



# Future EU reform

## Paper from the CPMR General Secretariat

### 1. Introduction

The results of the UK European Union Membership referendum on 23 June triggered a deep reflection on the European Union's legitimacy, goals and very 'raison d'être'. The outcome of the vote against the European Union from one of its largest Members revealed pre-existing weaknesses in the European project which had been firefighting a number of significant crisis for years. It also uncovered profound divisions across leaders from European institutions and Member States regarding future EU reform.

As a think tank for European integration and as an organisation serving the interests of peripheral and maritime Regions, the Conference of Peripheral Maritime Regions is taking part in the reflection to reform the European project. The CPMR 44<sup>th</sup> General Assembly in Ponta Delgada (Azores) will be the occasion to launch a reflection process for the CPMR and its Members.

**The purpose of this paper is to serve as a basis for discussion during the debate organised on 4 November.**

This paper starts off by examining the reasons as to why the European project has been called into question (Section 2). It then explores the key issues for future EU reform (Section 3). Finally, it suggests a number of questions to help steer the debate organised on 4<sup>th</sup> November at the CPMR General Assembly (Section 4).

### 2. The European project called into question

As the remainder of this paper will point out, there are significant differences of opinion as to how the EU should move forward following the outcome of the 'Brexit' vote in June. Despite this, there is a large consensus across EU Member States that the 'do-nothing' option is neither desirable nor realistic.

Before examining the key challenges facing European Union reform, this paper summarises the many aspects of the existential crisis the European project is now faced with.

## 2.1. Dwindling economic, social and territorial cohesion

The ambition of the founding fathers of the European Union to reinforce economic, social and (and territorial (since the advent of the Lisbon Treaty in 2009) cohesion has been superseded by **a new reality of fragmentation and division** across EU Member States.

There is a wide body of evidence suggesting that economic, social and territorial disparities have widened since the 2008 financial and economic crisis. Countries which have most been hit by the effects of the crisis (Mediterranean countries in particular) suffer from consistently high rates of unemployment, low growth rates and relatively high levels of debts. There is also significant evidence suggesting that regional disparities within EU Member States have considerably widened in recent years<sup>1</sup>.

The rise of disparities in Europe has many consequences. First of all, it fuels resentment against the European project which is seen as the chief culprit for causing economic and social grief. Secondly, it poses a number of questions regarding the European Union's ability to tackle the rise of disparities effectively, and crucially, creates divisions across Member States regarding European (or lack, thereof) solutions to solve these issues. Thirdly, it fosters divisions in the Council between net contributors and net beneficiaries, and since the 2008 financial and economic crisis, divisions between debtors (recipients of the bailout programmes, which included Ireland, Cyprus, Portugal and Greece), and creditors.

## 2.2. Lack of solidarity and trust

Divisions across EU countries to agree on solutions at European level to tackle a common issue reflects **a general lack of trust and solidarity, both between countries but also towards the European Union**. This applies to reforms to economic governance in Europe for instance: some countries are keen to reinforce European measures to ensure that all EU Member States push through significant (and sometimes painful) structural reforms, whereas others call on additional flexibility with regards to the Stability and Growth Pact and for more solidarity within the EU.

There is a good recent example of this underlying lack of solidarity across the EU at national level. The failure of the Commission migration relocation scheme, with less than 4% of the Commission target of 160,000 migrants having been relocated, reveals stark divisions between countries and a lack of a unified vision as to how Europe should deal with one of its most significant social crises in recent years. This is significant for peripheral and maritime regions which have shown much more solidarity on this topic, despite their limited or lack of competence on migration and refugee issues.

From the point of view of European citizens, there is a considerable **lack of clarity regarding the balance of competences between the EU and Member States**, particularly since the start of the 2008 financial and economic crisis, and a feeble understanding of the real extent of the powers of the European Commission compared to those held at national level. A good example is the negotiations

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<sup>1</sup> [http://crpm.org/pub/docs/465\\_post-2020\\_cohesionpolicy\\_06-2016.pdf](http://crpm.org/pub/docs/465_post-2020_cohesionpolicy_06-2016.pdf)

over the EU Budget (MFF), which are purely driven by national interests, despite an overall perception that the Commission is in the driving seat.

