

Low key but not low impact: the results of the EU's 'transition' summit

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Summary

It was a relatively low-key summit, but historians may well look back on the European Council of 23-24 October 2014 as a significant moment in EU history. In this post-summit analysis, Janis A. Emmanouilidis examines the agreement reached on a new climate and energy policy framework for 2020-2030 and concludes that although it falls short of the European Commission's original proposals, it nevertheless delivers a positive message to international community ahead of the global climate negotiations next year. He also highlights the significance of the request from euro-zone leaders for a new report on 'better economic governance' by December. More broadly, he uses this moment of transition in the EU's leadership to analyse the current state and future direction of the Union, and underlines the need to provide a coherent and holistic response to the damage caused by the crisis and the challenges facing the Union, on the basis of an ambitious but pragmatic 'package deal' – a new pact between EU governments, and between the Union and its citizens – to heal the divisions of recent years and restore public faith in the benefits of EU membership.

Full report

Although it was a low-key summit which attracted relatively little outside attention, the European Council meeting on 23-24 October 2014 has a good chance to make it into the European integration history books, for two main reasons.

Firstly, on Day One of the meeting, EU leaders adopted a **new climate and energy policy framework** for 2020 to 2030. The new framework, which will form the basis of the Union's contribution to preparations for the global climate negotiations that will take place in November/December 2015 in Paris, is a complex compromise based on four key elements: reducing greenhouse gas emissions by at least 40%, increasing the share of renewables to 27% in the EU's energy mix, enhancing energy efficiency of at least 27%, and improving interconnectivity by linking up so-called "energy islands" with the rest of Europe's internal energy market. The final deal is a typical European compromise aimed at balancing the interests of different groups of member states which falls somewhat short of the European Commission's original proposals, but still delivers a positive message to international climate negotiators.

Secondly, this Summit – the last chaired by President Herman Van Rompuy and involving outgoing European Commission President José Manuel Barroso – marked the end of the 2009-2014 institutional-political cycle and, as at almost every summit over the past five years, Day Two was devoted to a discussion on the **state of the economy**. Although public attention focused on the very public display of anger by British Prime Minister David Cameron over the EU's request for a 'top up' contribution of €2.1 billion from the UK to its budget (and smaller amounts from some other countries), the request from leaders of the euro countries to the incoming European Council President and Euro Summit Chair Donald Tusk, the incoming Commission President Jean-Claude Juncker and European Central Bank President Mario Draghi to prepare a report for the December Summit on the next steps towards "better economic governance" is much more worthy of notice.

It is not clear what the "three presidents' report" will propose and even less clear whether EU governments will take up their suggestions. But the fact that the EU's new leadership has been

asked to present their ideas on the future of EMU and the fact that this EU Summit was the last in the 2009-2014 political cycle makes this the right moment to take a step back and pose a number of fundamental questions about the current and future direction of the Union. This analysis addresses these questions, and considers what the new EU leadership and member states will have to do to address the consequences of, and collateral damage caused by, the euro crisis in a sustainable way and meet the challenge of increased economic, political and social fragmentation and division between and within EU member states, which risks undermining the Union's ability to provide adequate policy responses to these challenges.

It also briefly summarises some of the other issues on the Summit agenda, including the fight against **Ebola**, the situation in **Ukraine**, growing concerns about relations between **Cyprus and Turkey**, the upcoming elections in **Moldova**, and the EU's new **Strategy for the Adriatic and Ionian Region**.

The 2030 climate and energy policy framework – a typical European deal

The European Council discussed and agreed on a new EU climate and energy policy framework for 2020-2030, which was the main focus of this Summit in terms of concrete output. Initial proposals for its basic orientation and content were unveiled by the Commission in January and EU leaders agreed in March to take a final decision at the October EU Summit, thus sticking to the deadline they set themselves. The 2030 framework builds on and will replace the '20-20-20' targets which were agreed back in 2008 and set 20% targets for reducing greenhouse gas emissions, renewables and energy efficiency by 2020.

On the basis of this new 2030 framework, the EU will submit its proposals for the post-2020 international emission reduction targets by the first quarter of 2015, as preparatory work for the December 2015 United National Global Climate Conference continues to try to reach a legally binding and universal agreement on the way forward.

The elaboration of the new framework had split the EU into two camps. A number of eastern European countries (led by Poland and including Bulgaria, Czech Republic, Hungary, Romania and Slovakia) were worried about both the timeline and the overall targets, fearing that overly ambitious goals would harm their economies and undermine Europe's international competitiveness. They were also asking for fair burden sharing between the EU-28 based on national impact assessments.

