

Is there a future for Europe?

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1. The overwhelming feeling in Europe today is one of disarray. Where are we heading to? Who is taking the lead?

The rapid succession of crises (banks, eurozone, economy, migration, terrorism, Brexit, Trump), the multiple crises, dramatically increased uncertainty. Objectively speaking nothing is going wrong. We can point to the results of our policies:

- Our economies have been growing since 2014. The average in the eurozone this year is at least 1.7%
- 5 million jobs have been created in the eurozone since 2014
- The massive migration via Turkey stopped almost completely
- Until now international trade is still very open and protectionism is avoided. The number of protectionist measures has been increasing for a few years and global trade is growing slower than world GDP.
- With exception of the Middle East, we have never had so few wars in the world and so many democracies

And yet, people are anxious and are expecting the unexpected. Is it based on hard facts, on real threats? Is it a perception that is out of proportion?

2. What is going on?

There are no “acquis” in history. History can repeat itself, but never in the same way. The demons of the past can always come back to haunt us. That’s why nationalism (of different kinds) has to be combatted. With this, I don’t mean nationalism as a synonym for patriotism – it is absolutely normal to be proud of one’s own past, culture or language. Everyone has to belong to something and somebody. We need an identity. Some think that what is not rational doesn’t exist. “One can chase away what’s natural but it will return at a gallop”.

Two other kinds of nationalism are dangerous: the outward-looking and expansionary nationalism for which current borders are not sacred, or the inward-looking one leading to isolationism and protectionism. Both can be inspired by feelings of nostalgia for an imagined glorious past, which – by the way – will never come back. Most of us thought that borders were an old-fashioned idea, that technological optimism would shape the future. We were wrong.

Nationalism is on the rise in all parts of the world, very clearly among the permanent members of the UNSC. Until now we have been able to avoid protectionism and outright war. So, let’s not panic and fall into the trap of pessimism or despair. But we have to remain cautious.

We have to ask ourselves: where does this tendency of folding back on oneself come from? What are the root causes of this new phenomenon?

Much can be explained by the tension between “space” and “place”. We created a “space” in the EU single market, with its free movement of goods, services, capital and people. The globalization of economies, information flows, communication, tourism and migration created a new world full of opportunities, but it is also a process of “creative destruction” (Schumpeter). When there are more “losers” than “winners”; if there’s a perceived imbalance; or when people fear a future threat, they tend to dislike this “space” and long for a “place”, where they can feel more secure, more “at ease and at home”, more protected.

We have to find a new balance between, on the one hand, our open societies (pluralism while respecting

fundamental values), open democracies (free and fair elections), and open economies (free and fair trade); and on the other hand, “protecting” people against unemployment, insecure jobs, climate change, financial instability, excessive inequalities, terrorism, illegal migration, and social, commercial and tax dumping. This can be the core of a new “narrative” for the EU and its member states.

Those who are afraid are – according to Thomas Friedman – the “wall” people, ready to build walls in order to prevent others from coming in. The others are “web” people, embracing globalization with its pros and its cons.

This analysis is valid for all Western countries, on both sides of the Atlantic. Those who are only blaming the Union have too narrow a view on what is happening in our world. This tension between “space” and “place” is also a problem of the member states. The Union is to some extent the sum of the MS!

If we cannot find a new balance between openness and protection, the latter will turn into protectionism. If we cannot provide results on the “protection” agenda, even our democracies (our open societies) are under threat. There are results, but not enough to regain trust. If we will not perform better on “protection”, populism is only at the beginning of its rise. Populism means nationalism. For them democracy is not an aim in itself, it is only an instrument to conquer power.

It is not enough to say that the programmes of populists are not realistic. They aren’t, but anger and despair don’t take this aspect into account. Breaking the status quo is a sufficient reason to vote for radical parties. Trump had to adapt his programme dramatically but he can reverse his last reversal!

Politically speaking a lot of people are on the left-wing concerning the economy, and on the right-wing when it comes to security and identity. This mix is the hard core of populism. This cocktail brought Trump into the White House (but he is betraying part of his electorate) and this aspect became very obvious in the French presidential campaign.

I’m convinced that non-democratic regimes face similar problems, but they only come to the surface at the occasion of revolutions, such as the implosion of the Soviet Union or the Arab Spring.

The EU has to deal with this internal problem. Brexit is of course linked with this societal malaise, although the UK has always had a special relationship with the EU, not being a member of the eurozone or the Schengen area and having many opt-outs. It is the least integrated country of the Union. It is not surprising that populists all over the world welcomed Brexit.

