

Re-energising Europe

A package deal for the EU27



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COLOPHON

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After years of multiple crises, the EU27 should **re-energise the European project**. This third NPE report, which is the culmination of five years of work reflecting more than 120 national and transnational debates throughout Europe, argues that the EU27 should have the political will and courage to agree on an **ambitious but realistic win-win package deal** to overcome deadlocks and counter the danger of a more regressive, nationalistic, closed, illiberal and authoritarian Europe, the greatest challenge we are currently facing.

STATE OF THE UNION

To move forward, we must recognise where we stand now. Three characteristics of today's European Union (EU) will shape its future development:

► The **poly-crisis** of the past decade has not been fully overcome. The Union has succeeded in proving the many prophets of doom wrong, confounding predictions of its imminent collapse, the euro's implosion, 'Grexit', or the end of Schengen. But despite some undeniable progress, structural deficits in the European construction remain. The Union has been remarkably resilient but it is **not yet 'storm-proof'**.

► After years of pain, the EU27 must also repair the **collateral damage** caused by the poly-crisis: the fragmentation and distrust among member states, and between national capitals and 'Brussels'; the perception that European cooperation is no longer a win-win exercise from which all EU countries and citizens benefit; the widespread belief that the Union is unable to balance national interests fairly, with smaller countries feeling that the 'rules of the game' are not the same for everyone; a widening divergence in real (economic gap) and thinking terms (differences in how people see the situation); the rising social inequalities and political divides within countries; the frustration with the EU's inability to tackle the poly-crisis; and the damage to the EU's external reputation, with many outside Europe questioning whether it can emerge stronger from the trials of the past decade.

► On a more positive note, there is now a new sense of optimism about the Union's future. The **unifying effect** of Brexit and Donald Trump's election; the return to economic growth; the upswing in citizens' confidence in the European project; and the fact that 2017 was not the political *annus horribilis* that many feared it would be, have all fuelled hopes that the European project could be given **new momentum** after years of crises.

But while optimism is **cautiously** returning to the European scene, it is far too early to celebrate. The discussions in the NPE framework underline concerns that the EU27 might not, at the end of the day, take advantage of the renewed confidence.

The Union must not only tackle the unresolved poly-crisis and collateral damage, but also face a much more fundamental threat: a **surge in authoritarian populism** that is testing the basic foundations of liberal democracies. The influence of those advocating simplistic solutions to complex problems is expanding, with their political rhetoric and ideology framing or even dominating public discourse. Europe is at risk of becoming more introverted, backward-looking, protectionist, intolerant, xenophobic, and discriminatory as well as more inclined to oppose globalisation, trade, migration, heterogeneity, cultural diversity, and the principles of an open society. Albeit not confined to Europe, this threat is **more fundamental** for the EU given that the Union is still much **more vulnerable** than its constituent nation states.

The Union has succeeded in proving the many prophets of doom wrong, confounding predictions of its imminent collapse, the euro's implosion, 'Grexit', or the end of Schengen.

There remains frustration with the EU's inability to tackle the poly-crisis.

There is now a new sense of optimism about the Union's future.



The Union must not only tackle the unresolved poly-crisis and collateral damage, but also face a much more fundamental threat: a surge in authoritarian populism that is testing the basic foundations of liberal democracies.

Europe does not need to be re-invented, but it must be re-energised and made 'future proof'.

The proposed win-win package deal does not pretend to be a 'grand bargain' aspiring to solve all problems in one go with one giant qualitative leap forward.

POLITICAL LEADERSHIP

Based on this analysis of the state of the Union, this report argues that the EU27 must exploit the current window of opportunity, which is **neither very wide** nor expected to remain **open for very long**. If the EU27 can show political leadership, there is potential for an 'EU renaissance'. Through concrete deeds, the EU could demonstrate its **ability to protect** its members and citizens.

Europe does not need to be re-invented, but it must be re-energised and made 'future proof'. European cooperation is **not an ideology**: it is a **necessity** in an interdependent world in which individual countries cannot defend their values, interests and aspirations alone. The EU

WIN-WIN PACKAGE DEAL

The proposed package deal does not pretend to be a 'grand bargain' aspiring to solve all problems in one go with one giant qualitative leap forward. It is less 'grand' in its objective, concentrating instead on the immediate future and aspiring to achieve **tangible progress** in the framework of the current **EU Treaties**.

