



MORE OR LESS EUROPE?



Highlights from the Debates 26-27 February 2015

CEPS Report / May 2015

Foreword by Daniel Gros

More or less Europe? was the ambitious question that CEPS tabled at its second big forum for debate, the Ideas Lab, at which high level decision-makers from eleven different policy domains shared their expertise on the many and complex challenges facing Europe. Nearly 600 participants contributed to discussions on topics such as *Is investment the silver bullet for growth? Have we solved the too-big-to fail problem? Europe in the World – the future of EU-Russia relations; Disruptive service innovation; Are Russia's gas deals with China a threat to Europe? Has the EU fostered inequality?* – to name but a few of them. The report that follows is an overview of some of the discussion points from the lab sessions and prime talks during two days of conference, with implications for policy-makers where appropriate.

The February 2015 ideas lab was organised in collaboration with the Latvian Presidency of the European Council and the China Institute for Reform and Development; we are grateful to both for their support and input into the choice of topics and prime talks of the 2015 Ideas Lab.

In view of the success of this forum for debate, CEPS will organise another Ideas Lab in early 2016.

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More or less Europe?

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Opening Plenary: European Security Strategy – Challenges and Responses

Speakers: Edgars Rinkevics, Minister for Foreign Affairs, Latvia, Jaap de Hoop Scheffer, former Secretary General of NATO and Minister for Foreign Affairs, the Netherlands.

Introduction

Few would deny that global trends and numerous emergencies on the EU's doorstep have undermined its role as a security actor. The annexation of Crimea, Russia's infiltration into eastern Ukraine and the slow, some say weak, response of the EU to this aggression underpin this view. Add to this the inability of EU crisis management to prevent the 'Arab spring' from turning into an 'Arab winter'; ever greater numbers of migrants hazarding the the Mediterranean Sea; jihadist groups and fighters returning to stage terrorist attacks in their European homelands; and a bitter war within Islam looming in the wider Middle East.

The post-1945 international rules-based order and the effectiveness of its multilateral institutions are being challenged, and new economic and demographic forces in Asia have pulled the world's economic centre of gravity away from Europe and changed the global landscape of defence spending. While the US remains the world's only military superpower, EU member state governments have been in denial about their loss of influence on the world stage and the dangers this poses to the security of their countries and citizens. Certain commentators proclaim that the 25-year peace since the end of the Cold War is over; that 'History is back' and that Europe finds itself once again in a more 'natural' setting of security disorder – one that is characterised by the increasingly hybrid nature of modern threats.

Key points arising from the opening plenary discussion

- Do EU member states have a 'common' strategic outlook? They all are worried by terrorist groups like al-Qaeda and the so-called Islamic State, but it seems that Central and Eastern Europe is particularly exercised by Russia's aggressive foreign policy, while southern EU member states worry more about the implosion of Libya and the challenges posed by waves of illegal migrants crossing the Mediterranean. Divergent threat perceptions and security interests have prevented the emergence of a common strategic culture and hamper the creation of joint structures, procedures and assets at EU level.
- At the moment the EU does not have a security strategy worthy of the name. The focus is still on being a 'soft power' champion, reluctant to use hard power where such would have been appropriate (i.e. in Mali). The EU is a major contributor to peace and security in the world and a global power in trade, development cooperation, and humanitarian aid. It has a rich toolbox compared to other international organisations; is often



perceived to be politically neutral; it provides a platform for collective action and seeks to coordinate the efforts of its members.

- There is little ‘hard power’ left after decades of cashing in the so-called peace dividend and cutting defence spending across the EU. The cost of modern weapons platforms and public scepticism about the role of the military mean that EU member state governments have found it difficult to maintain previous levels of defence spending or to contribute to operations abroad.
- The crises facing the EU have generated a momentum for change that should be seized.

Implications for EU decision-making

- European questions on security and defence are top-level (*Chefsache*) matters. The European Council should take the lead and give clear undertakings to the High Representative and defence ministers to develop, as a matter of urgency, a serious European Security Strategy within the broader strategic review of EU external action currently orchestrated by the High Representative.
- The EU should re-assess its interests in its strategic neighbourhood and, as a recent report by the House of Lords recommends, “put forward a strategy to communicate the EU's future policies to Russia.”
- The EU should make full use of assets to carry out its so-called 'Petersberg tasks' (a list of military and security priorities incorporated within the CSDP) with military assets at the high end of the spectrum serving as a catalyst in an integral approach to conflict prevention, crisis management and peacebuilding. It should decide how to support such a level of ambition, by: i) a contribution to territorial defence complementary to NATO; and ii) a political and military ability to autonomously conduct intervention operations beyond EU borders.
- The US will always be involved in a major military operation on European soil, but Washington will no longer be the ‘cure’ for Europe’s lack of political will and military capability. The EU has to strengthen its strategic autonomy by beefing up the Common Security and Defence Policy (CSDP) through the use of the treaty's permanent structured cooperation between able and willing member states.
- European political leaders should convince their citizens that protecting and defending certain values comes at a political and military price. As long as national public opinion is comfortable with a passive approach to world events, and defence budgets lose out to other priorities, the EU will continue to be “a political adolescent and a military pygmy.” Public diplomacy should support the case for European security and defence.
- **The speakers agreed that that this is one area where *more Europe* is needed on many fronts:** Europe's leaders need to take security issues seriously and contribute to a serious common strategy, especially concerning relations with Russia. Moreover, the EU needs to rethink its reliance on soft power.

Digital Economy

Introduction

Over the past few decades the ICT sector has produced some spectacular innovations in terms of economic effects and societal impacts. The internet challenges both the validity of assigning legal jurisdictions based on geographic boundaries, and policy-makers' ability to devise a comprehensive and realistic framework that will enable investment and innovation while ensuring fair competition.