### 2.3. Rise of ‘intergovernmentalism’

European solutions to recent crisis - such as the reinforcement of European economic governance as a response to the 2008 financial crisis – have tended to come from the Council. More accurately, the balance of power in the European Union seems to have tilted strongly towards Germany in an institutional system which some have termed ‘unbalanced intergovernmentalism’<sup>2</sup>.

This is also leading the European project to be less of a supranational entity protecting common European values, and **more about compounding interests from EU Member States’ national governments, particularly those that are net contributors to the EU Budget.**

The ‘Brexit’ is likely to aggravate such a trend. A statement released by the Visegrad<sup>3</sup> group shortly after the outcome of the vote clearly calls for EU competences to be transferred back at national level<sup>4</sup>. This view is shared by influential German Finance Minister Wolfgang Schäuble, who declared "this is not the time for visions; if the Commission doesn’t work with us we ourselves will take things in hand."<sup>5</sup>

### 2.4. The European Union as a convenient scapegoat

One of the main root causes of EU’s existential crisis today is the **blame game Member States have been playing with the European Union for years**. This is best put by Martin Schulz in a recent interview<sup>6</sup> when he states that following European summit meetings, ‘every head of government holds his or her own press conference. They all say the same thing, in 24 languages: I was able to push through my agenda. And if the result is anything other than what they desired, the message is: Brussels is to blame.’

There often is a disconnect between the objectives of European policies as set in the EU treaty and the resources allocated to achieving them. A good example is Cohesion policy, which with a budget of less than 0.3% of the GDP of all EU Member States combined, is tasked to reduce regional disparities and serve as an investment policy for the whole of the European Union. At national level, this inevitably means that any economic or social ‘success’ is always a national one, and failures are usually blamed on the European Union.

There is also a **wider issue of implementation of European legislation**. Many examples exist of decisions having been made collectively at European level and little or no implementation of such decisions at national level. One such example is the relative failure of the implementation of the country specific recommendations issued on a yearly basis<sup>7</sup>, which reflects an obvious limitation of EU decision making which relies fully on Member States for implementation.

<sup>2</sup> [http://www.epc.eu/documents/uploads/pub\\_7020\\_countering.pdf](http://www.epc.eu/documents/uploads/pub_7020_countering.pdf)

<sup>3</sup> The Visegrad is an alliance comprised of Poland, Hungary, Slovakia and the Czech Republic

<sup>4</sup> <http://www.visegradgroup.eu/calendar/2016/joint-statement-of-the-160629>

<sup>5</sup> <https://www.cer.org.uk/publications/archive/bulletin-article/2016/how-brexit-changing-eu>

<sup>6</sup> <http://www.spiegel.de/international/europe/interview-with-jean-claude-juncker-and-martin-schulz-a-1102110.html>

<sup>7</sup> <http://bruegel.org/2016/06/implementation-of-european-semester-recommendations-worsens-further/>

## 2.5. The European Union as a ‘distant and elitist project’

The rise of Eurosceptic parties nationally and in the European Parliament reflects a raising awareness of the impact of the European Union on the daily lives of citizens and **a perception of a distant and unfathomably complex system that operates independently from national governments.**

Recent demonstrations against the TTIP also reveal a lack of trust in the ability for the European Union to protect European citizens from the **pressures of globalisation**. Austerity measures are often seen as imposed by the EU on its citizens, which does nothing but alienate European citizens from the European project. Local and regional authorities, which are directly in touch with European citizens, are also facing Euroscepticism on a daily basis.

## 3. The many faces of Europe’s challenges

The first European summit to openly tackle the issue of post-Brexit EU reform was held in Bratislava in September, launching a process known as ‘the Bratislava process’ which intends on rebuilding bridges between EU Member States on European policies and challenges. The real outcome was more façade than a real step forward, though EU Leaders did commit to offering European citizens ‘a vision of an attractive EU they can trust and support’.

The summit offered little in the way of genuine answers to Europe’s many crisis and challenges. The main ones are listed below.

### 3.1. Addressing ‘Brexit’

The most pressing and significant issue facing the European Union is addressing the challenge of the possible withdrawal of the UK from the EU.

