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THE EUROPEAN UNION AND THE CHALLENGES AHEAD: PROSPECTS AND TRENDS

by Luigi Mattiolo

Wondering wherever the EU is going basically means verifying the capability of the Union to face the current global challenges and crisis and to protect its citizens and safeguard their security in its widest reading: non only political or defence, but also social and economic. As you know, Jean Monnet used to stress how Europe would develop through crisis and would result in the sum of solutions found to them. I deem it is still valid what Monnet said in 1974: “Obviously, the problems we must solve nowadays are different from those ones of the Fifties. Yet the method remains the same: to transfer power to common institutions, majority vote and a common approach to seek solutions to problems, are the only possible answer”.

Starting from these assumptions we can understand better the notorious statement by Jacques Delors “Europe is like a bike: if you don’t ride it, you fall down”.

In the ‘80s and the ‘90s years of last century the European Union pursued and intensified the integration process through a progressive finetuning of its legal basis, the Treaties, from Schengen in 1985 (free movement of people, in addition to goods and services) to Maastricht (1993, conducive to the Monetary Union), and Lisbon (2007) which had the merit to boost the integration on fields like Foreign and Security Policy; Defence; external representation of the Union; solidarity among Member States in case of attack; as well as to establish new institutional

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figures, like the President of the European Council, and to expand significantly the co-decision mechanism with the European Parliament to new sectors of integration (as fishery and agriculture, visa and asylum policies, legal immigration, structural funds, judicial cooperation).

In parallel, the EU pursued its Enlargement policy with the accession of eighteen member States between 1986 (Spain and Portugal) and 2013 (Croatia).

Through the years the EU faced a long sequence of crisis and changes - just to recall some of them - the two energy shocks in the '70s, the German reunification, the Balkan wars, the attack against the US on September 11, the international financial crisis started in 2008, the dramatic increase in the migration flows from Africa, Middle East and Asia, as well the Brexit.

The need for the EU to take firm and quick decisions to react promptly and adequately to such course of events resulted into a decisive strengthening of the position, the role and the functions of the European Council so expanding enormously the responsibilities of Heads of State and Government within the framework of the traditional EU decision-making process. Evidence of such evolution is the increasing role of the so-called "Sherpas" (on the example of G7 and G20 models) in the preparation of the European Council discussions.

The outbreak of the COVID-19 pandemic and the Russian aggression on Ukraine differ profoundly from all the other crisis the EU had to face in the past. Their unprecedented nature and global impact have been full of implications which have boosted the "transformative" potential of those emergencies so that we could see them as a confirmation of our starting assumptions. But, even more important, we can draw lessons suitable for application on a wide range of issues.

In the face of asymmetric shocks for the European economies (in the first case, since COVID-19 has affected EU Member States with different impact and timing; in the second one, given the diversified degree of dependence from the Russian gas) EU Governments have (gradually) shared the need for a collective response, at the EU level, as the only one capable to ensure effectiveness from a political, social and economic perspective. This reaction has contributed to counter the narrative claiming that EU used doing too little, too late in a crisis.

Therefore, instead of national solutions what has prevailed is the recourse to EU common instruments (Next Generation EU at the European

Council of July 2020; joint purchase of vaccines, coordinated by the European Commission) and to decisions adopted by consensus (several sanctions packages against Russia; military support to Ukraine, welcoming of thousands of Ukrainian refugees through the activation of a Directive on Temporary Protection).

Both cases showed clearly to what extent priority targets, as the European stability and security, public health, economic growth, defence, energy supply, imply the need for European joint endeavours and common resources (which is true also for Member States provided with major fiscal spaces).

Now the question is whether this awareness is gaining (or rather losing) ground in the political debate on the future development of the Union. To start such an analysis one could examine to what extent the EU is capable to take into due consideration its previous experiences when tackling - among the many issues on the table - two of them on which I would like to draw your attention:

- the migration crisis (which is under everybody's eyes)
- and the urgent need to agree on a reform of the Pact for Stability and Growth (let us not forget the second element)

1. *Migration*

The discussion at the last June European Council has showed an increasing consensus among Member States on the need to pursue the so-called external dimension of migration to counter irregular flows towards Europe by developing partnerships between the EU and the Countries of origin and transit. The target is to tackle the deep causes of migration flows, to fight against the human being traffickers as well as to path the way for an increase of legal migration towards Europe. Such a result is also due to the consistent commitment of Italy in the last years as well as to the constructive engagement of the European Commission.