The liberalisation of telecommunication markets has strengthened Europe's position as a global competitor. At the same time, however, technological innovation, new services and applications have been developing faster outside and have penetrated European markets, possibly rendering obsolete the concept of a European market in the ICT sector. Nevertheless, this does not negate the need to complete the digital single market and remove national silos that hamper cross-border exchanges and hinder innovation.

Key points arising from the discussion

Key questions that arose were:

How can we enable innovation while building trust and empowering citizens and consumers?

How should regulation adapt to the new digital landscape?

Should a more horizontal approach be pursued rather than vertical or sectorial approaches? What about users' rights and data protection rules, or the way users interact with technology?

Beyond the usual debate about the relative strengths of Europe, the US and Asia in the digital economy, the discussion touched on the potential added value of digitisation and its associated risks. Participants also considered the need to rethink regulation on the basis of trust and innovation while reconciling the network economy with content and information services. Contradictions became apparent, particularly when considering strategies to better achieve competition and issues around standardisation and interoperability: does standardisation reinforce the effect of natural monopoly, and does concentration necessarily prevent diversity of production? Moreover, the link between investment, competition and regulation becomes particularly difficult to evaluate when technology constantly evolves. Regulators are thus challenged by the definition of diversity in the 'digital ecosystem'.

Although digitisation of the economy was generally seen as a driver of Europe's labour productivity and global competitiveness, some were critical of its alleged benefits. Rather unstable in macro terms, the digitisation of content and services creates domestic jobs linearly but destroys them exponentially and could lead to a more unequal and insecure hyperconnected society. Many participants cautioned against the risk of over-regulating the digital ecosystem. They pointed to the critical role of education towards online behaviours and in responding to the urgent need for digital competencies and qualified workers.



Another urgent need is to complete a single market for digital goods and services that will assist start-ups to scale more quickly and compete internationally without being obliged to move to the US. While participants saw the development of a stable European digital economy as a prerequisite for growth and jobs, they also raised concerns about the lack of trust and safety in the processing of personal data that are generated in abundance and subject to new business models and new kinds of markets.

Implications for European policy-making

Big Data offers tremendous opportunities for the personalisation of services, whether applied to routine administrative procedures, healthcare, insurance, transportation or education. However, its full potential can only be met if regulators and companies restore trust among users, by ensuring privacy and security. Pointing to the lack of transparency from private companies and governments, many experts stressed the need to adopt a 'digital magna carta', or international standards defining a set of privacy principles to ensure citizens' fundamental rights through parliamentary oversight and judicial control. This would also push companies to translate such concerns into new technological developments, notably by providing 'encryption by default' and 'privacy by design' settings as new commercial incentives.

Experts called for urgent reform of the patent system and spectrum management at EU level, as well as encouraging public sector participation to broaden broadband access. In addition, 'app' developers and web entrepreneurs called for a greater harmonisation of copyright rules, an effective one-stop-shop system for data protection and simplified compliance procedures to help innovative start-ups form a company or a website, and register for VAT online.

As the balance of power shifts between traditional and new players involved in the production-distribution-consumption chain, achieving a vibrant European digital economy requires policy-makers to adopt a more holistic vision. In particular, a balance must be struck between innovation and privacy while enabling a more competitive Europe. By adopting a more horizontal than sectorial approach, by building users' trust and following open data and open innovation principles, digital technologies can transform public services and create a real knowledge-based society.

Regulation & Innovation

Introduction

Regulation has long been considered a barrier to innovation. This view is rooted in a conflation of 'red tape' and regulation; rather like the pervasive equation of 'better regulation' with deregulation. Yet the link between regulation and innovation, especially disruptive innovation, is more complex than it seems. Surprisingly, even 'red tape' can spur new ideas. What regulation hinders or stimulates (disruptive) innovation? Can innovation change the way regulation and regulators work? What role for science in policy-making? The debate challenged the understanding of the complex and dynamic links between science,

regulation and innovation, yet it is a debate that is still open, with the potential to significantly transform EU policy-making in years to come.

Key points arising from the discussions

Regulation can certainly hinder innovative activities if resources are diverted from Research & Development to regulatory compliance. Rigid and prescriptive rules can also hamper innovation by creating lock-in effects. Conversely, flexible regulatory settings have the potential to trigger innovation, especially when rules are performance-based or outcome-based and succeed in setting stringent and disruptive targets that go beyond the state of the art. This regulatory approach has proven to be particularly stimulating for ‘technology-disruptive’ innovations, i.e. innovations that change the way in which existing products or services are delivered to the market. The substantial progress made in the energy efficiency of home appliances or in vehicle emissions is a clear example.

When it comes to ‘market-disruptive’ innovations that create new markets and challenge the status quo by new approaches to or combinations of existing and new technologies, the role of regulation is an ambiguous one. On the one hand, the so-called ‘cowboy innovators’ are inspired by regulatory constraints and are able to invent around them. They revolutionise the market by meeting the needs of their customers in a more effective, and generally more efficient way than incumbent competitors bound by existing rules. On the other hand, regulation moves at a slower pace than market-disruptive innovation. Hence, whenever the provision of new products and services is put on stand-by to allow for the adjustment of the relevant regulatory framework, regulation is detrimental to market innovation. This is also the case when new rules are adopted without a comprehensive assessment of pros and cons, leaving the impression that cowboys are shot by sheriffs without a fair trial to allow for short-term protection for employment, tax revenues, and vested interests.

Against this background, evidence-based decision-making becomes crucial. In this respect, the jury is still out when it comes to innovation. Indeed, the current system of regulatory impact assessment and evaluation does not adequately encompass the effects of rules on innovative activities. In addition, while the EU can certainly benefit from a more systematic and informed use of science in decision-making, the actual way in which science and regulation should interact is still subject to controversy. And since the boundary between good science and bad science is not clear-cut, scientists cannot decide for policy-makers.