This package deal aims to reflect the distinctive interests and aspirations of member states and citizens. Some are more anxious about economic prospects or social affairs, others put more emphasis on migration and security. There is thus a need to include all **three dimensions** in a package deal, with intra- and cross-dimensional compromises. This approach will help to bridge the gap between different camps. **Enlarging the negotiation agenda** beyond one specific field to identify wider agreements can contribute to overcoming red lines in individual areas, which have in the past proved unsurmountable.

While acknowledging that political hurdles persist and that the actual outcome of negotiations among the EU27 is difficult to anticipate, the **ambitions** of this report are three-fold.

► First, it demonstrates that sketching a win-win **package deal is possible**. For each dimension, the report provides a rationale, basic objectives and concrete elements to be included in a bargain.

must act collectively to bolster its defences and withstand future storms. If the EU27 fail to exploit the window of opportunity, Eurosceptic forces will cheer and attract even more support among a growing number of disillusioned citizens.

So, what should be done? This report makes **two main recommendations**: the EU and its members should agree on an ambitious but realistic **win-win package deal**; and they must **fight the danger** of a more regressive, nationalistic, closed, illiberal, and authoritarian Europe by addressing the fundamental factors fuelling the persistent threat of authoritarian populism at European, national, regional and local level.

► Second, it hopes that by explicitly laying out such proposals, it can spark national and **transnational political debates** about the future of Europe, which is a central aspiration of the NPE project.

► Third, a deal that takes the various positions between and within EU countries into account can help to **counter** the current **fragmentation** among member states and the escalating **polarisation** of our societies, which is the fertile ground on which extremist and authoritarian populists thrive.

With respect to the **economic and social dimension**, the package deal is designed to secure the stability of the euro, spur sustainable growth and reboot the process of economic convergence, while strengthening the Union's 'protective arm' and preserving unity among the EU27 and the members of the euro area. It seeks to balance the expectations of different camps: the **'responsibility and competitiveness'** camp who want a stricter implementation of rules, re-affirmation of the 'no bail-out' principle, a reduction of risks, more market discipline, and greater pressure on EU countries to implement long-overdue structural reforms; and the **'solidarity and caring'** camp who want more flexible and smarter rules with greater discretion, the direct or indirect introduction of common risk-sharing instruments, more support from the European level for national reform efforts,

Mario Draghi, President of the European Central Bank, during a press conference. (Daniel Roland AFP)



Refugee families take part in registration process prior to the asylum procedure in Greece, 13 June 2016. (LOUISA GOULIAMAKI AFP)



more fiscal room for public investment, and actions to reduce macroeconomic imbalances. It also considers the mounting **concerns of non-euro countries** that further EMU reforms might leave them at a disadvantage and push them further into the EU's periphery (see infographic pages 8-9).

With respect to **migration**, the package deal aims to move the EU closer to a comprehensive human mobility strategy. It seeks to balance security and solidarity concerns to enhance the notion of a **'protective Europe'** while avoiding the pitfalls of a 'fortress Europe'. To achieve this aim, the bargain identifies tangible actions to bridge the divide between two camps: the **'security'** camp who argue that Europe must counter the sense of insecurity among its citizens and protect itself from potentially overwhelming numbers of people trying to reach it; and the **'solidarity'** camp who insist on the need to boost solidarity among EU countries and with those knocking on Europe's doors and with countries of origin and transit (see infographic pages 8-9).

With respect to **security**, this report argues that the widespread support for deeper internal and external security cooperation

could **help to coalesce an overall accord** between the EU27. The NPE discussions revealed distinct priorities and divides between countries, but there was also strong agreement across Europe that member states need to deepen cooperation on both internal and external security. Progress on security could foster conciliations in the economic and social as well as the migration dimension, where member states have drawn some clear red lines. Within the security dimension, there are two priority areas that enjoy the strongest support among the EU27: **defence cooperation** and the **fight against terrorism** (see infographic pages 8-9).

As in the past, implementation of the deal presented in this report would result in more **differentiated integration**, with different groups of member states intensifying cooperation in different policy fields. Fuelled by the willingness to move forward, greater differentiation would be guided by functional and pragmatic needs, and not by a desire to create a closed 'core Europe' (*Kerneuropa*) involving only a limited number of EU countries. The creation of a two-tier Europe with diverse classes of membership is neither likely nor desirable.