Other countries formed a so-called "Green Growth Group" (including Belgium, Denmark, Estonia, Finland, France, Germany, Italy, the Netherlands, Portugal, Slovenia, Spain, Sweden and the UK) calling for swift agreement among EU governments and supporting the Commission's proposals to reduce greenhouse gas emissions by 80% in 2050 compared to 1990 levels. To put the Union on track to meet this goal, the Commission had called for a 40% reduction in emissions by 2030.

Many countries also came to the Summit with their own shopping lists: Portugal and Spain, which are "energy islands" virtually cut off from the rest of Europe would not accept a package that did not include a binding 15% interconnection target; the UK only wanted a greenhouse gas target, with no specific agreement on renewables and energy efficiency; Ireland wanted its heavy dependence on agriculture to be taken into account; Poland, which depends heavily on its coal reserves and has long been the fiercest critic of ambitious climate goals, rejected any extra burdens or costs for its energy sector; Denmark, Germany and Sweden, which are already well ahead of other member states in meeting the 20-20-20 objectives, wanted even more ambitious targets; and central and eastern EU countries favoured conditional targets that could be adjusted depending on the outcome of the global negotiations in Paris. Poland and others also advocated a 'wait-and-see' approach, arguing that Europe's negotiating strategy should not be too upfront and transparent because it risked losing out by playing its cards too early.

Although analysts were expecting a deal, numerous leaders tried to downplay expectations in the run-up to the Summit and some, like the German Chancellor Angela Merkel, did not rule out the possibility of failure. But as it turned out, the European Council concluded an agreement on the 2030 framework earlier than most had expected on Day One of the Summit: at one o'clock in the morning, President Van Rompuy announced via Twitter that a "deal" had been reached.

The final agreement on the 2030 framework is a typical European compromise that balances the interests of different groups of member states and falls short of the Commission's original proposals. Every member state got something out of the deal and afterwards, all the EU's leaders were able to argue to their domestic audiences that although the compromise had been difficult to reach, they had been successful in defending national interests.

They did appear to share one common goal: the desire to convey a message to the outside world that the Union is ready to be ambitious in tackling this issue. They were willing to strike a compromise with each other so that Europe can set the bar for other major players in the international climate talks – including the US and China – to follow. In the words of President Van Rompuy: "Today's decision will allow the European Union to bring a positive message to the international climate negotiations – a message of commitment"; or, as President Barroso put it: "No player in the world is as ambitious as the European Union when it comes to cutting greenhouse gas emissions" and "the agreement keeps Europe firmly in the driving seat" on the road towards the Paris summit. UN representatives have already welcomed the EU's agreed framework, with Christiana Figueres, Executive Secretary of the UN Framework Convention on Climate Change, saying it "provides valuable momentum" and "opens the door to greater ambition by all countries".

Many NGOs have reacted far more negatively. Greenpeace argued that the deal will slow down efforts to boost renewable energy and keep Europe hooked on polluting and expensive fuels. Oxfam pointed out that business leaders had called for more ambitious targets, and insisted that while the emissions target was a first step, it fell far short of what the EU needed to do to pull its weight in the fight against climate change. Friends of Earth maintained that to describe 40% emission cuts as adequate or ambitious, as EU governments are doing, is dangerously irresponsible.

The 2030 climate and energy policy framework includes four basic elements of a complex compromise:

- **Greenhouse gas emissions:** the European Council endorsed a binding EU target of a reduction of at least 40% by 2030 compared to 1990 levels. This overall target is in line with the Commission's original proposal. The Summit Conclusions state that this target will be delivered collectively by the EU (not individually by each member state) through reductions both in the Emissions Trading System (ETS) sector (-43%) and non-ETS sector (-30%) compared to 2005. The existing cap-and-trade approach in the EU-wide ETS allows power plants and industrial companies to choose between investing in low-carbon technology or buying emission rights.