Immediate reactions after the results of the vote were known in the early hours of Friday 24 June and were as diverse as the scale of the shock perceived in European capitals. A group of countries (including Germany) clearly favour creating as close a partnership as possible. Others (such as France), driven by need to avoid the EU losing more Members, would prefer membership exit terms to be unfavourable to the UK.

The **deep divisions within the UK** regarding membership of the European Union are an issue too. Scotland could well declare a second public referendum on Scottish independence, depending on the outcome of the terms negotiated by the UK to exit the European Union. The independence of Scotland would have consequences for other nations and regions in Europe with secessionist tendencies.

Some commentators also lament **the consequences of ‘Brexit’ on the capacity of the European Union institutions to deal with more pressing issues and challenges**. The complexity and the length of the upcoming negotiations – which former UK Foreign Secretary Phillip Hammond said could take 6 years - will take up significant human and budgetary resources.

The nature of the terms agreed between the UK and the EU will also determine the impact of Brexit on the EU budget. In 2014, the UK contribution to the EU budget was 19% of the total net contributions to the EU<sup>8</sup>, a considerable share. But others argue that regardless of the UK's future relationship with the European Union, the impact of the 'Brexit' on the EU budget will be 'non catastrophic'<sup>9</sup>. The argument is that the UK will either have to contribute to the EU budget if it wants to gain access to the Single Market, or alternatively tariff revenues will largely make up for the loss of the UK contribution if the UK decides to remain outside the Single Market.

## STATE OF PLAY ON 'BREXIT'

It is impossible to predict the outcome of the 'Brexit' vote at this stage as there are too many factors in play. UK Prime Minister Theresa May recently announced that Article 50 should be activated in Spring 2017, which would trigger the exit process of the UK from the European Union.

**Deep divisions exist within the UK Government** regarding the nature of the relationship the UK should have with the EU, causing impatience and frustration with other EU Leaders, as shown by President of the European Council who recently stated that 'the only real alternative to a hard Brexit is no Brexit'. The variety of interests of the different regions and nations in the United Kingdom regarding Brexit is also an issue.

### 3.2. Resolving the financial and economic crisis

There are many who believe that the most pressing challenge for the European Union to resolve is to reform the European Monetary Union. This is the view supported in the project "Repair and Prepare: Strengthen the Euro"<sup>10</sup> of the Bertelsmann Stiftung and the Jacques Delors Institut, which strongly supports a consolidation of the European Monetary Union.

The project argues that the European Union has responded to the 2008 economic and financial crisis by **implementing a series of 'firefighting' measures**. These included the infamous 'Two Pack' and the 'Six Pack' to reinforce the EU economic governance, but also interventions from the European Central Bank to reduce deflationary risks in the euro area, amongst many other measures which fall outside the scope of this paper.

Frictions between EU Member States regarding the completion of the European Monetary Union existed long before the 2008 financial crisis. These frictions became clear during the Greek government debt crisis, initially opposing Member States advocating for strong compliance measures (led by Germany) and those calling for flexibility in the name of European solidarity. This lack of unity - and consistency - about the enforcement of the European Monetary Union and the application of

<sup>8</sup> <https://www.ceps.eu/system/files/NWatch126.pdf>

<sup>9</sup> <https://www.ceps.eu/publications/impact-brexit-eu-budget-non-catastrophic-event>

<sup>10</sup> <http://www.institutdelors.eu/media/repair-and-prepare-growth-and-the-euro-after-brexit.pdf?pdf=ok>

the Stability and Growth Pact can be seen today with the probable suspension of ESI funds in Spain and Portugal as foreseen under the macroeconomic conditionality procedure, whereas Germany is being criticised by the Commission for a running high export surplus<sup>11</sup>.

Despite economic growth slowly taking off since the beginning of the crisis, **strong differences remain across Member States with many experiencing high levels of (youth) unemployment**. Reforms are underway (Five Presidents report) and are one of the European Commission's main priorities, but progress has been slow.

Some are pushing for ways to preserve the foundations of the European Social Model<sup>12</sup> and for developing a true European unemployment benefit scheme<sup>13</sup>, which are likely to be proposed by a number of EU Member States in the context of EU reform.

