* which should only apply if negotiations on the future relationship between the UK and the EU fail. They reiterated the Union’s “firm determination to work speedily on a subsequent agreement that establishes by 31 December 2020 alternative arrangements, so that the backstop will not be triggered”. Going a step further, they also declared that even if the backstop had to be triggered, it would only “apply temporarily”, unless and until it is “superseded by a subsequent agreement” that ensures a hard border is avoided. To get there, the EU27 promised to do their best to speed up things following approval of the Withdrawal Agreement. The Conclusions stated that the Union would “use its best endeavours” to negotiate and conclude “expeditiously” a subsequent agreement that would replace the backstop so that the backstop would only be in place for as “long as strictly necessary”. However, despite all these written assurances and efforts to ease concerns in the UK, it seems highly unlikely that this will do the trick.

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- ▶ **Takeaway #4 – need to prepare for the worse:** After recent developments in the UK and following the meeting with Mrs May, EU leaders are acutely aware that the risk of a ‘no deal’ is rising. There are serious doubts that May will get the deal through Westminster and many EU leaders publicly voiced concern that a no-deal Brexit might be unavoidable. That is also why the European Council Conclusions state that the “work on preparedness” at all levels for the consequences of the UK’s withdrawal shall be intensified “taking into account all possible outcomes”. At the press conference after Day 1 of the Summit, European Commission President Jean-Claude Juncker announced that the Commission would publish the entire set of preparedness measures on 19 December. EU leaders are not only sending a strong message to their own member states about the need to prepare for the worst, but also sending a strong signal to Westminster that the moment of no return is approaching and that the no-deal scenario (the default scenario if the House of Commons rejects the Withdrawal Agreement) is becoming more and more likely.

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- ▶ **Takeaway #5 – hope dies last:** Despite mounting worries that the chances of a no-deal Brexit have increased, there are still some lingering hopes that the Withdrawal Agreement might be passed in Westminster when push comes to shove. These hopes are based on the assumption that when the UK parliament is confronted with a binary choice between taking the deal or leaving with no deal, a bipartisan majority will opt for the former in a first or second vote. Those who believe (or rather hope) that this will happen argue that the potential adverse economic effects of a no-deal Brexit will become increasingly evident (e.g. pressures on the pound; companies triggering their no-deal contingency planning), which will, in turn, intensify pressure on Westminster to approve the deal.

- ▶ **Takeaway #6 – another emergency summit in early 2019 (?):** Although EU leaders’ patience is wearing thin, they might be ready to come together for a final extraordinary Brexit Summit in January or February 2019. Many leaders and EU officials insist publicly that this will not happen, but if the UK government and Westminster come up with concrete and realistic suggestions as to what the EU27 could do – without reopening the Withdrawal Agreement – to help a (bipartisan) majority in the House of Commons approve the deal, EU leaders might consider coming back to Brussels to discuss Brexit once again. There are, however, strong doubts that Westminster and Prime Minister May will be able to elaborate and agree on a common position, given the highly diverging positions in the House of Commons; and the limits of what the EU27 would be ready to do are very narrow. Indicating that the EU27 had already tried their best to accommodate the concerns in London, German Chancellor Angela Merkel stated in her press conference that the Summit Conclusions were not just a sheet of paper but have some “legal weight”. It will not be easy to go further than that without undermining the content of the Withdrawal Agreement (including the backstop), which is non-negotiable.
- ▶ **Takeaway #7 – next phase will not be easier:** Even if a no-deal scenario can still be avoided – through acceptance of the Withdrawal Agreement or any other viable and realistic option – it is widely acknowledged that the [next phase after Brexit will not be any easier](#). The EU27 and the UK have in many ways kicked the can further down the road, with many of the unsettled questions and issues bound to resurface once they start working on an agreement on the future relationship. However, the fact that the UK will, by then, have left the Union and that Brexiteers on all sides of the political divide will have achieved their primary objective might change the overall atmosphere in the UK. In any case, the EU27 seem prepared to speed up the process as much as possible. The Conclusions state that the EU will stand ready to embark on preparations immediately after the signature of the Withdrawal Agreement to ensure that negotiations can “start as soon as possible”; i.e. even before the actual date of departure.

4. EMU reform – not enough, again!

The EMU reform results of the December Euro Summit were sobering. The statement issued by Eurozone leaders argues that the “comprehensive package” they adopted paves the way for a “significant” strengthening of the EMU and Eurogroup President Mário Centeno, spoke of “a good day for the euro”. However, a closer analysis of the agreement shows that the EU and its members have missed another window of opportunity to make a substantial leap forward. As many experts and commentators predicted in the run-up to the Euro Summit, EU leaders were unable to agree on a sufficient EMU reform.

The EMU reform results of the December Euro Summit were sobering.

After more than a year of deliberations among finance ministers in the Eurogroup, the Euro-19 only managed to agree to a mini compromise, with many questions and unsettled issues still needing to be clarified. There has been some progress in a limited number of areas, but the agreed reform package is a long way from what the European Commission, the European Central Bank, President Macron, and many experts had called for to complete the Eurozone construction. After years of stalemate over how to substantially reform EMU beyond the decisions taken in 2010-2012 under the immediate pressure of the euro-area crisis, the profound differences between member states were on display once again at the December Summit. These are not likely to be overcome any time soon, and more substantial reforms might require another escalation of the crisis.

On the second day of the Summit, EU leaders were joined by ECB President Mario Draghi and Eurogroup President Centeno for a Euro Summit in an inclusive format, i.e. including not only the countries of the euro area but all EU27. The Euro Summit endorsed all the elements of the Eurogroup report which finance ministers had agreed in a night-long meeting on 3/4 December 2018. The list of critical issues addressed by the Eurozone heads of state or government includes the following items:

- ▶ **Common backstop to the Single Resolution Fund (SRF):** the European Stability Mechanism (ESM) shall provide a common backstop on behalf of the euro area in the form of a revolving credit line to the SRF. The Euro Summit endorsed the terms of reference on the common backstop elaborated by the Eurogroup. It shall be fiscally neutral in the medium term and activated as last-resort insurance in the event of a bank resolution. The common backstop will be established at the latest by the end of the transition period (2024). However, the process could be accelerated, as the Euro19 have agreed that the backstop might be introduced earlier if

sufficient progress has been made in risk reduction, to be assessed in 2020.