In the sectors covered by the EU ETS, the 43% target will be achieved by speeding up the annual factor to reduce the cap on the maximum permitted emissions from 1.74% to 2.2% from 2021 onwards, which in return would lead to an overall reduction of GHG emissions. To counter some of the worries of industries and their host countries, especially in Central and Eastern Europe, EU leaders have agreed on four specific measures:

- (i) the free allocation of carbon credits will continue after 2020, with countries with a GDP per capita below 60% of the EU average allowed to continue giving free allowances to the energy sector up to 2030 (up to a maximum after 2020 of 40%);
- (ii) the existing NER300 facility, a fund currently fed by the sales of 300 million carbon allowances and used to support carbon capture and storage (CCS) and renewables, will be renewed and its scope extended to low-carbon innovation in industrial sectors, and the initial endowment for the new facility will be increased to 400 million allowances (NER400);
- (iii) the EU will create a new reserve of 2% of ETS allowances to address the need for significant additional investments in low-income countries (<60% GDP per capita) – higher than the Commission's original proposal for a 1% reserve. These reserves will be used to establish a fund that will be managed by the beneficiary countries, with the European Investment Bank (EIB) also involved in selecting projects to improve energy efficiency and modernise energy systems;
- (iv) 10% of ETS allowances to be auctioned by member states will be distributed among countries whose GDP per capita is below 90% of the EU average (in 2013). Together, this last measure and the 2% reserve fund will roughly replicate the 12% "solidarity mechanism" in the existing ETS system.

In areas not covered by the ETS – including buildings, transport and agriculture – national reduction targets will be set using the current methodology until 2030. All member states are obliged to contribute to the overall reduction in GHG emissions in the non-ETS sector (-30%), with national efforts based on relative GDP per capita. As in the past, the exact contribution of each EU country will have to be negotiated, with targets spanning from 0% to -40% compared to 2005.

- **Renewables:** the European Council has set a target of at least 27% of the energy consumed in the EU to come from renewables by 2030, up from the current figure of about 14% across the EU as a whole. This target will be binding at EU level, but will not prevent individual countries from setting more ambitious targets. The agreed target is 3% lower than the Commission and some member states (including Denmark, Germany, the Netherlands and Sweden) had asked for and, at the insistence of some countries, led by the UK, is not binding at national level. The Summit Conclusions state explicitly that both the renewables and energy efficiency targets (see below) will be achieved while fully respecting member states' freedom to determine their own energy mix and that the agreed objectives will not be translated into nationally binding targets.
- **Energy efficiency:** here the deal is vaguer, as EU governments merely agreed on an indicative target at EU level of an improvement of at least 27% in energy efficiency by 2030 "compared to projections of future energy consumption based on current criteria". At least seven governments (mostly from Central and Eastern Europe) called for a 25% target, and Cyprus and the UK were opposed to setting any energy efficiency targets at all. The outcome, as in the case of renewables, is lower than the 30% originally proposed by the Commission, a figure that had been included in earlier drafts of the Summit Conclusions. Compensating to some extent for this, the final text includes a provision stating that the target will be reviewed by 2020 "having in mind an EU level of 30%". In order to make concrete progress, the Commission has been asked to propose priority sectors in which significant energy efficiency gains can be reaped.
- **Interconnectivity:** EU leaders agreed to improve the interconnectivity of Europe's energy markets following pressure from, especially, Portugal and Spain, which have long complained that they cannot sell their surplus renewable energy to other member states. The Summit agreed that the Commission, supported by member states, will take "urgent measures" to achieve a minimum target of 10% of electricity interconnections for member states which have not yet attained this level of integration in the internal energy market by 2020. This includes not only Portugal and Spain, but also the Baltic States. The Commission will monitor progress and report to the European Council on all possible sources for financing (including from the EU), and the implementation of projects linking these countries to the rest of the internal energy market should be completed by 2020. In the longer term, the Commissions has also been instructed to report regularly to the European Council on progress towards reaching a 15% target by 2030, as the EU executive had originally proposed.

All the above targets are not set in stone. Following pressure from a number of governments, EU leaders have agreed on a '**flexibility clause**' which will allow member states to come back to this issue after the global climate talks in Paris. In other words, the targets could be adapted in light of the outcome of those negotiations. The insertion of this clause reflects concerns in some countries that global competitors might not agree to equally ambitious binding targets, which in turn could undermine the competitiveness of European companies. The fact that the EU targets could be changed after Paris should also enable it to put more pressure on other key players in the global climate negotiations, by warning that if others are not ready to move in the same direction, Europe could backtrack from commitments made in the 2030 climate and energy policy framework. However, the more ambitious EU governments (including Denmark, Sweden and Germany) have already indicated that they are not ready to abandon the 40% greenhouse gas emissions reduction target whatever the outcome of the global climate negotiations.

Besides the four basic elements of the new framework, the Summit Conclusions also refer to the issue of **energy security**. Without going into detail, EU leaders agreed to implement critical projects of common interest in the gas sector, such as the North-South corridor, the Southern Gas Corridor, and the promotion of new gas hubs in Southern Europe as well as key infrastructure projects enhancing energy security in Finland and the Baltic States. They also agreed to make better use of regasification and gas storage capacity; further develop a policy for protecting critical

energy infrastructure (including against ICT attacks); boost the EU's bargaining power in energy negotiations through an information exchange mechanism; and further strengthen the Energy Community, with the aim of extending the EU's energy *acquis* to enlargement and neighbourhood countries.

