



The future of the EU: Which road to take?

- **The discussion about the future of the EU27 is on.** To frame the debate, the European Commission issued a White Paper in early March, including five scenarios to outline what the EU could look like in 2025.
- **There is more than “more or less integration”.** In fact, the two scenarios attracting most attention are ideas for a Union with stronger emphasis on differentiated integration and an option trying to reconcile calls for a leaner EU with ambition for integration on key issues. Ideas about multi-speed integration in particular are a sensitive topic among member states.
- **The White Paper only marked the start.** There are five further papers planned for Q2 to provide more detail for different policy areas. From a market perspective, the paper fleshing out ideas for the future of EMU to be published towards the end of May should be the key one to watch.

[The White Paper has kicked off wider debate about the EU’s future - to continue throughout the year](#)

Saturday 25 March marks the 60th anniversary of the Rome treaties. It will be a day of celebration as well as reflection. Against this background, the discussion about the future of the EU27 is on. Earlier this month, the European Commission presented a White Paper on the future of Europe to frame the debate.

Ideas for the EU after Brexit

The paper presents five scenarios that envisage the EU in 2025. These include:

- Continuing by muddling through - i.e. the scenario dubbed “carrying on” ([Scenario 1](#))
- A slimmed down version of the EU that focuses on the single market only ([Scenario 2](#))
- A federalist vision of “doing much more together” ([Scenario 5](#))

In addition, the two scenarios falling somewhat in between - and arguably triggering the most discussion – are:

- A model of differentiated integration: “Those who want more do more” ([Scenario 3](#)) and
- The idea of a less comprehensive but at the same time more ambitious Union: “Doing less more efficiently” ([Scenario 4](#))

¹ See European Commission Website for the White Paper on the future of Europe, presented on 1 March 2017.



Reflection rather than roadmap

It is worth keeping in mind what the White Paper is and what it is not. It aims to provide “food for thought” and to trigger further discussion. It does not provide a roadmap or a clear guidance how the EU27 should develop in the upcoming years. To that extent, it is first of all a request to member states for reaction and also an invitation to the wider public to engage in the debate.

The European Commission was initially criticized for not settling on one vision. However, the more open approach has some advantages and arguably fits the current situation better. It is hard to imagine any scenario that would find instant unanimous support as there are different visions what the EU is and ambitions as to what it should be in the future. To some extent, these have always existed; to some extent the past couple of (crisis) years have exacerbated them. More often than not, the differences are portrayed as problems - but they need not be as long as they can be dealt with in a constructive way and workable compromises can be thrashed out. In this regard, what the scenarios contain are varying levels of ambition for cooperation and different ways of realizing it in a heterogeneous group of 27 countries.

The White Paper is about (possible) directions rather than detail and it is not a technical document. Structure and style are clear, the scenarios sketch implications for different policy domains, and include examples in terms of what the different approaches would mean for policies as well as citizens. There are certainly many things that are not spelled out but what it shows is that there are real trade-offs that come with the different visions and that this is not just a lofty wonkish debate about integration.

A closer look at the scenarios

The table below provides a quick summary of the five scenarios and their implications for key policy areas:

Scenario summary	
<p>1. Carrying on</p> 	<ul style="list-style-type: none"> - Strengthen single market and pursue progressive trade agreements - Incremental progress on EA functioning - Gradually increased cooperation for external border management, coordination of security matters and steps towards a common asylum system - Partially modernized EU budget - Positive agenda yields some results but decision-making remains (too) complex → (continued) gap between expectations and capacity
<p>2. Nothing but the single market</p> 	<ul style="list-style-type: none"> - Single market for goods and capital strengthened but standards continue to differ and free movement of people and services not fully guaranteed - Cooperation in EA limited - No single migration or asylum policy, further security coordination mostly bilaterally, more systematic internal border controls - Defence cooperation remains as it is today, some foreign policy issues increasingly dealt with bilaterally - EU budget refocused to finance key functions needed for the single market - Decision-making may be easier to understand but limited capacity to act collectively. Issues of common concern often need to be resolved bilaterally