The Union has another challenge in the field of social cohesion. How to organize ‘living together in a multicultural society’? This is not only a European problem. The US and other countries are struggling with the same question. It is the hard core of populism in Western Europe. I make a distinction between civilization and culture. The first refers to institutions and rules, the second to immaterial factors. Ours is a unique civilization built on political democracy, the rule of law, the separation between religious organizations and the State, gender equality, non-discrimination, and fundamental freedoms. A compromise is not possible on those key public values. European societies are value-based, as is the US. But many different cultures, religions and convictions can converge around this civilization. Those two components make ‘living together’ possible. We are not there yet. Our societies are still seeking the right balance; finding it is of the utmost importance for social cohesion, for stability, for giving everybody a ‘place’, and for reconciling ‘space’ (migration) with ‘place’. A project for relaunching the European project has to take this agenda of openness and protection into account. At the level of the member states and of the Union, as such we have to give answers to the ‘threats’ related to prosperity, fairness and security. An ambitious new programme for the Union has to tackle ‘the heart of the matter’ and cannot be restricted to a traditional socio-economic agenda summarized as ‘jobs, jobs, jobs’. It has to deal with economic growth but also with its distribution, not only with the economy but also with identity. We have to rethink political answers. I give you an example. The traditional social question mainly focused on poverty (how important this still is)

but ignored the worrying developments within the group of middle incomes and their prospects. Speaking about income distribution, there are two kinds of inequalities: In Southern Europe, inequalities are the result of high unemployment and austerity. Identity issues are playing a much lesser role. Inequalities in the Anglo-Saxon world are related to the rise of profits (wages not following productivity since 1973 in the US), declining wages (in the UK now for the median worker 7% below their pre-recession level in real terms) and insecure jobs although in a situation of full employment. Another example of the shifting political agenda: jobs are getting more unstable, while people yearn for stability. Empowering men and women via education, training and formation can provide more stability in a changing economy. Stability is a component of 'place'. The implementation of all of this is the responsibility of all levels of power. In each part of the agenda we will need a stronger European dimension. There is no room for a standalone to overcome those challenges.

3. Brexit is an attempt of a standalone.

Brexit is of strategic importance for the UK, but not for the EU-27. There was a Union before UK-membership (1950 – 1973), and there will be one after 2019. However, it is a political amputation for the Union: the 5th economy of the world and in a few decades the most populous country of the EU. The Union is no longer an irreversible project.

At the same time, Britain is the least integrated country of the Union. The UK can leave easier than any other EU country although it remains a herculean task. For a eurozone country it is almost impossible to leave the EU. The financial markets would react violently and make even a withdrawal almost impossible! Brexit is not high on the political agenda of EU-27 leaders and citizens. They have other priorities and worries. A lot of countries are focused on their national elections. But even in normal times, Brexit comes after jobs, migration, terrorism, taxes, etc. on the priority list of national leaders and voters. Trump is a bigger concern for EU citizens than Brexit. A lot of people feel an uncertainty growing regarding the direction in which the USA and the world is currently moving. The word 'war' has come back into our vocabulary.

The negotiations on the divorce will start after the summer. They will last a maximum of 18 months. The separation itself is a difficult issue because:

It is an unprecedented process. In all other FTA's (Free Trade Agreement) one has to converge and to harmonize. In Brexit we have to manage the divergences because we shared the single market.

The UK is in a weaker bargaining position. It has to leave before the European elections of June 2019 and it is much more dependent on the EU than vice versa in terms of export (45 % vs. 8%).

Trust is lacking among the two parties after the Brexit vote, due to the way the campaign was conducted and due to declarations which were made afterwards (the choice for a hard Brexit; 'better no deal than a bad deal'; recent leaks coming from the EU). You need trust in order to succeed.

Because: there are doubts about the sense of compromise. The EU is surprisingly united, very strict on the four freedoms in a definitive regime and in the transition after the exit and on the guidelines for the negotiations. The EU's unity is a key objective as well as the unity of the Conservative party. A compromise puts unity at risk.

A possible victory of the Conservatives in the upcoming election could increase the room for manoeuvre of the Prime Minister personally. But among the conservative MP's, few 'remainers' will remain! It can support her capacity to compromise. But don't forget: every election holds a surprise!

We need also lucidity. Each party will defend its own interests, which is absolutely normal in negotiations. Of course they will look for common interests. But interests are not only economic. Brexit was not a decision based on economic interests. The country made a choice against its own prosperity! The EU doesn't want to punish Britain, but it does not want to encourage further possible exits in the future. In any case, a FTA will

bear a cost for Britain and will be less advantageous than full access to the single market.