Implications for European policy-making

First, any regulatory decision should be supported by a comprehensive impact assessment, and impacts on innovation should be a core component of the overall assessment vis-à-vis other evaluation criteria. Regulation should target specific policy problems rather than preserving the status quo and should be as flexible as possible. Better and smarter regulation has the potential to foster innovation and enable growth, especially when setting ambitious targets.

Second, dialogue between innovators and regulators is key to improving the relationship between regulation and innovation and to maximising the benefits while containing the



costs of disruptive innovations. Innovators are best placed to help regulators cope with new products, services, and business models. In a way, a disruptive approach to regulation is needed too. Transitory rules to mitigate the impacts on employment and ensure a level playing field, especially when it comes to tax regimes, should be carefully designed to guarantee a smooth departure from the status quo, without impinging on innovation. The dialogue between innovators and institutions can be favoured by harmonising rules and adopting best practices across the EU. Common rules reduce transaction costs and spur the development of pan-European innovation.

Third, a new institutional design is required so that science can provide a valuable contribution to EU policy-making, following the abolition of the post of EU Chief Scientific Advisor. A balance between the need for scientific advice and the democratic process should be ensured. In this context, stakeholder engagement and transparency have a pivotal role to play. More transparency, not only on the inputs provided but also on the way these inputs are generated and reviewed, could lead to improved debates and decisions. In this respect, Vice-President Timmermans might take advantage of the ongoing reform of the Impact Assessment Board and find new room for sound scientific advice.

TTIP & Global Trade

Introduction

The CEPS Ideas Lab discussions took place following the 8th round of negotiations (2-6 February 2015) between the EU and the US and in the run-up to two additional comprehensive rounds of negotiations before the summer break. The discussions tackled the possible inclusion and role of China in regulatory cooperation and easier market access: the inclusion of an investor-to-state dispute settlement (ISDS) in TTIP and the decisive role of agro-food policies in the TTIP negotiations.

Key points arising from the discussions

The proposed Trans-Pacific Partnership, which at present involves 12 countries that border the Pacific Ocean, is widely seen as a leading trade policy initiative of the Obama Administration in its pivot towards the Asia-Pacific, with the potential to reshape the economic architecture of the region. China initially reacted to its evident exclusion from the TPP with distrust, labelling the trade negotiations as part of the US strategy to “contain” China. This stance has shifted since Xi Jinping took office, however, with economic reform being placed at the top of his policy agenda. The country now emphasises the necessity of economic rebalancing, which involves both greater economic openness and more reliance on market forces – both reforms that will make TPP membership a closer reality for China.

In identifying the pros and cons of a possible inclusion of investor-to-state dispute settlement (ISDS) in the TTIP negotiations, this session transcended the often emotional rather than analytical debates and the posturing taking place in ‘Brussels’ and among certain commentators. With CETA (Canada-EU free trade area) introducing a considerable number of changes in ISDS – including much more precise justifications for claims, the rejection of

frivolous claims and a broadening of exclusions – the core of the debate is now about a) the remaining rationale of ISDS as compared to the indirect form of state-to-state dispute settlement, which investors dislike and b) further refinement (and to some extent, restriction) of the terms, on the basis of which claims can be filed. Also, the sensitivity about the arbitration system as such (sometimes seen as a lucrative business for practising lawyers, rather than conducted by appointed independent judges) plays a role.

The entire policy area of ‘agro-food’ will play a crucial role in the TTIP negotiations, given the significant disagreements between the US and the EU over food regulation, and in particular food safety standards, over the last 20 years. But these disagreements have been blown out of proportion in the media and have been exploited by anti-trade and anti-globalisation forces to obscure the issues and block progress in other areas. It is important to keep in mind that the EU and the US have established the highest safety standards in the world and that an FTA between two global players would represent a major step forward in facing the pressing global food and environmental challenges of today and tomorrow, such as food security and climate.

Implications for EU policy-making

The trade talks between the EU and the US opened with admirably lofty goals on both sides, but the tone of the discussions regrettably deteriorated in the second half of 2014. The most recent round returned to a positive tone and greater determination. With the whole world looking to the EU and the US to negotiate a model trade deal, both sides need to keep the negotiations in proportion and in context. Policy-makers should think of ways to make the TTIP of benefit to consumers, beyond simple economic benefits.

Small- and medium-sized enterprises in the EU, which already account for 28% of the EU’s exports to the US, stand to gain if transatlantic trade was made easier. Exports by SMEs could expand even further if the cost of complying with technical regulations was reduced.

Another message addressed to EU policy-makers is that the highly emotive issues associated with agro-food should not be allowed to derail the TTIP. So far, TTIP seems to cover many sensitive areas, with the exception of GMOs and hormones in beef. One critical aspect, however, has hardly been mentioned in public debates – and that is subsidies. Whereas export subsidies (already much reduced) may well be outlawed in TTIP, the issue of domestic farm subsidies is likely to stay outside TTIP (despite the recent interventionist farm bill in the US): this is *par excellence* an issue for multilateral negotiations and can only be solved in Geneva.

Economy

Introduction

Economic prospects have improved in the EU and in most of the eurozone but the challenges in substance have not changed substantially. Forecasted growth is on average still meagre, particularly where it is needed most. It is therefore not surprising that growth-enhancing



policies are still and once again the centre of economic policy discussions at the CEPS Ideas Lab.

Key points arising from the discussions

Re-igniting investment-led growth was approached from two angles: one session discussed the new €300bn EU investment programme and how to channel it optimally, while another session focused on Draghi's 'big Quantitative Easing bazooka' and whether it might have the 'fiscal effect' called for by some politicians.