While much has been reformed at European level in the way of pushing Member States to implement 'sound economic and financial management', **many have lamented the timid European effort to relaunch investment**. The European Investment Plan, with its promised €315 billion of financing for strategic projects across Europe, has been criticised on the grounds of not financing 'additional' projects<sup>14</sup> and for superseding Cohesion Policy as the EU investment policy by the CPMR.

## STATE OF PLAY ON ECONOMIC AND SOCIAL REFORMS

The vulnerability of the euro and imbalanced economic growth call for significant reforms of the European Monetary Union, which includes the need to reinforce the social dimension of the EMU. One of the key issues to address is **'bridging the gap' between Member States which favour strong compliance of EU rule** and punishment mechanisms via the 'corrective arm' of EU economic governance, **and those calling for more flexibility regarding the Stability and Growth Pact** and more emphasis on investment.

Another divisive issue is that of **creating a separate budget for Eurozone Members**, which would no doubt lead to a 'two-speed Europe' or a 'Europe à la carte'.

Solidarity and social mechanisms for the Euro area **to reinforce the European Social Model** are also on the agenda.

Question marks surround the **future of the EU investment strategy** to follow-up or replace existing policies and the EU 2020 strategy. A key question of particular relevance for peripheral and maritime regions is how the EU will deal with stimulating investment in the future, and whether grants still have a place given the rise to prominence of financial instruments as the preferred EU mechanism.

<sup>11</sup> [http://ec.europa.eu/europe2020/pdf/csr2016/csr2016\\_germany\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2016/csr2016_germany_en.pdf)

<sup>12</sup> <http://www.institutdelors.eu/media/newstartsocialeurope-rinaldi-jdi-feb16.pdf?pdf=ok>

<sup>13</sup> <http://www.institutdelors.eu/media/cyclicalstabilisation-spath-jdib-june16.pdf?pdf=ok>

<sup>14</sup> <http://bruegel.org/2016/06/the-juncker-plan-needs-to-be-turned-on-its-head/>

### 3.3. Reaching a common position on migration and refugees

**The most dividing political issue across EU Member States today is without doubt the migration and refugee crisis.** Since summer 2015, about 1.3 million people have entered the EU and despite some efforts at European level (such as the Commission migrant relocation scheme), there still is no common EU migration and asylum policy. Recent developments have included a controversial deal with Turkey in March 2016 which some have described as Europe trading off its reputation as an upholder of human rights against measure to reduce the number of migrants and refugees setting foot on European soil<sup>15</sup>. This was followed by reinforced cooperation with third countries in Africa in June 2016. The creation of a European Border and Coast Guard and an ‘external’ Investment Plan for Europe in September 2016 are other notable developments.

A number of Member States, led by the Visegrad Group, argue that Europe should protect itself from high numbers of people reaching the continent, and are therefore unwilling to accept the idea of a compulsory scheme to take in migrants domestically. For other countries, Europe has a moral, humanitarian, and a historical duty to help those in need of refuge. The migrant and refugee crisis also took a huge toll on the **notion of free movement of people** and the Schengen area, with many Member States (Germany, Austria, Denmark...) introducing controls to protect their own national borders.

#### STATE OF PLAY ON MIGRATION AND REFUGEE CRISIS

Timid steps to develop a common response to migration at European level are dwarfed by **divisions between Member States on this issue**. The migrant and refugee crisis has considerably fuelled the **rise of xenophobia** and extreme right wing parties in a majority of EU Member States, many of which are challenging mainstream political parties.

Discussions are also ongoing as **to how migration challenges should be dealt with at European level**, and under which policy (via Cohesion policy or another standalone instrument).

### 3.4. Redefining Europe’s place in the world and its relationship with neighbours

Another significant challenge to address for EU reformers is redefining Europe’s position at geopolitical level. The likely exit of the UK from the European Union has no doubt **weakened the clout of the European Union as a global player** and is likely to influence negatively the future waves of EU enlargement.