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- ▶ **ESM reform:** the Euro Summit endorsed the ‘term sheet’ on ESM reform and asked the Eurogroup to prepare the necessary amendments to the ESM Treaty by June 2019. Besides introducing the common backstop to the SRF, the reform includes the following key elements: (i) enhancement of the ESM toolkit, including *inter alia* a reform of the precautionary conditioned credit line (PCCL); (ii) improvement of the existing framework for promoting debt sustainability in the euro area, including the introduction of single-limb collective action clauses (CACs) into sovereign bonds contracts by 2022 to facilitate a potential restructuring of sovereign debt (when appropriate and if requested by the member state concerned, the ESM may facilitate the dialogue between its members and private investors); and (iii) new modalities of cooperation between the ESM and the Commission within and outside financial assistance programmes. Many items included in the ‘term sheet’ on ESM reform are still imprecise, and intense discussions among the Euro-19 over their interpretation are inevitable before a final agreement can be reached.
- ▶ **Eurozone budget’:** following the fierce debate in the Eurogroup, the Euro Summit decided to introduce new financial means dedicated to the euro area. However, the Euro-19 struggle to agree on the precise nature, objective, size and name of the new budget line, “technical discussions” will continue in the months to come and it will take at least until June 2019 to get more clarity. Given strong opposition from some EU governments, led by the Netherlands, the Euro Summit does not even dare to speak of a Eurozone budget; it rather refers to a “budgetary instrument” aimed at strengthening the euro area. The Euro Summit mandated the Eurogroup to work “on the design, implementation and timing of such an instrument”. It is also not clear what the new financial means will be used for. The Eurogroup report speaks of an “instrument for convergence and competitiveness”, without specifying what that might mean in practice. Although finance ministers discussed a possible “stabilisation function”, potentially including an unemployment insurance scheme, they could not agree on the “need [for] and design” of such a function. One can thus assume that these financial means will not serve to counter economic shocks. As expected, the Euro Summit decided that the new budgetary instrument will be part of the EU budget and “subject to criteria and strategic

guidance” from Eurozone countries (whatever this implies in practice). Its size shall be determined in the context of the next MFF for 2021-2027; i.e. it will have to be agreed by the governments of all member states and will be subject to the general rules applying to the EU budget. Given the complicated negotiations on the next MFF (see below), one can assume that the new budgetary instrument will be limited in size and thus decisively scaled-down compared to President Macron’s original plans for a Eurozone budget equivalent to several percentage points of the euro area’s combined Gross National Product (GDP).

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- ▶ **European Deposit Insurance Scheme (EDIS):** members states have once again delayed the decision to establish a deposit guarantee scheme designed to make all Eurozone bank deposits safe. The Euro Summit statement does not even mention EDIS, with mistrust among countries making it impossible for the Euro-19 to agree on a roadmap to begin political negotiations on this. The Eurogroup report states that “further technical work is still needed”. To do this, the Euro-19 will establish a “high-level working group” with a mandate to work on next steps, which shall report back by June 2019. All these delays and uncertainties signal that a significant number of euro countries remain very sceptical about the idea, while others continue to argue that the Banking Union will not be complete without a credible deposit guarantee scheme.

The many limitations and uncertainties mentioned above testify to the fact that the Euro-19 have lost another opportunity to make a substantial leap in EMU reform. The envisaged reforms are limited, and the overall level of ambition remains low. Many potential reforms are not on the table, including the introduction of a European Finance Minister, the development of sovereign bond-backed securities (SBBS), the introduction of mechanisms to absorb or cushion large asymmetric economic shocks, or an external representation of the euro area through the progressive establishment of a unified representation in the International Monetary Fund (IMF).

The sobering outcome of the Euro Summit and the state of discussions in the Eurogroup exposed continuing and profound disagreements over the future of EMU, with member states are still struggling to balance the expectations of two opposing camps.

On one side is the ‘responsibility and competitiveness camp’ – most vocally represented by the new Hanseatic League led by the Netherlands – who want a reduction of

risks, strict(er) implementation of rules, re-affirmation of the ‘no bail-out’ principle, more market discipline, and greater pressure on EU countries to implement long-overdue structural reforms to enhance Europe’s global competitiveness in an increasingly challenging and confrontational economic environment.

On the other side are those belonging to the ‘solidarity and caring camp’ – including the southern Eurozone countries led by France – who favour the creation of common risk-sharing mechanisms, the introduction of financial instruments to support countries suffering from large asymmetric shocks, more support from the European level for national reform efforts, more fiscal room for public investment, more flexible and smarter rules with greater discretion, and actions to reduce macroeconomic imbalances.

It seems that the deep divisions between these two camps cannot be overcome – at least not now. Germany and France struggle to find a lowest common denominator, and once they agree on a compromise, they do not actively promote it at EU level (this is precisely what happened with the Meseberg Declaration adopted by the governments of France and Germany in June 2018). Behind closed doors, many in Berlin are happy that the new Hanseatic League is resisting the proposals advocated in Paris, knowing that the Bundestag would not, for example, vote for a big Eurozone budget. A majority of German decision-makers favours a strict rules-based system with more sticks than carrots. The fact that the new Italian government wants to substantially increase the country’s budget deficit and the likelihood that France will also break the 3% deficit target following President Macron’s decision to spend an extra €10 billion in reaction to the ‘*gilets jaunes*’ protests has further strengthened the arguments of those who oppose major EMU reforms.

The Euro-19’s failure once again to seize an opportunity to revamp the Eurozone is bad news.

The Euro-19’s failure once again to seize an opportunity to revamp the Eurozone is bad news. Despite some remarkable reform achievements since the outbreak of the euro-area crisis, many of the underlying structural causes of the crisis remain unresolved, leaving the Eurozone vulnerable to future storms and potential real-life stress tests. The EU still has a long way to go to complete EMU. There is no room for complacency at either European or national level. Collective efforts to overcome remaining structural deficits have, however, lost momentum since 2012, with the receding danger of a euro meltdown undermining the willingness of many governments to overcome their deep divisions and take bold decisions. Many observers argue that it will require another escalation of the crisis for the Euro-19 to act. However, this is a perilous approach, given that a fresh crisis might once again spiral out of control.

5. Migration – sidelined on the Summit agenda

The topic of migration has, for many years, been a constant companion at European Council meetings. At the June 2018 Summit, it was the focus of public and political attention, but this time, it was shuffled to the sidelines, along with several other issues on the agenda for Day 2 of the Summit, with little by way of concrete results.

EU27 are still struggling to overcome their internal divisions, especially when it comes to showing solidarity towards each other.

This demonstrates that the EU27 are still struggling to overcome their internal divisions, especially when it comes to showing solidarity towards each other. Most central and eastern European countries refuse to take migrants and asylum seekers, while others – including Germany, Greece, Italy, Spain and Sweden – insist on fair burden-sharing. It is unlikely that EU governments will overcome their differences ahead of the European elections next May, and multiple issues related to the complex field of migration will continue to dominate national and European debates in the months and years to come, as the recent (at times irrational) debate on the UN Migration Pact has shown.

The European Council Conclusions, which were not discussed in detail by EU leaders, are rather vague. They state that:

- ▶ The “external migration policy” of the Union and its member states based, in particular, on the control of external borders, the fight against smugglers, and cooperation with countries of origin and transit should be continued. The proposals discussed at the June EU Summit to establish “disembarkation platforms” outside of the EU and to create voluntary “controlled centres” within the Union are no longer mentioned; issues related to migration were shuffled to the Summit sidelines, with few concrete results, and it is highly unlikely that EU governments will be able to overcome their differences before the May 2019 European elections.
- ▶ The European Council invites the Council and European Parliament to rapidly conclude negotiations on the European Border and Coast Guard (EBCG). The proposal put forward by the Commission in September 2018 aims to reinforce the EBCG by adding 10,000 new guards by 2020 to ensure that member states can rely on full EU operation support at the Union’s external borders. However, the devil lies in the detail, and many EU governments fear a loss of sovereignty in a politically

highly sensitive area. At the press conference after the Summit, Commission President Juncker was highly critical of some member states, saying: “The elephant in the room is hypocrisy: all leaders say they want better external border protection. The Commission has put proposals on the table, so I am surprised by the resistance of some member states.”