The fiscal compact, with its strict limits on deficits while being cyclically adjusted, was supposed to tame excessive borrowing but also to allow automatic stabilisers to kick in. The fiscal compact entered into force in January 2013, and signatory countries have been expected to comply with the balanced budget rule since January 2014. However, it seems that several countries will not be able to meet the target. The media are discussing whether QE is being tapered before it comes into force, while the fiscal compact has received relatively little attention. Hence the title of the final Economy lab session: "Is the fiscal compact dead?"

Broad approval of the investment programme emerged and most participants were convinced that QE was the right approach to the deflation threat, and that the ECB is merely doing its job. Whether both measures can stimulate substantive private sector investment remains to be seen. If private agents continue to deleverage, the only agent left is the government. Fiscal space is unfortunately scarce these days, particularly in those economies where it is needed most.

Some supported the fiscal compact as it stands, but two other positions also emerged: the first argued that "the fiscal compact needs to be revived before it is too late" while another would gladly bury it – dead or alive.

There is undoubtedly a need for fiscal rules but do they come with a trade-off to growth? In the current environment it is hard to deny some trade-off between the two but the point was made that sound fiscal policy in the medium term would leave the short term more in accordance with growth stability. This is of clearly not feasible for many eurozone members because their debt levels are already staggeringly high. Discussants often made the point that the fiscal compact was introduced at the worst possible moment. How to best deal with this issue was heavily contested among participants. Most agreed that some fiscal *rules are* necessary but some asserted that the fiscal compact is far from an optimal solution. Not only is there no room for discretion during persistent economic slumps but it is also complex and imprecise; we would do better to abandon the compact. The other discussion group expressed the view that despite the shortcomings of the fiscal compact the other options are simply no better.

A lively debate showed that Europe is split on the issue of the fiscal compact - along national lines but also economic thought. Reconciling the two by addressing some of its shortcomings is hard to envisage, as notions of how fiscal rules should perform during a severe crisis differ immensely.



Implications for European policy-making

One proposal is to include a ‘golden rule’ for the fiscal compact, thereby allowing investments that yield benefits for future generations to be excluded from the calculation. Sound investments increase the debt level but compensate future generations by creating assets. While theoretically appealing, concerns were raised about how to judge what constitutes a ‘beneficial investment for future generations’.

Another approach would be to amend the fiscal compact to be more forward-looking. Using medium-term growth rates and merely monitoring a sustainable path towards medium-term sustainability would provide scope for short-term measures. However, one clear message from the discussion is that we should refrain from making the fiscal compact more complex than it already is. The cyclical component is surely mired in forecast errors but the alternatives would be even more fiscally restrictive, which some of the compact’s most fierce critics would want even less. Of course, increasing the complexity undermines transparency, which will weaken the support of the average citizen for the rule. Likewise, national ownership is vital if we want the rule to stick. De-centralisation by integrating the fiscal compact into national constitutions was a smart first step but it takes political will to convey the notion of ownership to citizens.

Jobs & Skills

Introduction

Exploring solutions for job creation in Europe was the main focus of discussions in this session. The main questions put forward were:

1. How to cope with cyclical unemployment in the environment of a currency union, which limits the ability of member states to increase public spending.
2. How to reform labour markets in Europe so they can create good jobs.

Key points arising from the discussions

The debate about cyclical unemployment focused on the feasibility of some form of a European Unemployment Insurance (EUI) scheme.

The political aspect focused on the main topic of: do we want more Europe or less Europe? Those who see a strong Europe as a solution to the challenges of globalisation, including the diminished capacity of states to conduct counter-cyclical fiscal policy during the downturn of the economic cycle, perceive the EUI as an important improvement to the common market. Meanwhile, some industrial relations actors and several member state governments resist establishment of the EUI. Their reservations are based on the expectation that the EUI might lead to convergence towards the lowest common denominator in the area of social policy in Europe, due to their own perceived relative weakness at the European level of policy-making.

These fears, shared by some social partners and a number of national governments, are a major political obstacle to the implementation of the EUI. Nonetheless, a parallel with the



banking union was made at the lab. Undoubtedly, the banking union project had to face similar political obstacles and yet an agreement has been reached.

The interplay between structural unemployment and labour market reforms was also discussed, in particular how Labour market regulation needs reform in some countries to make labour market entry easier, particularly for vulnerable groups.

Successful labour market reforms have to be based on local conditions and cannot be mechanically reproduced in other countries. Indeed, in many cases, the most effective changes can take place at the level of individual firms. However, the drivers of job creation are quite well understood and for this reason the technocratic aspects of designing labour market reforms is quite well developed in Europe.

Successful labour market reforms are also a matter of political, rather than technical feasibility. The continuing weakness of some European economies makes enacting reforms difficult, particularly because of the delay between reform and job creation. Citizens tend to be disappointed if reform is not succeeded by imminent job growth. The perceived success of the European Central Bank in supporting economic growth through monetary means creates a window of opportunity for reforms, but also makes them appear less urgent.

The flexibility of the labour force was cited as a major component of job-creating reforms. Flexible job markets, however, can only be socially beneficial if they also manage to create new, high-quality jobs. A growth in employment based on precarious work accompanied by a decrease in the overall volume of employment should be avoided.

Overall, participants agreed that Europe has the capacity to become a global leader in quality job creation due to its wealthy common market, technocratic capacity and high quality higher education institutions, but bold leadership is needed to ensure that this potential is not wasted.

Implications for EU policy-making

Although EU competences are limited in the realm of jobs and skills, much can still be achieved to alleviate the current economic and social situation. An unemployment insurance for the EU or the euro area should be created, for instance. Moreover, when promoting labour market reforms, both policy-makers and experts need to move beyond the 'one-size-fit-all' approach and try to understand the national specificities that prevent these reforms from being effective.

