



EU politics: Member States' election calendar likely to take centre stage

- The EU agenda 2017 will be dominated by national elections and the management of possible fall-out from the course of European politics. Next year will see regular elections in three core euro area member states, i.e. the Netherlands, France and Germany, and possibly an early election in Italy, each with different concerns over the influence of right-wing populists. Trump's win could further embolden nationalism in Europe, fuelling fragmentation and bedevilling concise responses to Europe's challenges.
- The major issue on the EU policy agenda remains mapping out a way forward for the EU27 after the Brexit vote. While the EU-27 keeps its initial approach of leaving Brexit negotiations until after the UK triggers Art 50 TEU, they have engaged in discussions over key priorities and joint actions. This has been more about setting up a process than providing a blueprint for a "new" Europe envisaged for the EU's 60- anniversary in March 2017.
- The most sensitive topics for the EU are likely to be refugee policy and relations with Turkey, security/defense and trade matters – also in view of the new US administration – as well as the course of (national) fiscal policy and the relevance of fiscal rules in the euro area. This involves the suspension of EU membership talks, the approach to pending FTAs' (CETA, TTIP), the future treatment of Chinese imports in anti-dumping investigations as well as the EU Commission's "political" approach to compliance with the EA fiscal framework.

Brexit – the elephant in the room in Brussels

While preparations for Brexit negotiations have started, the EU-27 are still in a waiting position. Hopes for an early clarification of the timeline have been disappointed given the pending legal challenge at the Supreme Court on whether the government can trigger Art. 50 TEU without a motion or even a bill by the UK parliament. Even an involvement of the European Court of Justice in the Brexit process cannot be ruled out since the case put forward to the Supreme Court (following an appeal by the government after a ruling by the High Court) is based on the view that an activation of Art. 50 TEU is irrevocable. Not least because it has never been used so far, there appear to be different readings of the provision among lawyers on this question. Thus it would be up to the ECJ to provide a binding interpretation of the EU law.

We still consider a notification by end- Q1/ 2017 the most likely scenario. This means that the EU Council will have to decide on a negotiation mandate for the EU Commission amidst the mentioned national elections. At the same time, the European Commission's chief negotiator, Michel Barnier, has noted that an agreement would have to be concluded swiftly within 18 months – i.e. by October 2018 provided that Art.50 would be triggered by end of March 2017 – to allow time for ratification.

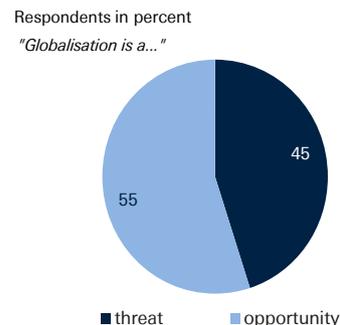


So far, the EU-27 sticks to its view that access to the single market can only be upheld if the UK accepts the four freedoms, certain fiscal contributions and the ECJ as the legal institution for dispute settlements. Negotiations are a dynamic process though, and the outcome might look different from the starting position – as long as both parties see their major interests respected in the final deal.

Beyond Brexit and as an attempt to strengthen public support for [European Integration](#) the EU-27 will continue to discuss further initiatives, above all in the area of [defense and security](#) but also on [economic issues](#). This aims to build a “modernised” narrative for the EU in the run-up to the 60th anniversary of the signing of the Treaty of Rome in March 2017. The EU Commission is preparing a [White Paper](#) for this purpose which started with the focus on the euro area and on the basis of the Five Presidents’ report but has been broadened since then. In this sense, the meeting will serve as a litmus test on EU policymakers’ ability to deliver on a coherent vision that addresses concerns and demands of the European public going forward.

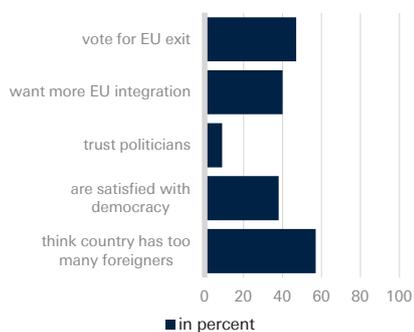
An opinion poll by the Bertelsmann Foundation suggests that fears about [globalisation](#) shape political attitudes across the major EU member states and are a major driver for support of populist parties and the perception towards European integration.¹ The polls indicate that of those who view globalisation as a threat almost half would vote in a referendum to leave the EU (47%) whereas 83% of those who regard globalisation as an opportunity would vote to stay and support more integration (60%). To respond to these fears, however, is as much a task for domestic politics in the member states as for the EU as a whole.

Figure 1: Opinions about globalisation in Europe



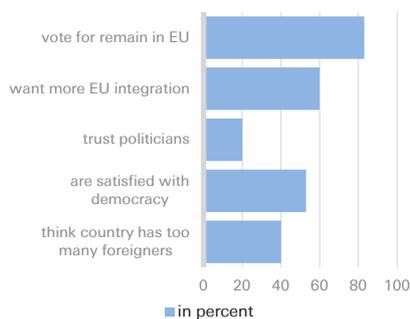
Source: Bertelsmann foundation, Deutsche Bank

Figure 2: Respondents' different views of the world: Globalisation is a threat



Source: Bertelsmann foundation, Deutsche Bank

Figure 3: Respondents' different views of the world: Globalisation is an opportunity



Source: Bertelsmann foundation, Deutsche Bank

Reshuffle at the top of the European Parliament

The current President of the European Parliament (EP), the German Martin Schulz (SPD), has announced that he will seek a seat in the German Bundestag. There is also talk in the media that he might become foreign minister and replace Steinmeier (SPD), who has been nominated to become Germany's next Federal President, as early as February 2017. Back in 2014 Schulz assumed the presidency under an informal power-sharing agreement between the two major groups in the EP, the Progressive Alliance of Socialists and Democrats

¹ Bertelsmann Foundation, opinions "Fears not Values", November 2016. Survey conducted in August, sample drawn across 28 EU member states.