There is also a deep misunderstanding of the difference between a FTA and the Single Market. It is not tariffs that are often the most important impediment to the ability to trade — it is the multiplicity of non-tariff barriers, particularly in the service sector (so important for the UK), that are more often than not the most important factors. Different rules, regulations and standards are the grit that prevents trade even in FTA's being truly free. The EU's Single Market largely removes that grit by harmonizing standards across whole swathes of the economy, allowing firms to compete on a level playing field right across the EU. And it is this that means the combined Single Market (and Customs Union) membership goes way beyond any FTA — it is to all intents and purposes a single economic area without any obstacles to the free movement of goods, services, capital and labour.

And even the best FTA will come with higher administrative costs and red tape in order to export into the single market. In the long-run there is a risk around regulatory divergence, which carries risks of higher barriers to trade.

Lucidity is also still missing on the process. It is just impossible — legally, politically and in practice — to have parallel negotiations on the divorce treaty and on a FTA before 2019. These are following two specific procedures, leading to two distinct treaties. Strictly speaking the EU cannot negotiate on trade with one of his own members. So, the UK has to leave first before we can negotiate on trade. One can only have informal talks about the framework of a FTA after that “sufficient progress” has been made on the secession. But a real FTA matters on what will be agreed in sectoral accords, not on the broad outlines. And this will take years. Britain will thus leave in 2019 without a FTA. A transitional arrangement is unavoidable. It will be about “phasing out” (leaving the EU and the single market), and not about “phasing in” (implementation of an already concluded agreement, as the British government is hoping for). A transition is also a complicated issue and needs compromise.

The separation treaty will deal with the future of the 3.5 million EU (27) citizens living in the UK and the 1.2 million Britons living on the continent. The negotiations will also have to find a solution for the financial settlement (the “bill” resulting from the legal and other budgetary commitments made by the UK government). The transition is the third big item. The solution on transition most in line with “common sense” is the status quo: Britain will keep access to the single market, for a restricted period (2 or 3 years) while respecting the “four freedoms”, incl. the free movement of EU-citizens. The EU will not change that position, not before, not after the elections. In general, those elections will not affect European positions.

More specifically on the financial sector: once the UK leaves the EU (and the EEA), passporting will cease to apply. To continue doing business in an EU of 27, third country firms would need to establish a subsidiary in one of the EEA MS. Establishing a subsidiary would come with significant costs, related not only to the logistics of moving employees and businesses but also to separate capital, governance and compliance requirements. The other instrument is ‘equivalence’. It must be noted that the equivalence provisions can be applied to third countries only. This means that the UK first needs to become a third country before the Commission can start assessing its equivalence. Taking the equivalence decision can in theory take a lot of time. Considering that at the moment of the divorce the UK will have an identical system to the EU 27 and assuming that it will not change the relevant legislation, the process to grant equivalence should be straightforward. Once an equivalence decision has been taken for a specific sector in a third country, it will facilitate access to the internal market for the companies in that sector established in that third country.

They will still be subject to certain procedures and authorizations, which may vary from one legal act to another. But, market access for third country investment funds and banks cannot be done through equivalence.

A FTA will include articles on a ‘level playing field’ referring to state aid or tax ‘dumping’. This issue became actual after the Nissan case and the threat to change the ‘business model’ (tax model) of the UK. In any case the length of the process will create uncertainty for EU citizens living in the UK (and vice versa), for the

financial sector, for investors.

The exchange rate of the pound sterling reflects this uncertainty since June 23. It refers to a longer term prospect. The depreciation of 10 pc can boost exports temporarily as does the depreciation of the euro vis-à-vis the US dollar. It is not a substitute for real competitiveness or the lack of it.

Uncertainty comes also from the procedure in the EU for ratifying a FTA. It has to be approved by all parliaments of all MS unanimously!

The process can derail. A unilateral withdrawal of the UK is not excluded, which would create huge economic problems for the UK (and for the EU, to a lesser extent) and it is a violation of the Treaties with legal consequences. Derailing can take place at any moment of the process. During the secession negotiations, on the terms of the transition and on the FTA and even after a political agreement (due to ratifications).

After the exit and a FTA, a broader Friendship Agreement (as suggested by the European Parliament) can be concluded, covering many other domains of cooperation between the EU and the UK.

In the long term nothing is irreversible, not even Brexit, certainly when we look at the mentality of the younger generation.