- ▶ On many concrete files, EU leaders did not take any decisions but instead decided to push them back to the Council, calling for further efforts to conclude negotiations on the Return Directive, on the Asylum Agency and all parts of the Common European Asylum System (CEAS) (see below).

The European Council did not take up a proposal presented by the Commission a week earlier to decouple five of the original seven proposals for reforming the CEAS presented in July 2016. Although part of a broader reform package, the Commission argued that each proposal has a “clear benefit on its own” and swift adoption of each one would make a “clear difference on the ground”. It argued that the following five regulations and directives are ready for conclusion and should thus be decoupled:

- ▶ the **Qualification Regulation**, which aims to ensure greater convergence of recognition rates across the EU, guarantee the rights of recognised refugees and discourage Schengen-endangering secondary movements;
- ▶ the **Receptions Conditions Directive**, which aims to ensure that asylum seekers are received under harmonised and decent conditions throughout the EU and help prevent secondary movements by clarifying the rights and obligations of asylum seekers;
- ▶ the **European Asylum Agency Regulation**, which aims to reinforce the EU Asylum Agency to ensure it can provide a rapid and full service to member states in normal times as well as in times of particular pressure, including by carrying out all the administrative stages of the asylum procedure if requested, as a concrete form of European solidarity;
- ▶ the new **Eurodac Regulation**, which aims to expand the EU’s identification database, helping authorities to track secondary movements, tackle irregular migration and improve returns of irregular migrants;
- ▶ the **Union Resettlement Framework Regulation**, which aims to help reduce irregular migration by ensuring safe and legal alternatives, replacing the current ad-hoc schemes and set EU-wide two-year plans for resettling genuine refugees.

The Commission argued that these five proposals should be separated from the two others which are heavily

contested and the European Parliament and/or the Council as co-legislators have not yet achieved sufficient progress to ‘seal the deal’ ahead of the elections:

- ▶ the **Dublin Regulation**, which aims to reform the existing rules to provide a fair and sustainable mechanism for determining the member states responsible for examining an asylum claim. The Commission argues that this is indispensable to establish a future-proof EU asylum system that can stand the test of time and meet old and new challenges;
- ▶ the **Asylum Procedure Regulation**, which aims to streamline the asylum procedure and make it more efficient, allowing for swifter procedures to identify those in need of protection and those who are not, including at the border. It would also ensure common guarantees for asylum seekers, together with stricter rules to prevent abuse.

While the Parliament agreed its negotiating mandates some time ago, the Council has not been able to find a common position on both these regulations, despite numerous attempts by successive Council Presidencies to forge a compromise. EU leaders did not even try to overcome their differences at the December Summit and followed the European Parliament in rejecting the Commission’s suggestion to separate the proposals and thus move forward with the five uncontested files before the end of the current institutional cycle.

Some governments are very keen to avoid the impression that progress is being made in the migration area. They are doing their best to obstruct progress in the Council in order to go on exploiting this issue politically at both European and national level. They know that their anti-migration policies and rhetoric are benefitting them, and they do not want any breakthrough on the future of the CEAS ahead of the EP elections in May, where they hope to profit from this.

They know that their anti-migration policies and rhetoric are benefitting them, and they do not want any breakthrough ahead of the EP elections in May.

Other governments, together with the European Parliament, do not want to separate the contested files from the rest because they fear that this would further limit the chances of finding a comprehensive compromise on the entire package. They continue to believe that all member states should show solidarity towards frontline countries like Greece, Italy or Spain where most irregular migrants arrive on Europe’s shores.

From a more general perspective, the December Summit has once again shown that the EU27 still cannot overcome the fundamental divisions between two camps, present at both European and national level.

On the one side are those who argue that Europe must, first and foremost, counter the sense of insecurity among its citizens and protect itself from potentially overwhelming numbers of people trying to reach the ‘old continent’. The numbers supporting this logic have grown since 2015, and they are very vocal at all levels. At recent EU summits, member states have put a strong emphasis on securing Europe’s external borders and cooperating with external actors, especially in Africa, to ensure the numbers arriving illegally in the EU remain low.

On the other side are those who insist on the need to boost solidarity among EU countries and with those knocking on Europe’s doors. Many in this ‘solidarity camp’ agree that more needs to be done to enhance security but argue this should not lead to an inhumane ‘fortress Europe’ betraying its fundamental values and beliefs. However, the continuing impasse in the Council shows that a significant number of governments, led by Hungary and Poland, are determined to resist any kind of solidarity mechanisms obliging them to assume a greater share of the burden, especially when it comes to dividing asylum-seekers and refugees among EU countries. The EU institutions and countries that have shouldered the biggest share of people arriving in Europe still hope that actions designed to safeguard the Union’s external borders and reduce irregular migration will eventually create the preconditions for a deal on solidarity among member states, but the December Summit has reinforced concerns that this is unlikely to happen for the foreseeable future.

However, one thing is sure: much more needs to be done to enable the EU to master future migration flows. Although the numbers arriving have sharply decreased since 2015/2016, migration pressures will not disappear. On the contrary, they are likely to increase, and the issue will continue to dominate national debates in many EU countries. The recent discussions on the UN Migration Pact show that the EU and its members face a much deeper political crisis, which is very often guided by disinformation campaigns and unfounded arguments.

In any case, Europe is – and will continue to be – an attractive destination for many who seek a better life and international protection, so the EU27 will have to cope and eventually overcome their differences. However, there are no silver bullets or shortcuts, so member states will continue to struggle to come up with adequate and effective internal and external responses to the multiple challenges, opportunities, and moral as well as legal obligations in the field of migration and asylum.

6. Multiannual Financial Framework – still a long, rocky path ahead

The discussions on the multi-year EU budget for the 2021-2027 period did not substantially move things forward. The original hopes expressed by the European Commission and supported by the European Parliament and some EU member states (including Germany, Portugal and Spain) that the EU27 would agree on the next MFF before the EP elections in May 2019 have been dashed. It will be up to the future EU leadership to strike a deal among member states and, given the complexity of budgetary negotiations and the numerous obstacles that still need to be overcome, it seems unlikely that the EU27 will be able to find an overall agreement on the next MFF before 2020.

This was the first time since the Commission presented its package of proposals in May 2018 that the European Council discussed the 2021-2027 MFF. At their June Summit, EU leaders had invited the Parliament and Council to examine the proposals “as soon as possible”. In November, the Austrian Presidency presented a draft ‘Negotiating Box’, which aimed to identify and confirm the issues which still need to be addressed in the negotiations. This document was not binding, on the principle that nothing is agreed until everything is decided.

It seems unlikely that the EU27 will be able to find an overall agreement on the next MFF before 2020.