The above measures and those already adopted at the June EU Summit clearly demonstrate that EU governments are much more determined than in the past to reduce Europe's energy dependence, which comes as no surprise given the Ukraine crisis and the challenges it poses to energy security. The European Council has also agreed to come back to this issue in 2015 to assess progress.

Challenges and new beginnings*

As at almost every Summit in recent years, Day Two of the meeting was devoted to a discussion on the state of the economy. Deliberations started with a debate involving all 28 EU member states, followed by a Euro Summit over lunch involving only the leaders of euro-zone countries.

The state of the economy – no concrete initiatives but a ‘three presidents’ report’

The EU-28 did not adopt any substantial new initiatives or measures. The Summit Conclusions merely reiterate the obvious: that the economic and employment situation remains the Union's "highest priority". EU leaders acknowledge that recent macroeconomic developments have been disappointing and conclude that this underlines the urgent need to implement measures aimed at boosting jobs, growth and competitiveness included in the "Strategic Agenda for the Union" adopted in June this year.

In more concrete terms, the European Council voiced support for the new Juncker Commission's plans to launch an initiative mobilising €300 billion of additional investment from public and private sources in 2015-2017, although the Summit Conclusions give no indications of where this money should come from or how it should be spent. EU leaders merely welcome the establishment of a Task Force, led by the Commission and the EIB, aimed at identifying concrete actions to boost investment, including a "pipeline of potentially viable projects" to be realised in the short and medium term. In line with President Juncker's announcement, EU leaders have invited the Commission and Council to report to their next Summit in December.

In the framework of the Euro Summit, EU leaders discussed the economic and employment situation within the euro area and prospects for a further deepening of economic coordination. The discussion took place after a presentation by ECB President Mario Draghi, who warned euro-zone leaders about the risk of a "relapse into recession". He provided a sober account of the situation, warning: "The euro zone is at a critical stage, the recovery has lost its momentum, confidence is declining, unemployment is high; commitments were made but often words were not followed by deeds", and adding: "We avoided the collapse of the euro, but now our efforts should focus on avoiding a relapse into recession." To do this, member states should boost investments and implement reforms.

Reflecting broad agreement that the coordination of euro-zone countries' economic policies needs to be further strengthened, the Euro Summit has asked the incoming European Council and Euro Summit President Donald Tusk, incoming Commission President Jean-Claude Juncker and ECB President Mario Draghi to prepare next steps for "better economic governance". The trio is expected to present a report to the next meeting of the European Council in December; the first EU Summit in the Union's new institutional-political cycle (2009-2014).

* The following analysis reflects in many parts the outcome of the New Pact for Europe (NPE) project, which aims to promote a Europe-wide debate on the EU's future and is supported by a consortium of 13 European foundations led by the King Baudouin Foundation, the Bertelsmann Stiftung and the EPC. A more extensive version of the basic arguments presented here can be found in the second NPE project report, which is the outcome of extensive discussions in the framework of a Reflection Group enriched by input from an Advisory Group. For more information about the project and its reports see here: www.newpactforeurope.eu

Fundamental questions in view of the new political cycle

It is not yet known what the three presidents will propose, but the fact that the key players in the EU's new leadership team have been asked to present a new set of proposals on the future of EMU and that this EU Summit was the last chaired by President Van Rompuy and involving Commission President Barroso make this the right moment to take a step back in order to reflect and pose a number of fundamental questions: What is the 'state of the Union' after the developments of the last five years? What are the strategic challenges ahead? In which direction should the EU's new leadership aim to steer the Union in the next months and years?

In the course of the last institutional-political cycle, deep cracks have appeared in the European project. The euro crisis triggered by a severe global financial and economic crisis has put European integration to a major test, more profound than ever before, with the experience of the last five years revealing and exacerbating significant deficiencies in the Union's economic and political construction.

In 2010, at the beginning of Herman Van Rompuy's presidency and two years after the collapse of Lehman Brothers, Europe became the centre of the biggest financial and economic crisis since the Great Depression. What began as a government debt crisis in one of the smallest economies on its periphery, representing only 2% of the EU's combined economic output, soon exposed the fundamental weaknesses of a monetary union without an equally strong economic and political dimension. As the Greek crisis escalated, many European leaders tried to insist that its problems were unique, but the markets followed their own logic and the crisis quickly spread to other EU countries. As the dominos began to fall, it became clear that E(M)U lacked the necessary institutional structures, procedures, rules and instruments to prevent such a crisis from beginning, spreading and worsening. Then the unthinkable became very thinkable: one or more countries might have to leave the euro, that the euro zone could implode or even that the EU could disintegrate.