The package deal is designed to secure the stability of the euro, spur sustainable growth and reboot the process of economic convergence, while strengthening the Union's 'protective arm' and preserving unity among the EU27 and the members of the euro area.

A French army helicopter transporting marines attached to the European Union naval Force - EUNAVFOR-Somalia. (AYMERIC VINCENOIT AFP)



The package deal aims to move the EU closer to a comprehensive human mobility strategy. It seeks to balance security and solidarity concerns to enhance the notion of a 'protective Europe' while avoiding the pitfalls of a 'fortress Europe'.

Deeper internal and external security cooperation could help to coalesce an overall accord between the EU27.

COUNTERING AUTHORITARIAN POPULISM

The elaboration and implementation of a compromise among the EU27 is necessary, but it is only one step. The analysis in this report confirms that the **danger of a more regressive, nationalistic, closed, illiberal, and authoritarian Europe** is very profound. The response needs to encompass a variety of efforts at various levels of governance. Since there is no silver bullet that can avert this danger, the report presents **four principles** that should be borne in mind when looking for ways to counter authoritarian populism.

► The European Union must deliver **credible results** and strengthen its role as a **'democratic watchdog'**, by concretely addressing the multiple insecurities fuelling authoritarian populism; avoiding raising expectations it cannot live up to; ending the Brussels blame game which plays into the populists' hands; demonstrating that the EU is not an agent of 'unfettered' globalisation; and strengthening its ability to respond to serious breaches of its fundamental principles when governments flout their membership obligations.

► Politicians must **convince citizens without imitating** authoritarian populists, by presenting a persuasive and positive counter-narrative based on a credible set of actions at the national and European level instead of copying the political rhetoric and policy prescriptions of authoritarian populists; demonstrating to citizens why European cooperation is still a win-win from a national perspective; and promoting the ability of citizens to 'experience Europe'.

► Defenders of liberal democracy must acknowledge **citizens' legitimate concerns** and boost their **democratic participation**, taking their hopes and fears seriously rather than dismissing them as irrational, exaggerated or even irrelevant; listening to those from other EU countries as well, given our increasing interdependence; and boosting citizens' involvement in EU decision-making.

► People should be constantly reminded of the **true nature and objectives of authoritarian populists** by revealing that they want to divide our societies and undermine the basic pillars of liberal democracy; and by demonstrating that most of their proposals are either unrealistic or economically ludicrous.

THE WAY FORWARD

The elaboration and subsequent implementation of an EU27 package deal will require a strong impetus from an **inclusive Franco-German initiative**. To win broad support, however, this initiative must consider the views of **other member states** and leave them ample room to contribute to the outcome of a collective process. The bargain presented in this report could help to inspire and promote such an inclusive process since it has been explicitly drafted with the interests, concerns and ambitions of the EU27 in mind.

Generating public support for the implementation of a package deal will require a Europe-wide debate at **national and transnational level**. It must begin as soon as possible and involve a multiplicity of stakeholders ready to engage in a critical but constructive debate about Europe's future. The experience of the NPE project has shown that such discussions are most constructive when they are based on tangible proposals

rather than on a vague exchange of views about 'more or less' Europe.

It is by no means certain that the EU27 will be able to strike a compromise. It will take **strong political will** and even more political **courage**. But this is what **leadership** is ultimately about: understanding the need for action, identifying opportunities, pre-empting potential risks, and taking concrete next steps while having a sense of the overall direction. Now is the time for all Europeans to show such leadership.

This report has demonstrated that there is a lot of work to be done and unfinished business to be completed, that there is a window of opportunity, that inaction would risk future crises, and that a win-win bargain to re-energise the EU and strengthen its ability to protect its members and citizens from future storms is possible. It is now up to all of us to respond to this call and for **future generations** of Europeans to judge us.

Greater differentiation would be guided by functional and pragmatic needs, and not by a desire to create a closed 'core Europe'.

This report confirms that the danger of a more regressive, nationalistic, closed, illiberal, and authoritarian Europe is very profound.

The bargain could help to inspire and promote an inclusive process since it has been explicitly drafted with the interests, concerns and ambitions of the EU27 in mind.