At the December Summit, EU leaders welcomed the preparatory work carried out by the Bulgarian and Austrian presidencies in 2018 and took note of the progress report presented by the Austrian Council Presidency. The Conclusions call on the incoming Romanian Council Presidency to continue that work and develop an “orientation” for the next stage of the negotiations, with a view to achieving an “agreement on the negotiating box” in the European Council in the autumn of 2019. The Juncker Commission also argued for a political agreement on the new long-term budget at the European Council meeting in October 2019. However, this seems very ambitious given that many hurdles will have to be overcome – and one can expect that the next MFF negotiations will not be easier than previous ones in the past.

One can expect that the next MFF negotiations will not be easier than previous ones in the past.

Member states and the European Parliament will eventually have to reach an agreement on some challenging issues:

- ▶ **Overall level of expenditure:** the discussions on the overall level of expenditure are likely to be very difficult, especially after Brexit, which will open an annual budget hole of €12-13 billion. The Commission has proposed a ceiling of commitments for the 2021-2027 budget at 1.11% of gross national income (GNI), and the European Parliament had called for this to be set at €1,324.1 billion in 2018 prices, representing 1.3% of the EU27 GNI. The Commission and Parliament argue that other EU countries should fill the gap left by the UK’s departure. However, many net contributors – including Austria, Denmark, Sweden and the Netherlands – hold that the current overall level of expenditure should not be increased, and some member states even advocate a reduction. Dutch Prime Minister Mark Rutte, for example, claims that “a smaller EU as a result of Brexit should also mean a smaller budget”.
- ▶ **Main funding priorities:** as in previous negotiations, member states do not agree on the main priorities for the next MFF. A majority of EU countries stress the importance of adequate funding for cohesion policy (the “friends of cohesion” include Bulgaria, Croatia, Cyprus, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, and Slovenia); some member states underline the importance of the Common Agricultural Policy (CAP), the largest spending block in the current EU budget; others want the next MFF to concentrate less on these areas and instead allocated more funds for future-oriented policies. It will be difficult to square the circle.
- ▶ **Rule of law conditionality:** extensive discussions are also in prospect over the Commission’s proposal to link payments from the next MFF to respect for the rule of law. Germany, Finland, France, Sweden and the Netherlands strongly support the idea that the Commission should be able to propose “appropriate and proportionate measures” if an EU country undermines the rule of law. The Council would have to approve these measures by (reversed) quality majority. Hungary and Poland strongly object to these innovations, and they are likely to use all means at their disposal to prevent such forms of conditionality being introduced. Their chances of success are rather high, given that the MFF requires consensus among the EU27 to be adopted. The legal service of the Council and the Court of Auditors have also raised doubts about the structure and legal basis of the Commission’s proposal.

- ▶ **Introduction of ‘Eurozone’ budget:** the negotiations on the next MFF will also be burdened by the fact that the new budgetary instrument for the euro area is supposed to be part of the EU budget (see the above section on EMU reform). Intense discussions can be expected on the new budget line both among the Euro19 and between non-euro countries and the strongest proponents of the new budgetary instrument led by President Macron’s government. Some non-euro countries, notably Hungary and Poland, will also use the leverage they will have over the new budgetary instrument to avoid the introduction of rule-of-law conditionality.

The timeline for the MFF negotiating process could be derailed in the event of an institutional deadlock following the European elections in May 2019.

- ▶ **Potential institutional deadlocks/delays:** The timeline for the MFF negotiating process could be derailed in the event of an institutional deadlock

following the European elections in May 2019. At the beginning of the next politico-institutional cycle, EU governments and the new European Parliament will have to (s)elect five new leaders: President of the European Commission; President of the European Council; High Representative of the Union for Foreign Affairs and Security Policy and Vice-President of the Commission (HR/VP); President of the European Parliament; and the next President of the European Central Bank. This will be much more difficult than in 2014 for two key reasons. First, all five posts will be seen as part of a complicated package that will have to satisfy the different interests and preferences of all EU27. In 2014, the European Council ‘merely’ had to choose the new Commission President and the HR/VP; in 2019, EU leaders will also consider all the other posts when making a choice. Second, the composition of and power constellations in the next European Parliament will be more complex, as it is more than likely that the two biggest political party families – the European People’s Party (EPP) and the Socialists and Democrats (S&D) – will no longer be able to form a majority. This might mean some delays or even institutional deadlocks after the European elections, which could, among other things, affect the negotiations on the next MFF.

7. Other issues on the agenda

EU leaders also discussed and took decisions on a long list of other issues:

7.1 SINGLE MARKET

Reiterating that the [Single Market](#) is one of the Union’s great achievements and without going into any details, the European Council:

- ▶ invites the EP and the Council to agree, before the end of the current legislature, on as many of the **pending proposals relevant for the Single Market** as possible;
- ▶ calls on the member states to **implement and enforce decisions taken and rules adopted**;
- ▶ stresses that more needs to be done to **ensure that the Single Market provides a solid underpinning for an outward-looking, confident and more autonomous EU** in a challenging global environment;
- ▶ underlines the need for the Single Market to evolve so that it fully embraces the **digital transformation**, including Artificial Intelligence, the rise of the data and service economy, connectivity, and the transition to a greener economy.

At the March 2019 EU Summit, the European Council wants to hold an in-depth discussion on the future development of the Single Market and European digital policy in preparation for the next Strategic Agenda.

7.2 CLIMATE CHANGE

On climate change, the Summit Conclusions state that:

- ▶ taking into account the outcome of the recent COP24 in Katowice (Poland), the European Council invites the Council to **work on the elements outlined in the Commission’s Communication “A Clean Planet for all”**, which is a strategic long-term vision for a “prosperous, modern, competitive and climate neutral economy” adopted by the Commission in November. In response to the European Council’s invitation in March 2018, the Commission’s vision for a climate-neutral future covers nearly all EU policies and is in line with the Paris Agreement goal of keeping the temperature increase to well below 2°C and pursuing efforts to keep it to 1.5°C.
- ▶ the European Council will **provide guidance on the overall direction and political priorities in the first semester of 2019**, to enable the EU to submit a **long-term strategy by 2020** in line with the Paris Agreement.

7.3 DISINFORMATION

The Summit Conclusions state that the spread of deliberate, large-scale, and systematic disinformation, including as part of hybrid warfare, is an “acute and strategic challenge for our democratic systems”. The European Council:

- ▶ stresses the need for a determined response, that **addresses the internal and external dimensions and is comprehensive, coordinated and well-resourced** on the basis of an assessment of threats;
- ▶ calls for the **prompt and coordinated implementation of the Joint Action Plan on disinformation** presented by the Commission and the High Representative aiming to: (i) **bolster EU capabilities**; (ii) **strengthen coordinated and joint responses** between the Union and member states; (iii) **mobilise the private sector**; and (iv) **increase societal resilience to disinformation**.

The Action Plan, which was adopted on 5 December, responded to calls from the June and October European Councils to develop a coordinated response to the challenges in this field, especially in view of the forthcoming European elections. It focuses on how to deal with disinformation both within the EU and in its neighbourhood.

7.4 FIGHT AGAINST RACISM AND XENOPHOBIA

The European Council **condemns all forms of antisemitism, racism and xenophobia, and underlines the importance of combating intolerance**. It also welcomes the Council Declaration on the fight against antisemitism, which was adopted on 6 December 2018.