To make matters worse, Europe was confronted with not just one but a number of highly complex challenges, which together produced a crisis of confidence, undermining the trust of markets, citizens and global partners in the future of the euro and the EU itself: Europe faced, and is still facing, a banking crisis; a public and private debt crisis; a competitiveness crisis; a growth, investment and reform crisis; an institutional crisis; a social crisis; and, last but certainly not least, a political crisis characterised by the rise of populist 'anti'-forces (anti-establishment, anti-EU/euro, anti-migration).

In this unprecedented situation, there was no textbook that European and national decision-makers could turn to for advice and guidance on how to react to these complex and interwoven crises. As a consequence, responses have been slow, insufficient and sometimes ill-advised, and the results sometimes counter-productive, meagre and disappointing.

At the same time, many things that seemed impossible some years earlier have been agreed in the last political cycle, including huge bail-out programmes; two multi-hundred billion euro rescue mechanisms (the European Financial Stability Facility and European Stability Mechanism); unprecedented fiscal consolidation efforts in deficit countries; a strengthening of EMU governance; the signing of an intergovernmental fiscal treaty; unprecedented action by the ECB to support sovereign debt markets and provide liquidity lifelines to banking systems; and, last but certainly not least, the creation of a limited banking union with a Single Supervisory Mechanism (SSM) and a Single Resolution Mechanism (SRM) but without a single deposit insurance scheme.

Despite all these remarkable achievements, which were often the result of European Council sessions that went on long into the night, the EU and its members struggled to get ahead of the curve and persuade markets and citizens that they were capable of meeting the multifaceted challenges posed by the crisis. At times, it seemed that the 'crisis snowball' might spiral out of control and trigger an avalanche with the potential to bury the euro or even the European project beneath it.

Ultimately, it will be the task of future historians to assess the significance of these developments for the overall process of European integration. As the EU is still confronting the direct consequences of, and the collateral damage caused by, the crisis, it is too soon to deliver a final verdict now on the state of the Union and the state of the crisis.

However, in systemic terms the situation has undoubtedly improved significantly compared to the summer of 2012. Today, as the EU moves from one political cycle to another, fears of the worst-case scenario materialising have receded for two main reasons: the ECB's promise to do "whatever it takes" to guarantee the euro's stability and the significantly lower risk of countries leaving the common currency. This has boosted confidence and significantly reduced the danger of a euro meltdown. As President Van Rompuy said in his farewell speech to the European Council: "We avoided a catastrophe, the break-up of the euro zone. Sometimes it just as important to avoid the worst as it is to do the right thing."

However, the situation remains difficult and volatile. The crisis is by no means over and there is no room for complacency, either at European or national level, given the continuing fragility of the economic, fiscal, social and political situation: growth remains elusive; recovery has been slow and uneven; fears of another recession are increasing; deflation risks are rising; unemployment rates remain exceptionally high, especially among younger generations; government debt levels are still very high in a number of countries; plunging stock markets and the recent volatility in bond markets have shown that market confidence remains shaky; vested interests prevent the implementation of structural reforms; European banking systems and financial markets are still highly fragmented; key member states (including France and Germany) follow divergent crisis recipes; the social and political situation in many countries is tense and the rise of populism on both the extreme left and right of the political spectrum and even among mainstream parties is raising concern about the state of democracy in Europe and about the reform prospects within member states. Last but not least, collective efforts to overcome the EMU's remaining structural shortfalls have lost momentum since late 2012, with the decreasing threat of a euro meltdown limiting governments' readiness to take bold decisions at EU level.

'Consolidation' or even 'reactive muddling through' have become the predominant order of the day as the immediate crisis threats and market pressures recede. Recent progress in creating a Banking Union – including the ECB's asset-quality review and stress test of 130 'systemically relevant' financial institutions published two days after the October Summit and the launch of the Single Supervisory Mechanism on 4 November – indicate that the reform engine is still running. But EU governments are lagging behind and backtracking from earlier, more ambitious plans aimed at building a "(Deep and) Genuine Economic and Monetary Union" and it remains to be seen how bold the three presidents' December report will be and whether governments will follow their recommendations.