Finance

Introduction

Eight years after the great financial crisis, the EU's financial rule-making paradigm is shifting from avoiding a recurrence to contributing to economic growth. Many participants at the Finance Lab nevertheless expressed the view that further reforms are needed to bolster the resilience of the banking sector. On the other hand, the European Commission's Capital



Markets Union initiative is welcome as a move to lessen bank dominance, but the scope of the initiative is considered to be too narrow to make a real difference.

Key points arising from the discussions

Europe has adopted a raft of measures to ensure that banks can be resolved or liquidated in an orderly way and no longer need to be bailed out with taxpayers' money. But scepticism remains that these initiatives will be enough to overcome the too-big-to-fail problem. Banks still have a competitive advantage due to (implicit) subsidies, such as government guarantees, deposit guarantees, and monetary policy. This allows banks to conduct activities that are not contributing to the real economy, at the expense of the taxpayer. Eliminating or offsetting the (implicit) subsidies to banks via risk-adjusted premiums and a binding leverage ratio are essential to address the moral hazard and to create a level playing field with other financial sectors. Legislative measures should make sure that risk-takers understand both the up-side and down-side of their decisions.

Europe has struggled for years to create a very liquid capital market as an alternative to the dominant bank-based model of financing. The European Commission has now set the Capital Markets Union (CMU) as an objective for the next few years. The measures proposed initially (e.g. the revised Prospectus Directive, and securitisation), however, are too limited to make a real difference to diversifying the financial system and reducing fragmentation in capital markets. Measures to enhance the trust of investors, like insolvency and securities laws, and taxation, are all on the back burner. Mistrust between governments and the protection of national interests prevents governments from agreeing on these measures, which contribute to more efficient and diversified financial markets. The CMU should also promote long-term investments. Long-term investments by retail investors are concentrated in certain institutionalised products (life insurance, pensions, etc.), while other savings are locked in low-return (insured) deposits.

The Nordic experience, with the creation of sizeable cross-border capital markets, shows that more fundamental changes beyond financial legislation will be required to unlock the potential for economic growth. Nordic banks are actively involved in investment banking activities, and the local exchanges have worked hard in recent years to improve the environment for IPOs (initial public offering) and venture capital. These markets have largely sprung up due to a huge demand for capital markets instruments. The Polish equity market has, for example, become a regional hub for micro- and small-caps¹ due the demand for domestic assets from pension funds, which are obliged to invest the majority of the private collected funds domestically. The Baltic exchanges are horizontally integrated, broadening their outreach. In Denmark, retail investors own a larger part of the securities. A beneficial tax treatment, integrated infrastructure and institutional backing make it attractive for retail investors to invest a larger share of their savings in listed securities.

¹ Micro-caps and small-caps are, typically, listed companies with a market value up to 3 billion EUR.



Implications for EU decision-making

Overall, despite the abundance of new banking and other new legislation in the past few years, the Finance Lab showed that there is still a need for more legislative measures to improve the functioning of the financial system. Most of these measures, which could unlock economic growth potential, are related to taxation, insolvency laws, and accounting. But financial sector legislation should also be amended to incentivise financial institutions to take the best decisions for society as a whole.

Energy

Introduction

Energy Lab discussions focused on the analysis of internal and external energy policy developments. The main internal challenge is to address the EU's decarbonisation strategy, notably renewables. The EU's relationship with Russia and internal divisions over this issue were seen as the main external challenge.

Key points arising from the discussions

The impact of changing the rules of the game in gas trade with Russia

The fundamentals of EU gas supply have changed. First, the EU has put in place a number of internal measures to strengthen its resilience, and the Energy Union initiative is an illustration of this. Second, both supply and the numbers of suppliers have been increasing, offering the EU more alternatives to Russian gas, which gives the EU and its member states more leverage in price negotiations. On the other hand, Russia is designing a new gas export strategy by opening up routes to Asia and China. There is, however, no threat to European supplies, as 'Asian' gas was never meant for the European market in the immediate term. The announcement of Turkish Stream, which delivers a huge amount of gas beyond EU borders, is good news for Europe and leaves the transit to destination points to European partners. This might actually drive the development of gas hubs and infrastructure to absorb the almost 50 bcm that are planned to be delivered. But there is no threat of a physical gas supply shortage to Europe; Russia has a surplus of gas and in economic terms gas trade with Europe is more profitable for Gazprom than trade with China. The lab discussions identified possible strategies to strengthen Europe's negotiation position: further diversification of supply sources and routes and increased interconnectedness of the infrastructure. There was no consensus among participants about whether or not joint gas purchasing was required.

Future directions for EU electricity markets

The discussion on power markets highlighted the challenges that the integration of renewable energy poses when the share of renewable energy reaches some 45-50% in power sector by 2030. While the current framework for renewables energy is fixed until 2020, beyond that date divergent scenarios are a matter of discussion. In the current situation of low wholesale electricity prices caused by overcapacity, low coal and low carbon



prices, renewable producers are likely to face a ‘missing money’ problem after 2020. Support thereafter would have to be paid by consumers or come from public budgets to meet a 27% share of renewables in the final energy mix by 2030. At the same time, these low wholesale prices cannot financially sustain the gas plants that will be required as back-up if there is no wind or sun. There are two alternative solutions: maintain the current electricity market design with additional regulatory interventions, for example by including incentives to maintain back-up capacity in the form of traditional power plants. The other option would be a new electricity market design, which seeks to end the depression of wholesale prices and enable price peaks. It is hard to see how 45-50% of renewable sources could be integrated without some regulatory intervention to the current framework or a change to market design, unless there is a technological breakthrough in electricity storage.

Implications for EU decision-making

Any external energy strategy of the evolving Energy Union structure should take the new Russia and Gazprom strategy into consideration. The cancellation or rather re-routing of the South Stream projects has fundamentally changed the EU’s gas situation. If the new Turkish Stream project materialises, it is up to the EU to reap the full benefit by enabling interconnections and focusing on diversification, for example by improving the infrastructure for liquefied natural gas. As for the electricity market, it seems unlikely that the EU will manage to achieve its ambitious renewables targets unless it reforms its electricity market design, with a focus on long-term signals for investment in both renewable sources and/or conventional plants.