The joint visit of PM Meloni and Rutte together with President von der Leyen to Tunis (11 June 2023) is plastic evidence of what von der Leyen often defines as "team Europe", in other words the coordination of national and European initiatives aimed at a common goal.

We came down a long way since when - in the face of the first tragedies in the Mediterranean and their appalling death toll - Italy started striving to demonstrate how the Dublin agreement (signed in 1990 and entered into force in 1997) was inadequate to cope with an unprecedented scale of migration involving thousands of people, most of which not necessarily eligible to asylum, but rather pushed by their economic and social condition.

Furthermore, one should recall that the emphasis on the responsibility of the "first entry Country" (a peculiar aspect of Dublin Agreement) is due to the specific characteristics of asylum-seekers who privilege one European country or another depending on the kind of threats and/or discrimination they suffer at home (for instance, in 1973 hundreds of refugees gathered inside the Italian Embassy in Santiago knew they could rely on the Italian Government's help). So, the Dublin approach does not respond at all to the current situation in which a limited number of Member States, geographically located along the main routes of migration, represent the "door to Europe" for hundred thousand of persons who aim indeed to settle elsewhere in Europe.

The dimension of the migration flows is dramatically increasing (after a drop during the COVID-19 pandemic) and recent natural disasters in Morocco and Libya can only worsen the situation. According to data available at the end of last September, more the 130.000 migrants arrived in Italy (with an 83% increase over last year) and around a total of 60.000 in Spain, Cyprus, Malta and Greece.

As for Italy, Tunisia is emerging as the first Country of provenance of migrants. According to data available so far, arrivals from Tunisia increased by more than 800% with respect to 2022. About 30.000 irregular migrants against more the 3.000 last year. Lately a decreasing portion of them are Tunisian nationals.

This is due to the exemption from Tunisian visa for the citizens of many Sub-Saharan countries and the activity of criminal organisation based in those countries. This shows the need to develop the external dimension of the EU migration policy through a mix of repatriation agreements and supply of training and assets necessary to monitor borders in Sahel and to fight against human being traffickers.

Such an approach imposes to strengthen the links between the EU and African countries, to develop new instruments for financial and technical assistance to them, to transfer technology and know-how in the field of crime repression and prevention and to foster an economic development able to tackle the deep causes of migration, starting from sectors like sustainable agriculture and renewable energy production.

This is not an easy task as the most recent attitude by the Tunisian authorities shows clearly. Nevertheless, it is necessary to pursue dialogue and moral suasion with all possible means.

On this ground, it is remarkable the decision taken by the G20 members at their last Summit in Delhi to invite the African Union on a permanent basis. This gesture goes far beyond a protocol matter or a lip-service, but it is the final step of a process that was initiated by previous G20 Presidencies (including the Italian one in 2021) and was strongly supported by the European Union as such.

This effort needs important financial resources and a negotiating weight that no Member State can provide alone. A European response is the only solution. In fact, the last European Council has decided to look for adequate resources while revising the current Multiannual Financial Framework, *i.e.*, the EU budget for the period 2021-2027. To that end, the European Commission envisages to allocate 15 billion Euro.

Furthermore, repatriation agreements should be gradually established linking them to the conclusion or the renewal of the EU Cooperation and/or Association Agreements with the countries of transit and origin of migrants. Methodologically the example of the traditional "human rights clauses" can be of help.

As far as the so-called internal dimension of migration is concerned, the current state of negotiations is not equally promising. At the last European Council, Hungary and Poland tried to reopen the debate on the conclusions already agreed at the level of Interior Ministers on the distribution of migrants among member States regardless of the country on entry of them, despite (as we said commenting on Lisbon Treaty) the matter is eligible for Qualified Majority Vote although so far EU Governments preferred to pursue a more consensual approach.

So, at this stage the possibility to distribute migrants among Member States is limited to 25 of them and is implemented not without obstacles. The coordination role of the European Commission remains crucial to ensure a fair distribution and to push Member States to comply with their political commitments. In addition, we must consider that some Member States have already been hosting migrants who entered the EU territory years ago and applied for asylum elsewhere in Europe (often in the first entry country). In other words, in those Member States' perspective, welcoming new migrants should be matched with repatriation of the so-called "Dubliners" (this is a recurrent source of disagreement between Northern and Mediterranean members of the Union).