This Council Declaration called for a **common security approach to better protect Jewish communities and institutions in Europe**. The Council acknowledged that Jewish communities in some EU countries feel particularly vulnerable to terrorist attacks following an increase in violent incidents in recent years. It noted that anti-Semitic hatred remains widespread, as confirmed by the 2018 Fundamental Rights Agency report on antisemitism. The declaration **invited member states to adopt and implement a holistic strategy to prevent and fight all forms of antisemitism**, as part of their strategy on preventing racism, xenophobia, radicalisation and violent extremism. It called on member states to increase their efforts to ensure the security of Jewish communities, institutions and citizens.

7.5 CITIZENS’ DIALOGUES AND CITIZENS’ CONSULTATIONS AND PREPARATIONS FOR THE STRATEGIC AGENDA

Without an extensive debate on the issue, the European Council:

- ▶ welcomes the holding of Citizens’ Dialogues and Citizens’ Consultations, which – according to EU

leaders – was an “**unprecedented opportunity to engage with European citizens**” and which could “**serve as an inspiration**” for further consultations and dialogues;

- ▶ acknowledges that the joint report prepared by the Austrian and the Romanian Council Presidencies, together with the different national reports and input from the other European institutions, **identify a number of concerns and expectations** on the part of the participating citizens concerning concrete results from the EU. However, EU leaders do not specify which concerns, expectations and concrete results seem particularly essential and how the results of the [Citizens’ Dialogues and Citizens’ Consultations](#) will be concretely reflected in future decisions;

EU leaders do not specify which concerns, expectations and concrete results seem particularly essential and how the results of the Citizens’ Dialogues and Citizens’ Consultations will be concretely reflected in future decisions.

- ▶ states that the heads of state or government will **discuss priorities for the next institutional cycle at their informal meeting in Sibiu on 9 May 2019**, with a view to agreeing on the next **Strategic Agenda** at the EU summit in June 2019.

7.6 SECURITY AND DEFENCE

In the Summit Conclusions, the European Council:

- ▶ welcomes the significant progress made in the area of security and defence, including in (i) **implementing Permanent Structured Cooperation (PESCO)**; (ii) **improving military mobility**; (iii) **implementing the European Defence Industrial Development Programme** and in the negotiations on the proposed European Defence Fund;
- ▶ endorses the **Civilian CSDP Compact**;
- ▶ states that all the above initiatives contribute to enhancing the EU’s **strategic autonomy** and its capacity to act as a security provider while complementing and reinforcing the activities of NATO and strengthening EU-NATO cooperation.

7.7 EXTERNAL RELATIONS – RUSSIA SANCTIONS | AZOV SEA | EU-JAPAN | LEAGUE OF ARAB STATES

- ▶ Following a presentation on the state of implementation of the Minsk Agreements by Chancellor Merkel and President Macron, the European Council once again decided unanimously to

renew the **economic sanctions against Russia**, given that no progress has been made.

- ▶ The European Council expressed its utmost concern regarding the escalation at the [Kerch Straits and the Azov Sea](#) and Russia's violations of international law. It reconfirmed its commitment to international law, the sovereignty, territorial integrity and independence of Ukraine, and the EU's policy of non-recognition of the illegal annexation of Crimea. EU leaders stated that there was **no justification for the use of military force by Russia** and requested the **immediate release of all detained Ukrainian seamen** as well as the return of the seized vessels and

free passage of all ships through the Kerch Straits. The EU stands ready to adopt measures to strengthen further its support, in particular in favour of the affected areas of Ukraine.

- ▶ The European Council welcomed the positive vote in the European Parliament on the **EU-Japan Economic Partnership Agreement** and looked forward to its imminent entry into force.
- ▶ The European Council discussed preparations for the upcoming **summit with the League of Arab States** on 24/25 February 2019.

8. Stocktaking and prospects – the state of the Union and next steps

The December Summit was the last meeting of the European Council before the EU enters the final stretch of this politico-institutional cycle. This is the right moment to take a step back and reflect on the current state of affairs and to look to the future.

The results of the Summit were meagre, and the EU27 are unlikely to be able to achieve much more in the remaining months of the 2014-2019 cycle. The EU and its members are slowly entering election mode, and the campaigns at European and national level for the EP elections in May 2019 will intensify in the months to come. This does not mean that the Union will come to a standstill: many legislative files need to be closed before the Parliament shuts down in April, and Brexit will continue to dominate Europe's political agenda, whatever happens. However, time is running out and preparations for the period after the European elections will gradually intensify. The smell of change is in the air.

STATE OF THE UNION – A TALE OF TWO NARRATIVES

The overall record since 2014 is somewhat mixed, and one can tell two very different stories about the current state of the Union. Both accounts are valid, and it is unclear in which direction the EU will move in future. What are the main characteristics of the two opposing narratives?

The overall record since 2014 is somewhat mixed, and one can tell two very different stories about the current state of the Union.

On the one hand, there is a very **positive and optimistic narrative** symbolised by the following key characteristics:

- ▶ **Long-standing positive economic development:** The EU27/28 have collectively witnessed more than five years of continuous economic growth. Growth in the euro area reached a 10-year high of 2.4% in 2017, surpassing the United States (2.3%) and Japan (1.7%) for the last two years. The growth differentials between EU member states, which had increased in the course of the economic crisis, have been reduced and growth is less credit-fuelled and thus more sustainable compared to the period before the outbreak of the financial crisis. Investments have reached pre-crisis levels, and the Juncker Plan alone has triggered more than €360 billion investments since 2015. The overall number of people in employment has reached the highest absolute number ever recorded for the EU, with 239 million people in work; this means that 72.2% of the Union's population aged 20-64 are in work in 2017 (up from 66.8% in 2001). Twelve million jobs have been created since 2014, and the quest for qualified personnel is increasing, also as a result of demographic change, with shrinking and ageing societies. The level of public debt has decreased steadily, down now to 86.8% in the euro area and 81.5% in the EU28. Public deficits have on average fallen from over 6% in 2009 to below 0.9% in the euro area and 1.0% of GDP in the EU28 in 2017, compared to around 5% in the US. The banking sector has witnessed a substantial reduction of non-performing loans (NPLs), which have almost halved in the EU since 2014 and now stand at an average of 3.4% (i.e. close to pre-crisis levels). The capitalisation of European banks has also improved, with a total capital ratio of around 18% and the liquidity coverage ratio standing at about 140% in 2018. The euro has been a stable and strong currency in the last six years, since the peak of the euro area crisis.

Despite all the turmoil of recent years, the EU has been remarkably resilient in the face of the forces of disintegration.