Climate Change

Introduction

The Climate Change lab focused on three areas: the role of the EU in international climate change policy; the importance of addressing the carbon leakage risk as a component of competitiveness, and how to ensure the sustainable transition to a low GHG emission economy.

Key points arising from the discussions

The Paris climate change agreement is expected to differ from the Kyoto Protocol, especially with respect to governance of the agreement. With the 2015 Paris UN climate change conference approaching, the commonly held view is that the EU has been, and will need to remain, a leader in the area of climate change. Both in the run-up to, and after the Paris summit, this role is regarded as helpful, indeed necessary. One aspect of the EU's role as leader is to provide a laboratory for climate policies, especially carbon markets, which others can adapt and implement to fit their own needs and circumstances. However, it also emerged that the EU will not really fulfil the role of leader until it develops a model that can be adopted by others. Other stakeholders questioned the EU’s leadership role, unless it can be explained in terms of direct benefit to the EU, such as the creation of a global carbon



market, providing a global context for the energy transformation that is seen as inevitable, and ensuring that this is an important component of the EU's soft power and diplomacy.

The second topic of discussion underlined the fact that carbon costs, as a component of competitiveness, are a significant concern for many within the EU's industrial sector. While competitiveness is crucial, climate policies are just one element of competitiveness.

Addressing carbon leakage risks after 2020 is central to finding a deal on restructuring EU ETS. In that sense, while some see restructuring as an improvement on current arrangements, others insist that a more 'revolutionary' approach is needed. However, no complete articulation of this view emerged from the discussions, beyond the desire to move to dynamic allocation. This detracts from the credibility of these demands.

Finally, green growth and a sustainable transition to a low-GHG economy was also discussed, but this is a topic that is not well understood when it comes to the tools that need to be put in place to ensure that the transition is sustainable.

Employment, competitiveness, education and innovation need to be aligned with the factors that drive growth, such as investment and infrastructure. Tinkering at the margins will not suffice to halt or even reverse the de-industrialisation of Europe, and different sectors of the economy will need different approaches in their transition to a low-carbon future.

That transition remains necessary because in the long term there will be no high-carbon prosperity, but it needs to be managed. Addressing climate change needs to be mainstreamed into all areas of society.

Implications for EU decision-making

This is a critical year for EU energy and climate change policy, both in the international arena through the Paris international conference and domestically, through the 2030 climate and energy framework and the Energy Union.

Stakeholders need to continue to be convinced of the rationale and importance of EU leadership in climate; how this will affect the competitive stance of EU's energy-intensive industry and how it will be addressed. Measures to mitigate competitive risks emerging from EU climate change policies will be at the top of the agenda for EU policy-makers leading up to the next phase of the EU ETS in 2020.

Rights & Security

Introduction

The discussions in the Rights & Security Lab explored the question 'More or less Europe?' by focusing on the rule of law challenges across three topics: i) the future of EU border agency Frontex and the challenges in moving towards a European borders service, ii) data protection and privacy in times of large-scale surveillance and iii) fighting financial crime and corruption in the EU.

Key points arising from the discussions

The debates identified insufficient capabilities to safeguard rule of law across EU member states, explored the balance between European level and member state actions, and underlined the need to combine rule of law frameworks with evidence-based policies. Participants examined the different legal and institutional frameworks needed in Europe to confront the rule of law and fundamental rights challenges in the EU's Area of Freedom, Security and Justice.

A prominent issue was the principle of accountability and ways to address the current gap between what the law says and what is delivered in its daily implementation. For the EU agency Frontex, there were discussions about the need to establish a complaints mechanism in situations where the human rights of migrants are not respected at the border. Moreover, in relation to the debate around European capabilities to safeguard the rule of law, the Frontex fundamental rights officer does not have the full capacity to monitor joint operations. A further topic was not only the trust in digital technologies, but also the trust in rule of law and democracy that were undermined by the law enforcement agencies' blanket collection of data. Member states' accountability to ensure that private companies respect the law was a key point of the discussions, with participants agreeing that targeted surveillance with proper oversight is more efficient than mass surveillance - in terms of data, 'less is more'.

Shortcomings in the rule of law affect the daily lives of citizens, as was clear from the lively debates around financial crimes and corruption in the EU. There were debates about whether and why a lack of knowledge on prevention and prosecution approaches hampers evidence-based policy-making. Experts indicated that the current proposals for the European Public Prosecutors Office (EPPO) do not produce the necessary European capabilities to make a real difference to fighting these phenomena. Others underlined the difficulty of investigating and prosecuting these crimes, thereby highlighting the crucial role of whistleblowers.

Implications for EU decision-making

What kind of EU rule of law mechanism should be developed to address current challenges and gaps across EU member states, and how can the Council of Europe and EU institutions strengthen their relationship in monitoring EU rule of law? EU border control and surveillance should be subject to independent monitoring and scrutiny. The essential role of the Frontex fundamental rights officer in monitoring operations at the border could be reinforced. In addition, an EU border monitor could be established to ensure that all border controls are carried out in compliance with EU law. Public trust in data protection and privacy in the digital world could be strengthened by rule of law frameworks for private companies, a criminal law led approach and better democratic and judicial oversight for intelligence services across Europe. Finally, participants agreed that member states could establish and improve protection regimes for whistleblowers. The EU could support these steps by setting supranational standards and ensuring closer monitoring to address the implementation gap.