In many ways, the EU was far from being a cohesive geopolitical player when the results of the UK EU referendum came through on 23 June. According to experts, the variety of interests and ‘different

<sup>15</sup> <http://www.economist.com/news/europe/21699466-eu-gambling-its-reputation-secure-its-borders-europes-murky-deal-turkey>



historical, cultural and political experiences and ties between Moscow and individual member states'<sup>16</sup> largely explain the EU's struggle to respond to the Ukraine crisis.

On the short term, the weakening of the European Union as a 'soft power' is likely to lead to a **loss influence in Europe's immediate Eastern vicinity**, namely Moldova, Georgia and Ukraine. On the longer term, the consequence of 'Brexit' could call into question the 'political rationale and attractiveness of democratic transition and the Europeanisation process'<sup>17</sup> in these three countries. Despite Frederica Mogherini's efforts, the EU still has no common Foreign Policy, as demonstrated by the "Normandy Format"<sup>18</sup>, only gathering Russia, France, Germany and Ukraine.

With regards to EU enlargement and in particular the European integration of the South-Eastern European countries, despite initial declarations from leaders from Albania, Serbia, Bosnia, the former Yugoslav Republic of Macedonia, and Montenegro confirming their commitment to Europe<sup>19</sup>, there are **concerns regarding the enlargement losing political momentum** given the UK's historical position as a key driver of the EU enlargement process (together with Germany)<sup>20</sup>.

There seems to be more of an appetite **for efforts on reinforcing cooperation on defence and security issues**, with recent statements suggesting that a consensus could be reached in this area. Experts agree that a consequence of the Brexit is already leading to plans for pooling and sharing of defence capabilities in Europe. A joint paper issued by French and German Foreign Affairs Ministers, Jean Marc Ayrault and Frank Walter Steinmeier suggests the creation of a European Security Compact<sup>21</sup>. Leaders from both Hungary and Poland have also both supported the idea of developing a fully-fledged European army. These developments also throw up the possibilities of extending the 'Europe à la carte'

## STATE OF PLAY ON EUROPE'S PLACE IN THE WORLD

The effects of the 'Brexit' are undeniably **negative on the EU's global standing and soft power status** and its capabilities to play a greater role on global security issues. However, there is **scope to reinforce cooperation on defence and security**, with plans to discuss practical options at a forthcoming European Council meeting in December 2016<sup>1</sup>.

There are questions marks about the future of EU's relationship with NATO, with some suggesting that increasing cooperation between the two institutions is needed to manage crisis in Europe's neighbourhoods<sup>1</sup>.

<sup>16</sup> [http://www.epc.eu/documents/uploads/pub\\_7020\\_countering.pdf](http://www.epc.eu/documents/uploads/pub_7020_countering.pdf)

<sup>17</sup> <http://www.martenscentre.eu/blog/brexit-five-ways-it-might-affect-eastern-partnership-countries>

<sup>18</sup> <https://dgap.org/en/think-tank/publications/further-publications/ukraine-russia-and-eu>

<sup>19</sup> <http://www.balcanicaucaso.org/eng/All-the-news/Brexit-the-consequences-for-the-EU-enlargement-172406>

<sup>20</sup> <https://freedomhouse.org/report/special-reports/ever-farther-union-balkans-and-brexit#.WASRmMmHe3S>

<sup>21</sup> <http://www.voltairenet.org/article192564.html>



### 3.5. Defining a EU Budget for the post-2020 period

It is impossible to single out discussions on future EU reform from the debate on the future of the European Union multiannual financial framework (MFF) for the post-2020 period. The debate on the future of the European Union officially started in earnest on 14 September 2016 with the publication of the mid-term review of the MFF.

There is no doubt that the mid-term review of the MFF exercise heralds **a change of direction in the way the European Union should address existing and new priorities**. By acknowledging the need to assess ‘the effectiveness of existing approaches in areas such as Cohesion policy and the Common Agricultural Policy’ and lamenting delays in the implementation of Cohesion Policy programmes, the Commission clearly is **putting under question both the shared management principle** (a central principle governing ESI funds and dear to CPMR Member Regions) and revisiting existing EU budget lines substantially.