- ▶ **High level of resilience:** Despite all the turmoil of recent years, the EU has been remarkably resilient in the face of the forces of disintegration fuelled by the multiple crises that have buffeted the Union and its members. Many prophets of doom had predicted the Union's collapse, the euro's implosion, 'Grexit', a military stand-off with Russia following the Ukraine crisis, or the end of Schengen. They have been proved wrong. At the beginning of the current institutional cycle in 2014, the poly-crisis still dominated the public debate about Europe, and it further escalated with the eruption of the migration crisis in 2015. Today, it is no longer in the headlines. After more than 60 years, European integration and cooperation have become part of the continent's collective DNA. The European project has not been without major hiccups, and the history of European integration is littered with crises. But despite a series of heavy blows, it has always bounced back and emerged stronger than before. Having demonstrated in the last decade that it was able to weather the most fundamental crisis in its history, the EU has matured and is profiting from a 'resilience dividend' outside and inside Europe, which makes it much harder to call its very existence into doubt.
- ▶ **Substantial reforms and progress:** The EU and its members have, in the past decade, achieved progress that would have been unfeasible before 2008. Yes, responses to the poly-crisis have often been slow, insufficient and sometimes ill-advised, and the results occasionally meagre and disappointing. The EU and its members have nevertheless individually and collectively made remarkable progress in recent years. The pressures generated by fears of a euro implosion or an involuntary exit of one or more countries from the common currency area made many reforms and developments possible at both European and national level which were unthinkable before the euro area crisis erupted. The number of people arriving in Europe through irregular and illegal channels via the different Mediterranean routes has been substantially reduced since 2015/2016. Cooperation in the area of security and defence has made more progress since 2017 than in previous decades, in response to the increasing instability in Europe's neighbourhood and uncertainty over the US' commitment to Europe's security, which has raised fundamental questions about member states' responsibility for their security and the Union's role in defence matters.
- ▶ **High degree of unity:** The EU and its members have, on many occasions in recent years, been remarkably united, although this was by no means a given in each and every case. This is particularly true in the case of Brexit, even though the economies of some

member states will be more affected than others by the UK's departure. Member states have also been able to maintain a consensus on economic sanctions against Russia, which they collectively imposed on Moscow after the illegal annexation of Crimea. The EU has remained united over US President Donald Trump, and it was the Commission president rather than individual heads of state or government, who negotiated with the US president on behalf of the EU in July. The Union has also delivered a unified message to the rest of the world that it is ready to defend the rules-based multilateral system against all those who proclaim and advance a 'me-first' strategy. The recent EU-Japan Economic Partnership Agreement and other trade deals testify to the Union's unified position in defence of free and fair global trade against those who praise the merits of protectionism. Last but certainly not least, the EU28 have remained united over climate change and have spoken with one voice in the negotiations on the Paris Agreement, which obliges each signatory to determine, plan and regularly report on the contribution it is making to mitigate global warming.

The EU and its members have, in the past decade, achieved progress that would have been unfeasible before 2008.

- ▶ **Increasing public support:** Different opinion polls confirm that an increasing number of citizens are in favour of their country's EU membership. The many benefits of European integration, increasing interdependence among member states (especially among those who share the same currency), and the profound political, economic, societal, and historical ties that bind member states and citizens, have all made it extremely difficult and risky to abandon the European project. Most people believe the 'costs of non-Europe' would be very high and a clear majority want their country to remain in the EU and the euro – and their numbers have grown since the Brexit vote in 2016. Nobody wants to move towards a cliff edge without a parachute.

The EU and its members have been remarkably united, although this was by no means a given.

Positive economic developments, the high level of resilience, substantial reforms and progress since 2010, the high degree of unity among the EU27, and increasing public support for EU membership all testify to the Union's positive track record in recent years and this optimistic picture of the current state of affairs.

However, this is only one side of the coin. One can also tell a very different, much more **negative and gloomier story** about today's state of the Union symbolised by the following key characteristics:

The notion is spreading that there are structural differences among the EU27 that cannot be overcome.

- ▶ **Fragmentation and distrust:** Levels of fragmentation and distrust have increased significantly, both among the EU27 and between national capitals and 'Brussels', over the past decade. This is not a new phenomenon, but such trends are now becoming core elements of Europe's integration narrative. Put simply, the notion is spreading that there are structural differences among the EU27 – divergences between North-South, East-West, older-younger member states, euro and non-euro countries – that cannot be overcome, even though political realities are more complex and nuanced in practice. Mutual accusations of a lack of solidarity have deepened the divisions and eroded trust among member states. These divisions do not only affect political elites in national capitals, but also societies as a whole, with an unprecedented resurgence of national stereotypes, nationalistic chauvinism, historical resentments, and a damaging blame game between governments and even between 'ordinary' people across Europe.
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The window of opportunity that opened after the French and German elections has now closed as the current politico-institutional cycle draws to a close.

- ▶ **Inability to achieve structural reforms in key areas:** The results of the December Summit have once again proven that the EU27 cannot make qualitative leaps forward in crucial areas of integration. In late 2017, there were hopes that the new sense of optimism which had spread since the end of 2016 would spark new momentum. Some – including those involved in the [New Pact for Europe](#) project – thought the time had come to "[re-energise Europe](#)". There were hopes that member states would manage to overcome blockages and red lines by elaborating and implementing a 'win-win package deal' reflecting the distinct interests and concerns of all member states and their citizens; a compromise that would move Europe forward in an ambitious but pragmatic fashion. Meanwhile, the window of opportunity that opened after the French and German elections has now closed as the current politico-institutional cycle draws to a close. The EU27 have not been able to reach a worthwhile compromise

ahead of the 2019 European elections, and who knows when the next opportunity to agree on a win-win package deal will open up again in future. As a result, the EU runs the risk that its defences will again be too weak to weather future storms and new turbulences will occur, although we do not know when, where and how they will hit us.

- ▶ **High degree of economic divergence and rising inequalities:** There is a widening economic gap between and within EU countries. While some have managed to weather the financial and economic storm after the fall of Lehman Brothers in 2008, many others have struggled with lower long-term growth rates, a lack of regional and global competitiveness, insufficient public and private investment, persistently high public debt levels, higher real interest rates, high levels of (youth) unemployment, and a deep social malaise. As a result, after years of gradual convergence before the crisis erupted, the EU has witnessed spreading socio-economic divergence over the past decade. Living standards and social conditions vary significantly across Europe, both between and within countries, putting an unusually heavy burden on those hit hardest by the financial and economic crisis. Although their origins predate the financial and economic turmoil, real and perceived social divisions within EU countries have widened in recent years. This has fostered a growing sense of social injustice, which has fuelled indignation, despair and even anger in many parts of society, even in countries that have weathered the economic storm. Rising inequalities undermine social contracts and may even endanger social peace within countries and between generations. Socio-economic progress is not felt evenly across all parts of society, and many believe that the gains of globalisation and free markets are unequally distributed, while everyone shares the risks of a more integrated global economy.
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Rising inequalities undermine social contracts and may even endanger social peace within countries and between generations.