<p>3. Those who want more do more</p> 	<ul style="list-style-type: none"> - Strengthened single market and EU pursues progressive trade agreements - Incremental progress on EA functioning (similar to 1.) except for a group of countries who deepen cooperation e.g. on taxation and social standards - Schengen, security & migration similar to 1. Except for a group of countries who deepen cooperation on security and justice matters - Foreign policy and defence similar to 1. Except for a group of countries who deepen cooperation on defence, focusing on military coordination and joint equipment - EU-budget similar to 1. but additional budget made available by some Member States for the areas where they want to do more - Capacity to deliver similar to 1. Positive agenda yields results but some (groups) achieve more in some domains. Decision-making gets more complex
<p>4. Doing less more efficiently</p> 	<ul style="list-style-type: none"> - Common standards set to a minimum but enforcement is strengthened in areas regulated at EU level. Trade is exclusively dealt with at EU level - Several steps taken to consolidate the EA and ensure its stability. EU27 does less in areas of employment and social policy - Systematic cooperation on cross-border management, asylum policies and counterterrorism - On foreign policy, EU speaks with one voice, creation of European Defence Union - EU budget significantly redesigned to fit (new) priorities - Need to agree on priority tasks initially but once managed, decision-making could be easier to understand. EU can act quicker and more decisively where it has greater role
<p>5. Doing much more together</p> 	<ul style="list-style-type: none"> - Single Market strengthened through harmonisation of standards and stronger enforcement. Trade exclusively dealt with at EU level - Economic, financial and fiscal Union achieved as envisaged in 5 presidents' report 2015 - As in 4., systematic cooperation on border management, asylum policies and counter-terrorism matters - As in 4. EU speaks with one voice on all foreign policy issues and European Defence Union created - EU budget significantly modernized and increased, backed up by own resources. EA fiscal stabilisation function operational - Decision-making is faster and enforcement stronger across the board. Questions of accountability arise for some who feel that the EU has taken too much power away from the Member States

Source: European Commission, Deutsche Bank

We next consider the major considerations and implications for each of the five scenarios, starting with the least (Scenario 2) and most (Scenario 5) integrated options.

Scenario 2: nothings but the single market

The least ambitious in terms of integration is the "single market only" scenario 2. It would (over time) imply scaling back the EU, partly because bilateral actions sometimes would not square with the idea of common policies (e.g. increased bilateral border controls and Schengen) and / or because not acting collectively would come at the cost of external representation and credibility. A refocused and (most likely) smaller budget would provide little impetus for economic convergence and together with limited cooperation on many other policies, (economic) differences across member states might widen rather than narrow over time.

Together with more limited institutional cooperation for the EA, this would arguably leave the Euro vulnerable. Sidelining areas such as security and



asylum policy would actually mean turning a blind eye on areas where according to some polls there is demand for (more) common policies (immigration and terrorism are considered the two most important issues for the EU at the moment stated by 45% and 32% respectively and about 69% support a common policy on migration, only one in four is opposed to the idea).

By and large, it does not seem to be a very attractive scenario. While the single market remains a key achievement - and is indispensable for all the other scenarios, too - the “nothing but the single market” scenario actually prompts the question what would be the costs of reducing the EU to “just” that.

Can we have just the ‘single market’?

Arguably, it may not be that simple. One big question would be where to draw the lines between policy initiatives and legislation that falls within the single market mandate and those not / no longer covered. Take areas like services where a single market requires, for instance, some common rules on handling professional qualifications in order to trade freely. The paper already hints that free movement of services would not be fully guaranteed. But there might also be challenges for strengthening the free market for capital because completing the latter more often than not means addressing issues that are deeply rooted in member states’ financial market structures or legal traditions (e.g. insolvency rights).

Another case in point is the digital single market which is based on a more comprehensive approach, e.g. including issues such as supporting infrastructure creation in member states or protection of consumer rights. Arguably, digital technology is an area where regulation really does not guarantee success. But at the same time it is hard to see the digital single market taking off with a more narrow approach to cooperation. Over time, this could easily hamper the (existing) single market.

Also, it is worth keeping in mind that a functioning single market needs strong institutions, particularly for competition policies. There is a notable difference to scenario number 4 here, which makes clear that “doing less but more effectively” should not come at the cost of areas regulated at EU level, which would include competition policies and trade.

An EU scaled back to economic cooperation would not take out the politics - but at the same time it looks unlikely to work without sufficient political backing. All other scenarios basically envisage some progress for the single market (implicitly assuming its functioning) even though potential interactions with other policy areas are often not fully fledged out.