Institutions

Introduction

The EU has taken on many new powers since the crisis in 2008, namely in the area of economic governance, where integration has proceeded at a precipitate rate. These additional EU competencies and an accompanying focus on jobs and growth have required a more ‘political’ (not to be confused with ‘politicised’) European Commission, with its innovative matrix structure and mantra of ‘big on big (issues), small on small’. At the same time, the unprecedented diversity of the challenges facing EMU and the speed at which they became apparent following the crisis have required policy-makers at both national and EU-levels to devise new institutions and procedures in a somewhat ad hoc manner. In the face of accusations that the treaties have been ‘stretched to breaking point’, and against a backdrop of rising Eurosceptic sentiment, there have been calls for treaty revision to ‘legitimise’ (both legally and democratically) EU action and for a new narrative to rally citizens around the EU.

Key points arising from the discussions

Treaty revision, the function and approach of the Commission and a rallying cry for Europe – these are complex political issues that will have lasting consequences for the EU’s performance at home and abroad for decades to come.

Besides the move away from ‘technicity and bureaucracy’ through a pared-down agenda and more focused priorities, the *Spitzenkandidaten* method of selecting the Commission president received much mention. While it was given unequal prominence throughout the Union in 2014, this move to increase the legitimacy of the Commission by bolstering the impact of the European Parliament elections is irreversible and will doubtless receive more attention in 2019.

On the message that the EU should communicate to counter rising Euroscepticism, ideas put forward included a return to the ‘peace narrative’ (somewhat problematic in the current geopolitical context), as well as vague notions of justice, democracy and a shared culture and history. However, the majority opinion was that the EU has to justify itself through results - action that addresses citizens’ ‘real life problems’ - rather than through mere words. The areas in which the EU could deliver for its citizens during the current Commission mandate include TTIP, energy union, security and the digital market.

Specifically on security, interesting proposals included moving the Common Foreign and Security Policy from the TEU to the TFEU, increasing the role of the Commission and removing the unanimity requirement in the Council. Further integration in foreign and security policy, somewhat on the back-burner during the crisis, has been encouraged by Russia’s military intervention in Ukraine, which has “reminded us of our values”. In this context, the need for a more strategic argument for ‘more Europe’ was called for, emphasising the EU’s place in the world and its responsibility for the security of its citizens.



It was acknowledged that there is a strong reluctance to re-open the Pandora's box of treaty revision following the political scars inflicted by Maastricht and the Constitutional Treaty. However, with 28 member states, the consensus is that there can no longer be a 'one size fits all' model of integration and that more flexibility (à la multiple-speed/multi-tiered/variable geometry approaches) is needed. This was raised particularly in the context of economic governance, which has been pushed to 'the limit of legality'. There were also calls for a new 'grand bargain for Europe', which must come from the strong (i.e. Germany) rather than the weak. Reforms that would not require treaty change were also much discussed, particularly changes in the functioning of the European Council and the "sclerotic" Council of Ministers. An increased legislative role for the European Parliament in areas where it currently only has powers of scrutiny or where it is not a full co-legislator was also called for.

Implications for EU decision-making

Two innovative policy recommendations for the EU mentioned during the Lab deserve particular mention.

First, that the passage of the Fiscal Compact (TSCG) should be an inspiration for new treaty changes, and a useful precedent for substantial reform without the need for unanimity or the threat of veto.

Second, political cycles at national level should be harmonised with the EU election cycle (as Belgium has already done), so that political conditions are more propitious to fostering - in a timely manner - the EU initiatives that are sorely needed today across a wide range of policy areas.

Europe in the World

Introduction

The Europe in the World lab discussed three very different topics that currently challenge the EU: **the future of the Eastern Partnership, crisis management in the Maghreb, and how to facilitate the Council decision-making in the CFSP.**

The future of the Eastern Partnership

Five years after its launch, the Eastern Partnership has seen both achievements and severe set-backs. It is now effectively a two-tier system, with Georgia, Moldova and Ukraine forging ahead, albeit at considerable cost and at different speeds. Armenia, Azerbaijan and Belarus are lagging behind. How can an EU policy towards its eastern neighbours confront the challenges posed by Russia? How can the bilateral approaches towards each of the countries be further developed without abandoning the multilateral dimension that keeps the strategic framework together?



Points arising from the discussion and implications for EU decision-making

- The Eastern Partnership is not responsible for the crisis in Ukraine or in any other country of this partnership. The Eastern Partnership has neither succeeded nor failed.
- The key challenge of the common neighbourhood between Russia and the EU remains and will remain the different visions for the region and the opposing systems espoused by Russia and the EU; Russia does not ‘believe’ in the free and sovereign policy choices of EaP states and confronts their aspirations for association to the EU's rules-based system with power politics and naked aggression. Victory of the latter would signal the demise of the EU.
- The ‘conventional wisdom’ in Brussels and Washington is that Russia will seize Mariupol in order to create a land-bridge to Crimea, then ‘freeze’ the conflict for a number of years.
- The nature of corruption and weakness in many EaP countries does not allow the EU’s ‘slow burn’ implementation of its *acquis* to work.
- Mariupol (or Kharkhiv) poses a red line for the EU to adopt further financial and economic sanctions against Russia, but will not lead to a common position on providing Ukraine with defensive weapons systems. Some member states may do so in the absence of a common position.
- The Eastern Partnership summit in Riga, May 2015, will be key to re-establishing the EU's firm, value-based commitment to the region. The message from the EU to Russia should be that the EaP and good relations with Russia can be reconciled.
- The EU should optimise its technocratic competence and trade links with EaP countries. Adopting values and better practices need to develop out of cooperation. The EU does not have the presence or authority to conduct high politics there (no ‘actorness legitimacy’ yet).

The EU and crisis management in the Maghreb

The past few years since the 2011 revolts in the Arab World have produced varied results – not least in the Maghreb. Tunisia is the only country still in ‘Arab spring’; Morocco is a reforming authoritarian state, Algeria is in ‘frozen transition’ and Libya at de facto civil war.