The signs do not look good: the political mood in most member states is such that national governments want the EU to steer clear of 'overambitious' attempts to deepen integration, which could – according to them – backfire in light of the EU's increased unpopularity in many countries. 'Doing less, but doing it better' seems to be the predominant mantra in Brussels and national capitals today, with many insisting on the need to be realistic and accept that member states are not willing or able to go much further in pooling sovereignty at European level and the EU should avoid opening a Pandora's box when the time is not right to pursue more ambitious reforms.

There are undoubtedly good arguments supporting the 'logic of consolidation'. Will this be adequate enough in light of the current situation? Will it be sufficient to kick-start economic growth and regain political momentum in the member states? Are we not running the risk of repeating past mistakes?

When the euro was conceptualised and introduced, experts and decision-makers knew that its construction was by no means perfect. But we were told that political realities at the time did not 'allow' governments to introduce additional key elements to complete the EMU construction. Ten years later, when the euro left calm waters and faced its first major storm, the EU, its member states and citizens – collectively and individually – suffered from the severe consequences of this inability. Even if today's overall situation looks better than in 2012, should Europeans risk having to ask themselves – five, ten or 20 years down the road – why they stopped halfway when they should have been aware of the potential dangers and key challenges?

Strategic challenges and the need for a new pact

It will be the key task of the Union's new leadership to try to ensure that history does not repeat itself. The EU and its members face a plethora of concrete internal and external tests, but there is one strategic challenge which seems more

profound and precarious than others, as it undermines the Union's ability to provide adequate policy responses – the challenge of fragmentation and division on several levels:

- (i) *fragmentation between the EU and its citizens*, with more Europeans turning their back on the EU as it stands;
- (ii) *economic fragmentation* resulting from a widening gap between Europe's economies;
- (iii) *fragmentation between states and even national societies* evidenced by deep distrust between EU countries and a resurgence of national stereotypes, historical resentments and a harmful blame game;
- (iv) *social and political fragmentation within member states* with an increasing divide between the 'haves' and 'have less-es', fostering widespread perceptions of social injustice and a loss of trust in political elites and their ability to manage current and future challenges.

Looking back in history, there have always been uniting and dividing forces at work and many of the dimensions of fragmentation have been evident for some time. But the crisis has acted as a catalyst, aggravating existing sources of division and creating new ones, which in turn has provided fertile ground for populist forces in many EU countries.

The EU and its members will not only have to find ways to respond to the impact of fragmentation, but are also confronted with a related phenomenon that is undermining unity: the widespread perception that European cooperation is no longer a 'win-win' for everyone; that it has ceased to be a 'positive-sum game' from which all member states and citizens (more or less) profit.

The increasing fragmentation and the loss of a win-win have exposed severe cracks in the 'old bargain' between member states and between the EU and its citizens, which makes it difficult to convey a convincing message about the need for, and the benefits of, European integration at either EU or national level. This undermines the Union's ability to develop and implement joint policy solutions adequate to deal with the complex challenges facing Europe, which no country – irrespective of its size – can cope with alone. In other words, addressing the negative impact of fragmentation and the perceived loss of a win-win is not an end in itself. Citizens want the EU to provide answers to the problems they are facing; they want it to contribute added value in providing prosperity, peace and democracy; they want it to protect and safeguard the 'European way of life' in a massively changing global economic environment. A disunited Union will continue to struggle to deliver adequately on these objectives.

It will be the key task of the EU's next leadership to identify and implement – together with national capitals – ways to effectively counter the many sources of economic, social and political fragmentation between and within EU member states. In light of the gravity and complexity of the situation, it is clear that there is no 'silver bullet', no 'magic wand' that can be waved at the European level to master the challenge, and much will depend on developments at national level and member states' readiness to tackle long-overdue reforms.

However, one thing seems rather certain: simply consolidating past achievements will not suffice. If EU institutions and member states want to turn the tide, they will have to go beyond a lowest common denominator approach, while at the same time respecting the fact that in the current political mood, the vast majority of national elites and most European citizens are very reluctant to increase the powers of supranational institutions.

So, what to do in light of all this? The new EU leadership must aim to create a new 'win-win' situation in which the Union is once again perceived as a positive-sum game for all its members, while taking a 'pragmatically ambitious' approach and avoiding 'gesture politics' that capture headlines but fail to deliver tangible results.

To achieve this objective, there is need for a '**New Pact for Europe**' between member states and between the EU and its citizens which can replace the old permissive consensus, which has long been under strain and has cracked under the pressure of the 'great crisis' (for a more detailed account see the second report of the 'New Pact for Europe' project; available at: www.newpactforeurope.eu).