The ‘net balance approach’ dominating EU budget negotiations – where Member States’ positions are largely guided by a ‘*juste retour*’ logic every seven years - has been widely documented. The authors of the key external report for the High-Level Group on Own Resources chaired by Mario Monti argue that ‘the entrenched mentality on EU budget expenditures and the ‘net balancing’ of resources needs to change’ if real reform is to be achieved<sup>22</sup>.

The above-mentioned report’s key conclusions and recommendations are worth quoting here:

- The EU budget has evolved considerably in recent years with budget headings largely focusing on **areas of European added-value**. This concerns the Common Agricultural Policy and Cohesion Policy for instance
- There is **no easy or optimal solution to replace or complement the current EU Budget resources**, among the other options considered in the report which are as value added tax (VAT), corporate income tax (CIT), the FTT and options for carbon levies
- The EU is **under pressure for intervening in areas which are not at present covered by the EU Budget**, such as defence and migration
- The EU budget for 2014 – 2020 has faced unprecedented crisis which has stretched the capabilities of the MFF to its very limits. There is case to be made for more flexibility within the EU budget and a **‘crisis reserve’ could be envisaged in the future**

<sup>22</sup> [http://ec.europa.eu/budget/mff/hlgor/library/highlights/hlgor-studies-external-studyonfinancingofeu-budget-june-2016\\_en.pdf](http://ec.europa.eu/budget/mff/hlgor/library/highlights/hlgor-studies-external-studyonfinancingofeu-budget-june-2016_en.pdf)

## STATE OF PLAY ON FUTURE OF THE EU BUDGET

Proposals for the future of the European Union MFF for the post-2020 period are expected to be published early in 2018. Until then, there will be **considerable debate within the EU institutions as to how the EU budget should evolve** to address new priorities (on defence, security, migration...) whilst supporting existing priorities.

The European Parliament has also signalled its interest to shorten the lifespan of the MFF to five years.

## 4. CPMR issues and questions for debate

### 4.1. What about CPMR issues?

The extensive literature review described in Section 3 of this Paper does not claim to be exhaustive. Rather worryingly, there is little evidence to suggest that the key concerns expressed by the CPMR with regards to future EU policy development and institutional setup will feature highly on the agenda of 'reformers' of the European Union project.

These concerns include:

- a recognition of the roles that Regions play as full actors of the European integration process in their own right
- the need for EU policies to be designed in the respect of territorial, economic and social cohesion, and for EU investment to be targeting balanced territorial development

The CPMR needs to address these issues together with those mentioned under Section 3.

### 4.2. Questions for debate

- **European needs:**
  - what does Europe need?
  - are the current priorities the right ones?
  - are there any new priorities that should be strengthened at European level (foreign affairs, defence, migration, fight against terrorism...)?
  - do we need new policies or adapt the current ones (such as the Common Agricultural Policy)?
  - if we are moving towards a two-speed Europe, what about the solidarity principle?

- **EU competences:**
  - which competences at European level?
  - is the balance of competences between EU institutions and Member States the right one (intergovernmental vs supranational)?
- **Role of regions:**
  - what should be the role and place of regions in the European project?
  - how should the EU project accommodate regions which want to be independent from their respective country?
- **European growth and social model:**
  - how do we preserve the European Social Model?
  - how should growth and jobs be stimulated at European level?
  - should the Stability and Growth pact be more flexible?
- **Investment and innovation:**
  - how should investment and innovation be supported at European level?
  - is a European approach based on financial instruments the right approach?
  - how do European policies contribute to both supporting investment and territorial cohesion?
- **Link with European citizens:**
  - how can Europe reconnect with its citizens?
  - what practical steps should the EU undertake to address Euroscepticism?
  - what can we learn from the 'Brexit'?
- **Globalisation and Europe's neighbours**
  - how should Europe deal with its neighbours and globalisation?
  - where should the EU borders be in the future?
  - how could these borders be changed into areas of cooperation and partnership?
  - how can Europe address those that have lost out from globalisation?



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**The Conference of Peripheral Maritime Regions (CPMR) brings together some 160 Regions from 25 States from the European Union and beyond.**

Representing about 200 million people, the CPMR campaigns in favour of a more balanced development of the European territory.

It operates both as a think tank and as a lobby group for Regions. It focuses mainly on social, economic and territorial cohesion, maritime policies and accessibility.

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