Points arising from the discussion and implications for EU decision-making

Countries with better civic, social and political infrastructure fared better (Tunisia); Libya never had this architecture but nevertheless still has the capacity to “remain its own state”.

The EU should “manage expectations” and be careful not to overestimate its crisis management capacity.

- Political actors in the Maghreb ask for political training and many feel “abandoned by the EU” in their struggle.
- In order to tackle grassroots problems in these countries, the EU needs to decide how to deal with political Islam. ISIS and other Islamist extremists pose a major threat to the



Maghreb and the EU alike, but should not be mistaken for the root of the problem in the Maghreb, especially not in Libya.

- The EU is not a principled actor in the Maghreb. It should be coherent in its views on its southern neighbourhood and back up its principles in practice.
- A new EU Special Representative for the southern Mediterranean should be appointed.
- The EEAS needs to further develop its forecasting and mediation capabilities at local level.

How to facilitate Council decision-making in the CFSP

The cost of keeping all member states together in CFSP decision-making has often translated into the smallest common denominator positions. How can a better balance be struck between inclusivity and unity, on the one hand, and efficiency and effectiveness on the other?

Points arising from the discussion and implications for EU decision-making

There seems to be a promising new culture of inclusive dialogue among all actors, in view of the need to join up CFSP/CSDP with other strands of EU external action and competences. Yet 11 EU foreign ministers, including all the founding member states, issued a declaration in September 2012 favouring more majority voting in the foreign and defence fields. The HR, in her hearing before Parliament, stated that she would make better use of her power of initiative, as indeed the treaty arrangements of constructive abstention and QMV in Council decision-making.

The HR should systematically use her autonomous power to develop and conduct the CFSP. Together the HR, the Commission services and the EEAS, should make themselves indispensable to member states, as i) policy entrepreneurs communicating their initiatives by way of policy papers to trigger discussions (also in the wider community of think tanks, NGOs, civil society, businesses and other stakeholders); ii) facilitators in the decision-shaping and decision-making processes (if necessary by steering towards constructive abstention, QMV or enhanced cooperation between able and willing member states); and iii) as monitors to ensure member states' compliance with jointly agreed decisions.

Unanimity-backed consensus-building is a reality and a major constraint that is not likely to change in the area of foreign and security policy. It is considered important to keep 'everyone on board' to avoid any unforeseen consequences of exclusion later on.

Prime Talk on the Rule of Law in the EU

Speakers: Rosen Plevneliev (President of Bulgaria), Nils Muižnieks (Commissioner for Human Rights, Council of Europe) and Robert de Groot (Deputy Director General Political Affairs, Ministry of Foreign Affairs of the Netherlands).



President Plevneliev made a plea for an EU of human rights, democracy and the rule of law. He underlined the need for strong institutions to guarantee rule of law safeguards at all levels across the EU, and called for the European Commission to take a clear stance when the rule of law is under pressure in member states. Mr Muižnieks highlighted tensions between EU's internal and external rule of law mechanisms, with shortcomings inside EU member states sometimes left unresolved. He pointed to the case law of the European Court of Human Rights as evidence of these shortcomings across large, small, new and old member states. He identified this judicial scrutiny as the most objective rule of law mechanism available and urged the EU to do more in those areas where it has competence, also by exploiting the expertise of the Fundamental Rights Agency. Mr De Groot presented the EU rule of law initiative that the Netherlands has proposed alongside other member states, based on equal dialogue and discussion between the member states. He broadened the scope of the discussions to civil procedures, investor protection and credit information, arguing that they all relate to rule of law and equality across the member states.

The ensuing discussions focused on a number of rule of law challenges across the EU, such as on lacking transparency in fighting tax evasion, the unjustified and long detention of migrants, and the lack of robust data protection commissioners in several member states. The speakers and audience underlined the need for strong rule of law institutions in Europe and highlighted that member states, the EU and the Council of Europe should intensify their cooperation on this vital issue.

Prime Talk on the Future of EU-Russia relations

Speakers: Wolfgang Schüssel, former Federal Chancellor of Austria, now Chairman, DER-Dialog-Europe-Russia; Vladimir Chizhov, former Deputy Foreign Minister, now Permanent Representative of the Russian Federation to the European Union.

Seen from Brussels, Russia has not turned out to be the strategic partner the EU had hoped for. Russia is viewed as having positioned itself as a strategic competitor, pushing its agenda in the shared neighbourhood through the use of armed force in Ukraine, the violation of EU member state airspace and by coercing countries into its regional integration model of the Eurasian Economic Union. The Ukraine crisis has put the EU-Russia relationship under unprecedented strain.

Seen from Moscow, the EU's strategic ambitions with post-Soviet countries in its near abroad impinge on Russia's vital interests. Although Putin declared recently that an open war in Europe is unlikely, High Representative Mogherini went on air to say that Putin has it wrong; there already is an armed conflict and it needs to be stopped.

At the Munich Security Conference in February 2015 Chancellor Merkel stated that, according to her, there are two opposing systems and two opposing visions of the international order, which we will have to face for a very long time to come. But for economic, cultural, historic and other reasons, the EU and Russia are natural partners.

There were widely divergent views between the two speakers on the annexation of Crimea and the war in Ukraine. The middle ground was defined in the following terms:

- Any positive scenario begins with the end of war rhetoric and care on both sides to avoid inflammatory terminology
- Respect the terms of the Minsk II Agreement
- Reach an energy settlement with Ukraine
- Demilitarise the conflict
- Draw up a sort of Marshall Plan for Ukraine, sponsored by the EU and Russia

There was agreement that the EU and Russia have shared responsibility for a successful outcome of this peace process and for the reconstruction of Ukraine's devastated economy. If the EU and Russia succeed in this endeavour they will have laid the groundwork for their strategic partnership.