In order to generate broad support, this New Pact should be based on three main pillars as part of a comprehensive package deal aimed at balancing the different interests of different groups of member states, which should be strong

enough to trigger broad support and cut the Gordian knots currently preventing the EU and its members from going beyond 'reactive muddling through':

- The first pillar of this New Pact should aim to **foster sustainable growth and job creation by stimulating public and private investments** at both European and national level and by **enhancing the Union's overall economic competitiveness** through targeted efforts aiming to support structural reform processes, especially in those member states lagging behind, to ensure that all countries can do their 'homework' while remaining on the path towards fiscal consolidation. In more concrete terms, the stimulation of investments could involve another increase in the EIB's capital base, an expansion of the project bonds initiative, the allocation of more EU funds to key enabling technologies, the completion of the Single Market in areas such as services, the digital economy and energy, or even the creation of a European investment fund with a borrowing capacity. At member state level, countries with relatively low public debt and deficit levels (including, first and foremost, Germany but also others) should use the fiscal space available to lead the investment drive required for Europe's economy to recover. At the same time, without undermining the rules of the Stability and Growth Pact, social investments could be treated differently from other types of public spending when it can be shown that they are a cost-effective investments in the economy's future. In addition, there is also a need to identify ways to promote and support structural reforms in individual countries. Since member states ultimately cannot be forced to implement changes against their will, more innovative ways must be found to encourage the implementation of national reform programmes in line with the country-specific recommendations prepared in the framework of the European Semester. Past experience shows that neither a simple reliance on peer pressure nor the threat of fines and sanctions will 'do the trick'. There is a need to increase the incentives for reform and it thus makes sense to restart the debate about some sort of 'contractual arrangements' between individual countries and the EU institutions, supervised and administered by the Commission and adequately supported by funds from a new fiscal capacity.
- The second pillar of a New Pact should **enhance the EU's 'caring dimension'** to address concerns that the crisis has hit some countries and social groups exceptionally hard, fuelling a sense of social injustice within and between member states. The potential measures under this pillar must send a clear signal to European citizens that efforts to reform national economies and social systems will always have to respect minimum social standards and will not lead to a 'race to the bottom'. Instead, a social compact including binding social convergence criteria (matching the quality of the convergence criteria in Stability and Growth pact or the fiscal criteria included in the Stability Treaty), as well as more specific measures to support citizens and communities suffering most from the crisis, would support efforts to promote Europe's economic competitiveness by increasing the readiness of citizens to support structural reforms. These measures could, for example, include a complementary European unemployment scheme, an obligatory minimum support scheme guaranteed at EU level but financed through national means; or a European Mobility Fund to mitigate the negative impacts of mobility by helping local communities to deal with the costs of coping with an influx of people.
- The third pillar of a New Pact should aim to **strengthen the ties between the EU and its citizens by enhancing its democratic legitimacy and accountability**. Going beyond traditional efforts that tend to concentrate on the powers of the European Parliament, the Union could (i) expand opportunities for a frank national and transnational dialogue about the goals and future of European integration and the basic direction of EU policies; (ii) extend schemes to enable more people to experience the direct benefits of EU membership; (iii) give regional/local authorities more autonomy in setting spending priorities and find ways to involve citizens in the process; and (iv) enhance the role of national parliaments in European policy-making at member state level, especially when it comes to translating country-specific recommendations made in the framework of the European Semester into reality.

Besides the three pillars of a New Pact, the EU should heed the lessons of history and seek to identify and implement a **new 'grand project'** with potential knock-on effects in numerous policy areas and clear benefits for all EU countries – just as it did with the Europe'92 single market initiative – in order to break the current impasse and provide new momentum for European integration. Given the current political and economic climate, an *Energy Union* might offer the greatest potential to demonstrate the EU's added value and deliver genuine benefits for many different groups of member states. The difficult discussions between national capitals ahead of, and during, the October Summit on the

new climate and energy framework have shown that this would certainly not be an easy endeavour, but it could be the type of bargain required, with positive knock-on effects in a range of policy areas (economic, environmental as well as foreign policy).

The measures introduced under each of the three pillars would have to be ambitious but not overly so: almost all could be implemented on the basis of the current EU Treaties or, if necessary, within the framework of additional intergovernmental treaties. But this cannot be a long-term solution: the content of the many intergovernmental agreements of recent years should, at some point in the not-too-distant future, be integrated into the EU's treaty framework and to do this, the Union and its members need to start preparing the grounds for the process of treaty change even if this remains politically out of reach for the time being.