(S&D) and the centre-right European Peoples Party (EPP) under which the presidency is shared for the parliamentary term between these two groups. This would leave the vacant post to a nominee from the EPP. However, it is unlikely that this informal arrangement will be applied further, giving other groups a chance at the presidency.

A number of MEPs from different groups have already indicated interest in standing for EP president, above all Gianni Pittella, the leader of the S&D, who was confirmed as S&D group president on Dec 7 and is standing as a candidate for the presidency of the European Parliament. The EPP is likely to nominate its candidate for head of parliament on Dec 13. On January 17, 2017, the entire Parliament will hold a secret ballot to pick its next president. Schulz' departure might open up a new dynamism in the EP that has been practising a "grand coalition" in its recent legislative terms. How this will impact on the practical work of the EP remains to be seen. Some observers have voiced concerns that it could lead to frictions and cause delays in the legislative process. While there are fewer proposals "in the pipeline" due to less legislative initiatives put forward by the Commission, a number of dossiers await consideration by EP co-legislators such as initiatives to promote a common electricity market, financial market legislation, or changes to trade defense instruments.

Day-to-day business will keep the EU busy despite national elections

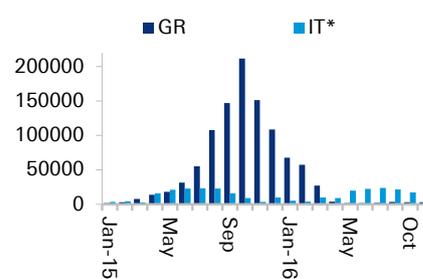
There are a number of issues that are politically sensible as well as economically important. [First there is the migration topic and the EU-Turkey agreement.](#) In combination with the closure of borders on the Balkan route the Turkey agreement appears to have worked sufficiently well. Turkey has taken measures to prevent new irregular migrants crossing from Turkey to Greece in return for financial support by the EU (currently EUR 3bn with an additional EUR 3bn envisaged).

More important for Turkey, though, was the EU's commitment to lift visa requirements provided Turkey fulfills a number of preconditions. This has not been the case so far pushing the agreement on visa waiver further down the road. Rhetoric has become more hawkish from both side since then with Turkey threatening to terminate the agreement and the European Parliament approving a motion that accession talks with Turkey should be frozen given the latest political developments in the country. Tensions are likely to remain but still both sides take a certain advantage from the continuation of the agreement.

[The second issue is trade](#) essentially about politics and economics, signalling to what extent the EU is able to bridge gaps between member states and what approach it is going to take with external partners moving forward. Topics on the (EU) trade policy agenda stretch from the adoption of the Commission's proposal on how to handle imports from China in anti-dumping investigations in the future to pending free trade agreements (ratification of CETA) and the more general aspects of free trade and openmarket policy in view of the new US administration.

Last but not least, [the appropriate mix between monetary and fiscal policy and – in a broader sense – further steps to policy coordination in the euro area remain on the agenda.](#) In the context of the start of the European Semester cycle the EU Commission has for the first time issued a recommendation on the aggregate fiscal stance for the euro area. It called for an additional fiscal stimulus of 0.5% of GDP to be provided in particular by those member states that dispose of healthy public finances. Not only has German FM Schäuble

Figure 4: Sea arrivals in Italy and Greece



* October 2016 data for Italy not yet available
Source: UNHCR, Deutsche Bank



rejected this proposal as being beyond the EU Commission's mandate which is to focus on monitoring member states' public finances and ensuring its compliance with the fiscal framework. The Eurogroup further emphasised that the design of an appropriate fiscal stance for the euro area is the individual and collective responsibility of Member States, noting that the Commission's recommendation is rather seen as some additional analysis, and pointing out the considerable heterogeneity across member states in terms of fiscal space and consolidation.

The discussion about the Euro area's (appropriate) fiscal stance is going to remain on the agenda for 2017. In addition to the European Commission and member states' views on the issue, the new European Advisory Fiscal Board (EAFB)^[1] is going to join in this debate. Beyond advising the Commission on the appropriate fiscal stance for the euro area, evaluating the implementation of EU fiscal rules is part of its job description. With the new body just about to start its work, it's too early to tell how much clout it is going to have in next year's debate but in an upside scenario it could provide a more conceptually oriented voice in the highly politicized fiscal policy discussion. The perennial debate about compliance and flexibility is clearly going to continue in 2017 but perhaps with some different nuances. One point that could feature more prominently is the issue of promoting quality public spending (in addition to meeting budgetary targets).

As a reminder, the issue of retaining [sanctions for Russia](#) are up for decision end-December as well. For the time being it looks as if the decision – for which unanimity of the EU-28 is required - will be for another 6-months extension. Beyond that government changes in certain member states might lead to a weakening of the sanction policy towards Russia (e.g. the French candidate for president, Fillon, has called for a normalisation of EU-Russia relations).

^[1] The members of the EAFB are Niels Thygesen (Chair, Denmark), Roel Beetsma (Netherlands), Massimo Bordignon (Italy), Sandrine Duchêne (France) and Mateusz Szczurek (Poland).



Appendix 1

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