Now is the time for all Europeans to show leadership.

Room hosting the meetings of the European Council, in the Europa Building, Brussels, inaugurated in December 2016. (CREDIT EUROPEAN UNION)



Re-energising Europe / A package deal for the EU27

After years of multiple crises, the EU27 should re-energise the European project. The EU27 should have the political will and courage to agree on an ambitious but realistic win-win package deal to overcome deadlocks and counter the danger of a more regressive, nationalistic, closed, illiberal and authoritarian Europe, the greatest challenge we are currently facing.

RESILIENCE AND A NEW MOMENTUM

The EU27 must exploit the current window of opportunity, which is neither very wide nor expected to remain open for very long.

Unifying effect of Brexit

Unifying effect of the election of Donald Trump

Return to economic growth

2017: not the political 'annus horribilis' that many feared it would be

THE BIGGEST CHALLENGE

The danger of a more regressive, nationalistic, closed, illiberal, and authoritarian Europe is very profound.

NATURE OF THE BEAST

- Growing polarisation of societies
- People's genuine grievances
- Anti-establishment resentments
- Discontent with representative democracy
- New information channels in closed echo-chambers

"WINNERS & LOSERS" OF CHANGE

- Socio-economic insecurities and rising inequalities
- Cultural and societal insecurities
- Generational insecurities
- Technological insecurities
- Security insecurities

EUROPE'S PERCEIVED VULNERABILITIES

- The EU as an 'agent of unfettered globalisation'
- The EU as a powerless and 'inconsequential' construction
- The EU as an undemocratic, distant, and 'elitist' project
- The EU is losing its moral high ground

THE ECONOMIC AND SOCIAL DIMENSION

The bargain needs to strike a fair balance between the 'responsibility and competitiveness' camp and the 'solidarity and caring' camp while preserving the principle of unity among the EU27 and the members of the euro area.

MORE SOLIDARITY BETWEEN THE MEMBER STATES

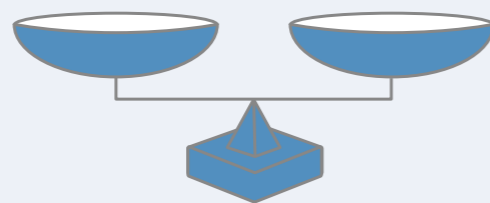
- Complete the Banking Union through the gradual introduction of a European Deposit Insurance Scheme
- Reduce the burden of non-performing loans on banks
- Enable the European Stability Mechanism to function as a credible backstop to the Single Resolution Fund
- Establish a crisis shock-absorption mechanism through complementary European Unemployment Reinsurance Scheme and/or 'rainy day' fund
- Exclude some public investment from a country's deficit calculation
- Stimulate investment and demand in EU countries with excessive surpluses
- Support citizens disproportionately affected by major structural reforms
- Intensify the fight against tax evasion and avoidance
- Safeguard the level-playing field within the Single Market
- Introduce concrete measures to implement the European Pillar of Social Rights

FEWER RISKS AND MORE DISCIPLINE ACROSS THE UNION

- Speed up the Capital Markets Union
- Enforce the no-bailout rule through the introduction of a credible debt restructuring mechanism
- Reduce regulatory uncertainties and hurdles undermining cross-border investment
- Enforce the Fiscal Compact and the Stability and Growth Pact rules and obligations
- Establish contractual Reform and Investment Agreements
- Reinforce the links between national reforms and EU funding
- Scale up technical assistance programmes
- Complete the Single Market to enhance Europe's global competitiveness
- Speed up work on more comprehensive free trade agreements

UNITY BETWEEN EURO & NON-EURO AREAS

- Avoid any kind of discrimination based on the euro
- Open the new forms of cooperation among euro-area members to non-euro countries
- Do not undermine the role of existing supranational institutions by creating parallel structures
- Inform countries outside the euro area about major euro-area developments
- Do not create barriers to future membership of the euro area



THE MIGRATION DIMENSION

The bargain needs to reflect security and solidarity concerns to enhance the notion of a protective Europe while avoiding the pitfalls of a 'fortress' Europe.