This is a very sensitive aspect affecting all the negotiations between Member States. Nevertheless, the latest decisions agreed upon by them to review the EU Regulations on migration is likely to mark an important step ahead (eventually, I would say). In fact, it is recognised that in situation of crisis (to be defined case by case) the normal mechanisms can be suspended, and a first form of mandatory redistribution has to be applied.

The future will show if this strategy that - we should not forget it - is perfectly in line with the founding principle of solidarity, as enshrined in the Treaty - would fly or not. We can be confident although we are aware of the delicate implications of migration issue on the internal policy in all Member States *(role of NGOs, protestant Churches)* at national and consequently European level. This implies that inevitably its implementation can be only gradual and incremental and a fair balance between solidarity (also when it will come to the budgetary resources) and responsibility will be essential.

2. *Pact for stability and growth*

The EU is currently engaged in the crucial negotiations on the revision of its economic governance. It is essential to conclude them by the end of the year so that new rules can be of application as soon as possible and to avert the automatic re-activation of the current Pact's clauses that were suspended by the European Commission as a first reaction to the COVID-19 emergency.

Although frankly speaking the so-called Maastricht rules were never implemented rigidly and blindly, nevertheless the mechanisms introduced to monitor the respect of parameters agreed upon by Members of the Eurozone (first and foremost 3 per cent of public deficit over the GNP and 60 per cent of public debt stock over the time), their application (as today all economic experts admit) proved to be harmfully pro-cyclical during the global financial crisis ignited by the Lehman Brothers bankruptcy in the US in 2008.

Last 26th April, Vice Presidente Dombrovskis and Commissioner Gentiloni presented a legislative package to update the EU economic governance. The basic objective of this package mirrors the lines of a previous Communication by the European Commission (November 2022): a more balanced link between national "ownership" and debt sustainability through the establishment of

I) a new set of budget rules for Member States;
II) a new instrument to monitor respect of the rules;
III) a new system to carry out the Macroeconomic Imbalance Procedure.

Since the beginning of negotiations, it has been clear that the already mentioned Maastricht parameters will remain unchanged.

At this stage, Member States seem to agree on the establishment of National Medium-Term Fiscal Structural Plans. They would be approved by the European Commission and the Council. They would envisage paths towards the public deficit reduction on a time span of four years, to be possibly extended up to seven years (if the Council so decides) in case of major investments in sectors of European interest (Green Deal, Strategic Compass). Some modifications of the national Plans would be allowed when there is a change of Government in the Member States concerned. In other words, in order to reconcile financial stability and economic growth the main benchmark to evaluate the implementation of national Plans would be the trajectory of public expenditure over the years.

It is worthy to underline that when drafting such Plans, Member States whose parameters exceed the mentioned parameters of 3 per cent and 60 per cent would adopt specific "technical trajectories" proposed by the European Commission, including a credible reduction of the public debt/GNP ratio, aimed to an adjustment of 0,5% every year.

The pre-defined and fixed nature of this target remains one of the most controversial points under discussion. In fact, in case of a crisis or in presence of a recession, the Governments of Member States concerned could be forced to implement measures which (once again) could proof to be pro-cyclical and aggravate instead of alleviate the economic crisis in their Countries.

In addition, the increase of public expenditure should remain below the economic growth rate all along the Plan duration (4 or 7 years).

On the other side, the possibility to activate national Safeguard Clause is also envisaged to allow a deviation from the path agreed upon.

Such measures must be justified by emergencies or unforeseeable events and agreed within the Council.

The existing rules to open and close the Excessive Deficit Procedures (EDP) should remain unchanged but would be of application *only* for Member States exceeding the parameter of 60 per cent of debt stock over the GNP. In the case of a serious economic recession, the European Commission and the Council could agree not to open the EDP.

Member States with a "substantial public debt challenge" (in 2022, Greece 171,3%; Italy 144,4%; Portugal 113,9%; Spain 113,2%; France 111,6%) in case of a relevant deviation from the agreed path for debt reduction would make *automatically* the object of a procedure for excessive debt. Furthermore, they would be obliged to present annual reports on the progress achieved (corroborated by the opinion of their national Court of Auditors or similar national bodies).