A New Pact along the lines outlined above could lay the foundations for this by helping to reverse the tide of public opinion and attitudes towards the EU, which will be essential before any attempt can realistically be made to launch a process aimed at getting agreement on substantial amendments to the EU Treaties and getting those changes approved in all EU countries.

Given the negative mood in many member states, the prevailing sense of complacency about the crisis, national navel-gazing and risk-aversion in many EU countries, attempting to elaborate and implement a New Pact for Europe would be no easy undertaking, but it would be well worth the effort if it helps to close the gap between EU countries and meet citizens' needs and expectations. The developments of recent years have been driven first and foremost by fear. To generate active support from citizens and elites, further developments need to be driven instead by confidence and renewed ambition. That is why the elaboration of a New Pact should be a joint strategic task for the new EU leadership in the new political cycle.

Other items on the Summit agenda – Ebola, Ukraine, Cyprus, Moldova and EUSAIR

Besides the adoption of the 2030 energy and climate framework and the discussions regarding the state of Europe's economy, EU leaders took decisions on a number of other issues at the October European Council.

EU leaders expressed deep concern about the continuing spread of the **Ebola** virus in West Africa and the increasing number of people infected and dying from it. They commended the work done by governments of the affected countries and NGOs in responding to this unprecedented health challenge and decided to increase the total funding from member states and EU institutions from €600 million to €1 billion. Acknowledging the fact that helping West Africa to cope with the Ebola crisis is the most effective way to prevent a serious outbreak of the disease elsewhere, leaders called on the EU's High Representative and the Commission to develop a package of measures addressing the wider political, security and economic implications of the Ebola crisis for the region. They also underlined the need to ensure the EU is ready to cope with the possibility of more Ebola cases on the European continent by intensifying precautionary measures to reduce the risks of contagion. Finally, to reinforce the Union's capacity to respond to the challenges posed by the Ebola virus, EU leaders appointed the incoming Humanitarian Aid and Crisis Management Commissioner Christos Stylianides as EU Ebola coordinator, and tasked him with working with EU institutions, member states, the UN and other international organisations and stakeholders on this. They also asked the Commission President and the High Representative to report back in December on the concrete measures taken to respond to the Ebola crisis.

Following recent developments in **Ukraine**, the European Council called for a full and swift implementation of the Minsk agreements, in particular with regard to the cease-fire, the setting-up of comprehensive border-control arrangements and the holding of early elections in the Donetsk and Luhansk regions in accordance with Ukrainian law. EU leaders underlined that staging the "presidential" and "parliamentary" elections called by the self-appointed authorities would run counter to the letter and spirit of the Minsk Protocol and will not be recognised. They also called on the Russian Federation to respect Ukraine's national sovereignty and territorial integrity; contribute to the country's stabilisation and economic recovery; and assume its responsibilities for the full implementation of the Minsk agreements, in particular by preventing any movement of military, weapons or fighters from its territory into Ukraine. Ahead of parliamentary elections on 26 October, the European Council reiterated its willingness to support Ukraine as it tackles political and economic

reforms. Finally, EU leaders looked forward to the finalisation of the ongoing trilateral negotiations on the Ukrainian energy crisis between the Russian Federation, Ukraine and the Commission.

Turning to the Eastern Mediterranean, EU leaders expressed serious concern about renewed tensions and urged Turkey to show restraint and respect the sovereignty of Cyprus over its territorial sea and in its exclusive economic zone. Earlier in the week, relations between **Cyprus and Turkey** deteriorated after Ankara dispatched a vessel, flanked by Turkish warships, to investigate hydrocarbons off the coast of Cyprus. After the ships entered Cyprus' exclusive economic zone, President Anastasiades said: "We are convinced that without a strong collective message, Turkey will continue escalating the situation." Turkey does not recognise the maritime area as an economic zone exclusively reserved for Nicosia and insists the Greek Cypriots should not begin to exploit the zone without an overall settlement between the two communities. The Cypriot government, fully supported by Athens, has threatened to block accession negotiations between the EU and Turkey if Ankara does not respect its sovereignty rights.

The Summit Conclusions also state that the European Council looks forward to the parliamentary elections in the **Republic of Moldova** on 30 November as another step in the country's European agenda following the recent provisional application of the Association Agreement. EU leaders expect the elections to be "free and fair" and recommend that the Moldavian authorities work closely with international electoral observers.

Finally, the European Council endorsed the **European Union Strategy for the Adriatic and Ionian Region (EUSAIR)**, which aims to promote prosperity and growth in the region and play a role in promoting Western Balkan countries' integration into the EU, and called on all relevant actors to implement it without delay.

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