MEASURES TO COUNTER INSECURITY

- Increase and accelerate returns
- Speed up national asylum procedures
- Establish asylum processing centres in major transit countries to reduce irregular flows

SOLIDARITY BETWEEN MEMBER STATES

- Create a permanent relocation mechanism
- Make asylum recognition rates converge across member states
- Incentivise municipalities to welcome refugees or asylum-seekers
- Establish asylum-seeker reception centres in Central and Eastern European countries
- Create an asylum-seeker 'exchange mechanism'
- Better inform refugees about welcome conditions in EU member states

SOLIDARITY WITH COUNTRIES OF ORIGIN & TRANSIT

- Boost (financial) support to Africa
- Establish a permanent European resettlement framework
- Create legal avenues of (economic) migration
- Increase financial support to improve the conditions for migrants in Libya
- Reform EU policies that negatively impact countries of origin and transit

THE SECURITY DIMENSION

External and internal security cooperation could help to coalesce an overall bargain between the EU27.



DEFENCE COOPERATION

- Establish an ambitious and inclusive PESCO
- Support defence cooperation with adequate financial instruments
- Coordinate the review of national defence planning
- Reinforce the rapid response capacity
- Strengthen the military operation planning capacity
- Revise the rules on the common funding of EU military operations

FIGHT AGAINST TERRORISM

- Foster a culture of cross-border cooperation between national intelligence agencies and law enforcement authorities
- Boost efforts to prevent and counter radicalisation within Europe
- Tackle the implications of the blurring boundaries between internal security and external defence

COUNTERING AUTHORITARIAN POPULISM

To counter authoritarian populism, four principles must be borne in mind:

DELIVER CREDIBLE RESULTS AND STRENGTHEN THE EU AS A 'DEMOCRATIC WATCHDOG'

- Address the multiple insecurities fuelling authoritarian populism
- Avoid raising expectations the Union cannot live up to
- End the Brussels blame game that plays into the hands of the populists
- Demonstrate that the EU is not an 'agent of unfettered globalisation'
- Enhance the EU's ability to act as a 'democratic watchdog'

CONVINCE CITIZENS WITHOUT IMITATING AUTHORITARIAN POPULISTS

- Do not copy the political rhetoric and prescriptions of authoritarian populists
- Present a persuasive and positive counter-narrative
- Demonstrate why European cooperation is a 'win-win' from a national perspective
- Promote the ability of citizens to 'experience Europe'

ACKNOWLEDGE CITIZENS' CONCERNS AND BOOST THEIR DEMOCRATIC PARTICIPATION

- Take citizens' hopes and fears seriously rather than dismissing them as irrational, exaggerated or even irrelevant
- Listen also to the concerns of people from other EU countries
- Boost citizens' involvement in EU decision-making

REMAND PEOPLE OF THE TRUE NATURE AND OBJECTIVES OF AUTHORITARIAN POPULISTS

- Authoritarian populists seek to divide and polarise our societies
- Authoritarian populists seek to undermine the basic pillars of liberal democracies
- Proposals made by authoritarian populists are either unrealistic or economically ludicrous

COLLATERAL DAMAGE

Widespread frustration with the EU's inability to tackle the poly-crisis

Rising social inequalities and political divides within member states

Widening divergence in real (economic gap) and thinking terms (differences in how people see the situation)

Fragmentation and distrust among member states

Inability to fairly balance national interests: a 'crisis of leadership'

Damage to the EU's external reputation

European cooperation no longer a win-win exercise

AN UNRESOLVED POLY-CRISIS

The poly-crisis of the past decade has not been fully overcome. The Union has been remarkably resilient but it is not yet 'storm-proof'. After years of pain, the EU27 must also repair the collateral damage caused by the poly-crisis.

The external and internal security threats

The migration and refugee crisis

The financial, economic and euro area crisis



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The views expressed in the full report reflect the result of the work and discussions of the NPE European Reflection Group, enriched by exchanges with the members of the NPE Advisory Group, but they do not necessarily represent the views of each member of the group or the institutions they are affiliated with.



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The New Pact for Europe (NPE) initiative – launched in 2013 and steered by the King Baudouin Foundation, Bertelsmann Stiftung, Open Society Initiative for Europe and the European Policy Centre, supported by Calouste Gulbenkian Foundation, Open Estonia Foundation, the BMW Foundation and the Network of European Foundations – aims to rebuild trust through national and transnational dialogue and develop new common ground on the way forward for the European Union.