Given the incoming deadline of 31st December (when the General Safeguard Clause will come to an end), the only way to avert the re-entry into force of the old set of budgetary rules is to reach an agreement on the revision of economic governance by the end of this year and to launch immediately the Trilogue with the European Parliament to be concluded hopefully under the Belgian Presidency of the EU Council (that is in March , in time for the EP Plenary Session in May, the last one before the European elections of 6-9 June).

It goes without saying that such a negotiation proves to be extremely difficult for the Member States from the Mediterranean which - according to the Commission proposals - should adopt more intensive and demanding fiscal policies and risk to be minorized by a possible coalition of the well-known "frugal" Member States plus others with a solid budgetary situation (Baltic countries, Slovenia, Croatia, Czech Republic).

Italy has a primary interest to sustain the debate on the economic governance being among the Member States more exposed to the impact of an automatic application of the parameters that were agreed in Maastricht (in a totally different economic juncture). So, we have been stressing already in 2021, the need of launching an early reflection on this issue in the light of the promising approach adopted by the Union after the outbreak of COVID-19 pandemic and its widest repercussions.

To say the truth, the need to reform the EU's fiscal rules has been clear for a long time, to say the least because of their complexity and sometime obscurity. They ended up for limiting unduly the room for manoeuvre of national Governments in time of crisis and failed to provide incentives for prioritising key public spending and promoting public investments, with the partial exception of Member States with a major fiscal space.

This juncture is dangerous for the overall international position of the European Union when we should focus more decisively on how to cope with the impressive challenges ahead of us: climate and biodiversity crises; geopolitical tensions and military conflicts; digital and green transitions; development of credible European defence capability; safeguard of our technological sovereignty. The achievement of these goals entails big-scale investments in a number of sectors, based on a long-term European strategy capable to fill the gaps, reduce inequalities, strengthen the Single Market.

This effort must be joint, consistent and coordinated at European level. Obviously, it must be accompanied by credible endeavours to reduce the level of indebtedness. The way to do it cannot be an increase in taxation or more cuts in social expenditure, which already proved to curb the economic growth and depress the trust of businesses and households.

As the rules were not allowed to prevent our response to the pandemic, now they should not impede our capability to invest and contribute to the well-being of next generations in the long run.

Therefore, in the framework of the ongoing negotiations Italy aims at

- overcoming the approach "*one fits all*" through the adoption of diversified debt reduction Plans, calibrated on the national peculiarities and possibly simplified, also to flank the national efforts to accelerate development projects and curb red taping at central and local level;
- stressing the need to reconcile the path to reduce public debt with the need to boost growth by the ownership of reduction plans;
- underlining the need for common EU investments in the fields of environment, digital, defence and energy, even more in the face of the European Commission inclination to relax legislation on State aid so favouring inevitably the Member States that enjoy larger fiscal spaces.

One factor that makes negotiations on economic governance rather hard is the reluctance of some Member States (Germany at the first place, but not alone) to trust in the commitments taken by other partners characterised by a relevant degree of public indebtedness. Therefore, they push for the adoption of new rules which in fact tend to focus on structural financial weakness so to impose early strict monitoring and related limitations of sovereignty.

This explains and justify the stress put by many on the timely and scrupulous respect of trajectories and deadlines agreed upon by member States and the European Commission to implement Next Generation EU and the National Recovery and Resilience Plans.

Indeed, a consistent and effective implementation of what we call in Italy PNRR entails - among others - the adoption of several structural reforms (judiciary and competition, for instance), the speeding-up of public tender procedures, the improving of local governance, full transparency in the use of funds, compliance with planning and timetables.

By consequence, it is more than natural that the implementation of Next Generation EU in all Member States (starting from Italy that is its major beneficiary) it will be a test-case capable to orient and condition any debate on the future of the European Union, including the prospects of the Fiscal Union, that remains one of the biggest EU "unfinished jobs" (together with Economic and Political Union, while the Banking Union was the only to progress) as it was underlined in 2015 by the so-called Report of the Five Presidents (Council, Commission, Parliament, Central Bank and Eurogroup).

A possible and forth-coming way-out could be a prompt transfer of funding and spending power from periphery to the centre as for the bigger scale investments needed in the main sectors mentioned above. This would allow to overcome the lack of consensus on the Italian proposal to exempt such investments from the application of the Maastricht parameters, while preserving the prospects to develop a genuine "European sovereignty" and to plant the seeds for a future implementation of all the building blocks identified by the Five Presidents Report.