4. What is the impact on the EU?

External “threats” are bringing the 27 MS closer together. I’m referring to Brexit, Trump and Putin! An unexpected trio.

The biggest challenge for the Union comes from inside. I’m convinced that populists will not be in power in any of our EU-27 MS. The only Western country where they are is the USA! Brexit enhanced even the support for EU-membership in almost all the countries. In all eurozone countries an overwhelming majority is still in favour of keeping the euro, also in France and Italy. Populists are even adapting their discourse on that issue.

“Never waste a good crisis” can be a motivation for the 27 to relaunch an ambitious European agenda. There was already a need before Brexit and Trump. The unity the EU is showing on Brexit is remarkable. The “guidelines” are approved without real problems. Of course divergences will appear once we discuss a FTA, but the same will happen within the Conservative Party.

France and Germany have to take the lead after the formation of their new governments. It shouldn’t be an agenda of the “good old days”. The world has changed dramatically and our societies are on the move.

We have to find a new balance between, on the one hand our open democracies, societies and economies, and on the other hand, much more “protection” for the people in several domains, as I mentioned earlier. This agenda is a task for the EU and its MS. To some extent the EU is the sum of the MS. In the new agenda for the EU we have to tackle the missing links in the architecture of the EMU. We have to finalize the Banking Union, and deepen the Economic and Fiscal Union. France, Germany and the 25 have to overcome the traditional taboos: a loss of sovereignty and more solidarity.

The Stability and Growth Pact has to be refined, making it more transparent, creating space for investments and assuring a level playing field between the MS.

We have to work on a stronger military dimension of the Union. Spending more and spending better. A better “repartition of the roles” among our armies and much more cooperation in the field of military R&D, procurement, capacity building, etc. There is now more readiness in our societies to improve our security

and our defence, after what happened on our Eastern and Southern borders.

The EU-27 have to go on with free trade agreements. Hopefully we can have an agreement this year with Japan. We have finalized negotiations with Vietnam and signed one with Canada. Actually the EU has agreements or is in the process of negotiating agreements with all the partners of the late TPP, which President Trump dropped on the first day in office! Of course we have to enhance the level of support for an open economy in our societies. The disadvantages are often made more visible than the huge hidden advantages. Our prosperity owes a lot to free and fair trade.

We also have to further deepen our single market on a sectoral basis: in energy, the digital services, etc. There is still an untapped potential for growth and jobs. Legislative work is in progress but we have to do more.

The agenda for growth, jobs, and competitiveness is almost forgotten in the storm of the last few years, partly because growth picked up, but a lot of work has still to be done at the level of MS, especially in order to boost investment and innovation.

We have to continue our climate change policy with its new ambitious targets for 2030 (-40% greenhouse gas emissions compared to 1990). We are successful in meeting the 2020 targets. The EU will work more closely with China, in absence of the US.

We have to deepen the Schengen zone by protecting our external borders better – which we are doing – and by working on a more common asylum and migration policy. The Schengen zone and the eurozone were conceived for normal times, not for facing the biggest financial crisis since the thirties and the biggest influx of non-EU men and women in centuries.

We know the menu. We even know the recipes. We “only” need the political will to find the right balance and the right level of ambition. Leadership will be key.

Let me add a comment on the upcoming agenda of the EU: The controversy on a multi-speed Europe is superfluous. We already have different speeds foreseen in the Treaties. The eurozone and the Schengen area – two pillars of the Union- are striking examples. Not all MS belong to them. In the same Treaties a format of ‘enhanced cooperation’ is made available for those countries which want to integrate or to cooperate more. It was only used twice! The rule should be: unity as a rule, flexibility when unavoidable. If other MS want to join the forefront, they have the possibility to join at the same conditions as the leading group. By the way, recently we only had one complaint of those who fear to be abandoned. Implicitly nobody wants to leave the Union.

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The European idea is more resilient than many expected.

During my time in office, the end of the eurozone was, according to large parts of the Anglo-Saxon press, “written in the stars”. The discussion was about when this would be happening: before or after Christmas 2012? That is now more than four years ago!

The refugee crisis would bring down another pillar of the Union: the Schengen zone. There are a few cracks in the system, but it remains largely intact.

After Brexit and with the Dutch and French elections in the pipeline, the pessimists believed that the Union itself was on the verge of collapsing or implosion. We are not there yet, on the contrary.

But I repeat that there are no “acquis” in history and that collectively a nation can make dramatic mistakes,

with consequences they don't expect or can't foresee. We have to work hard to reconcile citizens and national and European politics. We had enough warning shots. We need a sense of urgency.