- ▶ **Living on 'different planets':** Policy-makers, experts and the wider public assess the state of the Union and the root causes, nature and gravity of the multiple crises the EU and its members have faced in very different ways. At times, it seems as if Europeans are almost 'living on different planets': they do not share the same analysis, let alone agree on the remedy. This widening divergence of perceptions makes it much harder to forge compromises and to implement joint actions and reforms requiring broad support at European and national level. A significant number of governments are not eager to seek solutions. Some are passive; others are forging 'negative coalitions' aimed at actively obstructing reforms. Some capitals fear being excluded and sidelined by the Franco-

German tandem, especially now that the UK is leaving the EU. Some, especially outside the euro area, worry that a further deepening of EMU integration might discriminate against their countries and reduce the financial benefits they derive from the EU budget. Others believe that additional reforms are either not necessary or maybe even counterproductive. Many do not share a sense of urgency and doubt that the current political climate is ripe to enhance cooperation and integration at European level substantially. The most obstructive political players (inside and outside government) are in outright 'destructive mode'. They believe that 'less Europe' would give them more room for manoeuvre at national level – even if this is an illusion in a highly complex and interdependent environment in which no European country, irrespective of its size, will be able to defend its interests and values on its own.

It seems as if Europeans are almost 'living on different planets': they do not share the same analysis, let alone agree on the remedy.

- ▶ **Persistent threats to liberal democracy and the rule of law:** Last but certainly not least, authoritarian populists continue to threaten or even actively undermine the fundamental pillars of our open liberal democracies. Illiberal democracy has been on the rise for some time in Europe and beyond. Its proponents aim to establish a form of governance based on a strong central power, which limits political pluralism and undermines the separation of powers and the independence of other authorities besides the ruling executive. Authoritarian populists, when coming to power, seek to gradually limit the influence of pluralist institutions and players such as the constitutional courts, media, rival political parties and critical civil society organisations. They often legitimise this through legal acts which go through democratically elected parliaments. In some cases, they even ignore the constitutional limits on their power and deprive institutions and citizens of their rights, arguing that this is necessary to 'liberate' the state from the 'old establishment' and external influence. EU institutions and member states are struggling to find ways to deal with this development effectively.

This challenge is not just a European phenomenon. Other established Western democracies are facing similar challenges. However, Europe is much more vulnerable to these phenomena than other political entities. The EU has become a popular 'punching bag', with most anti-EU, anti-euro and anti-migration forces using their opposition to the Union as a vehicle to achieve their ultimate objectives. What they care about is not (predominantly) the state of the EU or the prospects for European integration, but rather their position at home: they use fierce criticism of

the EU to strengthen their political influence and power at national level. They portray the Union as an 'agent of unfettered globalisation' and 'elitist project' undermining the sovereignty of elected national governments. At its most extreme, they challenge EU rules and undermine the rule of law, which lies at the heart of the European construction.

In 2017, following the defeat of Geert Wilders in the Netherlands and the election of Emmanuel Macron in France, some commentators over-hastily heralded the arrival of a 'post-populist moment'. More recent elections in Austria, Hungary or Italy have shown that this was premature. The populist surge is not over, and it did not come out of the blue: it is the result of unresolved political, socio-economic, and societal challenges which question the prevailing order. Populism is a phenomenon and not the source of the problems facing open liberal democracies in Europe and beyond. Populists are successful when they can tap into people's grievances and fears about the future, when citizens are deeply frustrated with those who have been in power, and when they are dissatisfied with the existing state of representative democracy. And all this is intensified by a technological revolution which has fundamentally altered the way in which citizens are informed in today's (social) media world. Public dissatisfaction is reinforced in closed echo-chambers, where they receive one-sided information or even fake news and only communicate with like-minded people, without being exposed to opposing views and arguments. This fuels societal divisions, which authoritarian illiberal forces exploit using an 'us versus them' logic in more polarised societies.

Populism is a phenomenon and not the source of the problems facing open liberal democracies in Europe and beyond.

NEXT STEPS – 'BATTLE OF (SPLIT) CAMPS' & NEW SHARED LEITMOTIF

Both the positive-optimistic as well as the negative-gloomy narrative are valid interpretations of the current state of affairs. The truth lies somewhere in the middle, and it is unclear in which direction the EU and its member states will move in the years to come. Even if the situation looks much better today than it did at the height of the poly-crisis, it is by no means certain that the 'iron law' of European integration – that the European project always emerges stronger from a crisis – will prove itself again. So, in which direction will the EU go, and which common Leitmotif should guide the next EU leadership in light of this tale of two narratives?

At the European level, 2019 will to a large extent be dominated by the European Parliament elections in May and by the (s)election of a new EU leadership and the need

to agree on the Strategic Agenda and strategic priorities for the next politico-institutional cycle (2019-2024).

Some want to ban and stigmatise the ‘anti-forces’, while others believe that the best way to deal with the ‘populists’ is to call them to order by integrating them into the political machinery.

Over the upcoming months and the closer we get to the European elections, we are likely to witness an increasing ‘battle of (split) camps’, a growing confrontation between those who wish to push Europe towards a more illiberal, nationalistic and closed direction and those who want to defend the values and principles of an open and pluralist society.

It is highly questionable whether this political battle is the right strategy in times of fragmentation and polarisation, as it could play into the hands of those who want to push our societies in a different direction and benefit those who profit most from an increasing political and societal divide in our societies.

Furthermore, we will not only witness an escalating battle between the liberal and illiberal camps, but it will also become increasingly clear that these different camps are not homogeneous but rather split internally for a variety of reasons, which will negatively affect the Union in the years to come.

The splits within the liberal camp arise for two main reasons. First, its protagonists pursue different political strategies and recipes to deal with the populist phenomenon. Some want to ban and stigmatise the ‘anti-forces’, while others believe that the best way to deal with the ‘populists’ is to call them to order by integrating them into the political machinery. We already see both tactics in play in different member states, and it is not clear which will be more successful. Second, we are witnessing an increasing battle within the liberal camp about who should lead the political fight against the illiberal anti-forces at the European level. This split within the liberal camp is not likely to disappear after the EP elections. It will rather stay with us in the next politico-institutional cycle.

This ‘battle of (split) camps’ will not make things easier for the EU and its member states in the years to come.

The illiberal camp is similarly split for several reasons. Its protagonists are also quarrelling over who should lead the charge for anti-EU, anti-euro and anti-migration forces. Matteo Salvini and Victor Orbán are

the two most prominent figures at European level. However, they follow different strategies vis-à-vis the ‘old establishment’ and neither wants to subordinate himself to the other, which limits their ability and readiness to join forces in the European election campaign. The anti-forces also subscribe to different policy recipes in key areas such as migration, especially concerning the solidarity dimension of the migration challenge. Their nationalistic focus is another source of division, given that their ‘my-country-comes-first’ attitude makes it more difficult for them to form stable coalitions at European level, even though they know that they could collectively profit from a higher level of cooperation and strengthen their claim that they can change the EU from within if they do well in the May elections.

Two words could summarise the shared Leitmotif for the next politico-institutional cycle – ‘Re-unite EUrope’.

This ‘battle of (split) camps’ will not make things easier for the EU and its member states in the years to come. But what does all this mean for the upcoming phase of European integration? What should be the common guiding principle for the next EU leadership?

Two words could summarise the shared **Leitmotif** for the next politico-institutional cycle – **‘Re-unite EUrope’**.

The level of fragmentation between member states, national capitals and national societies and the level of polarisation within societies is already high, and there is a danger that it will increase further.

A collective commitment to ‘Re-unite EUrope’ at all levels should guide the ambitions and concrete work of the next European Commission, the next President of the European Council, the next European Parliament, the next President of the European Central Bank, and the heads of state or government in the European Council. Cooperation between the next European Council and Commission Presidents will be particularly important. Close coordination and collaboration across Rue de la Loi along the lines of a shared Leitmotif will be crucial.

There is no ‘silver bullet’, no one magical thing that can be done to counter the forces of fragmentation between member states and the forces of polarisation within countries. However, three guiding points could steer the way ahead:

- ▶ **Need for a win-win package deal to counter fragmentation and distrust:** Yes, the EU27 missed the last window of opportunity to re-energise Europe after the French and German elections in 2017. However, the fact that things did not work out this time around does not mean that one should not attempt to give it another try in the

next politico-institutional cycle. The underlying logic will continue to apply: substantial progress in critical areas of European cooperation and integration will only be possible if EU institutions and national capitals have the political courage and will to elaborate and implement a win-win package deal. Cooperation between Paris and Berlin will be decisive and indispensable in this respect – not against but with all those who are ready to form decisive reform coalitions.

The December Summit has once again shown that the EU and its members are struggling to overcome stalemates and blockages in crucial policy areas. Any attempt to reach significant compromises on EMU reform and the future of EU migration and asylum policies will only succeed if the EU27 can agree on an ambitious but pragmatic win-win package deal. To make the EU ‘storm-proof’, restore trust among the member states and between national capital and EU institutions, and foster citizens’ confidence in the EU, such a package deal that reflects the distinctive interests and considerations of all member states and their citizens will be vital. Aiming for a proactive strategy is wiser than waiting for another fundamental crisis to erupt to overcome national hesitations and reservations. Playing with fire is risky, especially if the collateral damage caused by previous crises still looms large.

The EU should aim to provide added value to counter the increasing polarisation within national societies. Crises in the member states have a drastically adverse effect on the effective functioning of the Union.

- ▶ **Counter polarisation within EU countries:** The EU should aim to provide added value to counter the increasing polarisation within national societies. Crises in the member states have a drastically adverse effect on the effective functioning of the Union. Divided societies are the fertile ground on which extremists and authoritarian populists thrive. It is the basis upon which they can develop an ‘us versus them’ logic which undermines societal cohesion. Polarisation is part of their political DNA: they are dividers who actively oppose the notion of a pluralist society, portraying themselves as the champions and defenders of the ‘ordinary pure people’ against the ‘corrupt elite’. They want to establish ‘homogeneous’ societies and revert to ‘national actions’ to protect ‘their people’, although this makes no sense in a world that has long outstripped the confines of closed national frontiers.

To fight the danger of a more [regressive, nationalistic, closed, illiberal and authoritarian Europe](#), the EU should address the fundamental factors fuelling this

threat. EU policies and the next MFF should be guided by an ambition to help reduce the dividing lines between the (potential) ‘winners and losers’ of change in an age of massive transformation in all spheres of economic, social and political life. They should address the multiple insecurities felt by citizens: (i) **socio-economic insecurities and rising inequalities**, with a growing number of people doubting that the economic benefits of globalisation are equally shared and believing they benefit only some privileged ranks of society; (ii) **cultural and societal insecurities**, with a growing number of people fearing that traditional values, norms and benefits are being eroded, prompting concerns about identity even among people who do not feel the negative economic consequences of globalisation; (iii) **generational insecurities**, with a widening gap between generations in terms of current wealth and future prospects as many young Europeans feel doomed to be part of a ‘lost generation’; (iv) **technological insecurities**, with large segments of society feeling that they are being left behind by technological developments and disruptions which they see as a risk rather than an opportunity from which they can profit in their personal and professional lives; and (v) **security insecurities** linked to both internal and external security threats related to terrorism, organized crime, regional instabilities and increasing geopolitical tensions.

The strategic priorities for the EU’s 2019-2024 politico-institutional cycle need to reflect these multiple insecurities to counter the polarisation at member state level, which is playing into the hands of all those who want to push our societies in a different direction.

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At the same time, it must be remembered that the means to counter the insecurities mentioned above lie predominantly at national level. It is thus primarily the responsibility of national actors to address them. The EU has a role to play, given the transnational character of the challenges facing Europe, but the Union’s next leadership team should also be careful not to overburden the European level, given the limits on its powers and financial means, to avoid falling into a ‘capability-expectations trap’. The EU can provide added value in crucial areas, but it cannot compensate for deficiencies at national level, and it cannot, on its own, solve today’s complex problems. The old narrative that what cannot be solved at national level must be tackled at the European level needs to be refined, as this asks too much of an EU whose competences and powers remain constrained.

In the coming politico-institutional cycle, the Union should thus concentrate on initiatives in areas where it can make a tangible difference. This ‘delivery filter’ should be used to scrutinise all new EU initiatives. It is not about ‘less Europe’, but rather about a more effective, realistic and credible EU. ‘Gesture politics’ – measures designed merely to show the Union is doing something – should be avoided, as a failure to deliver raises valid criticism of the Union.

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- ▶ **More differentiation but no ‘core Europe’:** Progress at EU level will also require a higher level of differentiated integration in the next politico-institutional cycle. Diverse groups of member states will have to intensify cooperation in specific policy fields to move beyond the lowest common denominator. Cooperation in defence (within the framework of PESCO) or certain aspects of migration management will not always involve all EU countries. Similarly, further boosting the resilience of the euro will require deeper cooperation and integration among the countries that have already joined the common currency.
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Multiple speeds should be the exception, unity the rule. Higher levels of differentiated integration should not lead to the creation of a closed ‘core Europe’ (Kerneuropa)

However, multiple speeds should be the exception, unity the rule. Higher levels of differentiated integration should not lead to the creation of a

closed ‘core Europe’ (*Kerneuropa*) involving only a limited number of EU countries and actively excluding others. The establishment of an institutionalised ‘two-tier’ Europe with diverse classes of membership is neither likely nor desirable. It should not be the guiding principle steering the way towards a more differentiated Europe. It could fuel a deep rift in Europe between those who are part of the core and those who are not. For good reasons, differentiated integration has not, in the past, led to an institutionalised core, i.e. a small, coherent group of countries forming an exclusive avant-garde and distinguishing themselves from other member states.

Differentiation has been, is and will remain an indispensable feature of the European construction. At times, variable geometry is the only way forward. However, a higher level of differentiated integration is no magic potion and should not be considered an end in itself. It should instead be guided by functional and pragmatic needs, and the willingness of some to progress in specific areas to overcome stalemates in a bigger, more heterogeneous and more complex EU.

A higher level of differentiated integration is no magic potion and should not be considered an end in itself

Europe’s future will to a large extent depend on the ability of the European Union – including both its institutions and member states – to counter the sources of fragmentation and polarisation which haunt it. That is why the Union’s new leadership should follow a shared Leitmotif aimed at ‘Re-uniting Europe’ at both the European and the national level – for the sake of current and future generations.

To counter the sources of fragmentation and polarisation, the Union’s new leadership should follow a shared Leitmotif aimed at ‘Re-uniting Europe’ for the sake of current and future generations.

MISSION STATEMENT

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