Scenario 5: Doing much more together is not without drawbacks

The counterpart to the second scenario is “doing much more together” (Scenario 5). Clearly, there are many things member states could do together, including single market completion and a common approach to migration, and joint action would likely mean a strengthened voice at the international level - but this is all contingent on political will. Aside from the question whether it would be realistic, the paper cautions on the danger of losing support by pushing (too much) further ahead. Partly, this reflects political developments in member states and the rise of eurosceptic populist parties. Partly, this simply acknowledges that deeper integration would be hardly viable without sufficient support by citizens.



Notably, scenario five is the most progressive on EMU. It aims for a fully-fledged economic, fiscal and financial Union along the lines of the five Presidents' report presented in 2015.² The latter outlined several steps to complete the EMU, i.e. suggestions for a Euro area treasury and a euro area stabilisation function.

Given the controversial nature of Scenario 5 as a whole, perhaps the more interesting question is what elements for further Euro area development could also be realized as part of the other three scenarios (1, 3, and 4).

Scenario 1: Carrying on – the somewhat uncomfortable default

The third scenario – “carry on” – notably does not mean sticking with the status quo. It does envisage some gradual progress for European integration for different areas, e.g. for the single market or some changes to the EU budget. Changes would mostly be incremental though. More ambitious projects, e.g. the creation of a European Defense Union, look rather unlikely to be realized here. The drawback of this scenario is that it has to rely on ad hoc management of problems and disputes could often turn into tests for unity. It would leave the EU somewhat vulnerable.

In addition, the muddling through scenario might have perception problems. The paper notes that the gap between expectations and capacity would likely persist, in a way contributing to vulnerabilities. This would be a continuous problem, although much would depend on the (incremental) results in some areas and also communication, which could help to define (perhaps more realistic) expectations. However, in the short term there is another angle: it would be challenging for institutions and member states to present the carry on scenario as a deliberate choice at this point. Most likely, it would be regarded as the somewhat uncomfortable default, which still works but hardly gives rise to enthusiasm.

Scenario 4: Focus on the essentials – but need to define them first

The fourth scenario- “doing less more efficiently” has some appeal at first sight and aims to reconcile ambition with calls for a leaner EU. In doing so, it also connects to the discussion about subsidiarity and improving the distribution of competences in the European multi-level system of governance more generally.

The key question here is what “the essentials” would be. The paper puts an emphasis on innovation, trade, security, migration, border management and defence. It suggests doing less on issues like public health, parts of employment and social policy that are not essential for the single market and areas such as regional development. The latter point for instance is bound to be controversial as support for economic convergence would clearly count as “essential” for many regions in Europe as well as a number of member states.

² See Five presidents (Jean-Claude Juncker, Donald Tusk, Martin Schulz, Jeroen Dijsselbloem and Mario Draghi) “Completing Europe’s Economic and Monetary Union”, issued in 2015.



Notably, this scenario also envisages a stronger role for the EU in trade policy, an area where global and local economic effects and political support have always been intertwined and where spatial effects including regional economic divergences and their potential political implications have come increasingly into focus.

Altogether, this scenario would add up to a Union with stronger emphasis on “high politics”, notably security. It would also mean greater external visibility and responsibility if living up to ambition. A greater external role is contingent on internal cohesiveness though. This goes for the group of member states as well as their societies. One question in this scenario remains how a Union focused on essentials would be perceived by citizens. In an upside scenario, it would be perceived as more efficient and mitigate “the EU” being blamed for allegedly unnecessary regulation on some occasions. At the same time, it remains up for debate whether the EU can be “more global without being more local”, i.e. whether support on “the essentials” would be sufficient if it remains rather abstract and invisible in many peoples’ everyday lives and divergences on living standards (salaries, taxes, social legislation) would persist. Support on “the big issues” would require a strong positive narrative. This may be manageable for issues like climate change or development but might entail controversial choices when it comes to e.g. dealing with defence issues.

Scenario 3: Multiple issues, multiple groups, multiple speeds

The third scenario has taken centre stage in most debates during the past couple of weeks. “Those who want to do more, do more” suggests differentiated integration. Part of its appeal is that “more” could be many (different) things and because not all member states need to agree on everything, things could be realized more quickly. The paper for instance envisages closer cooperation on defence issues (for some) as well as greater cooperation on taxation and social matters (again, for some).

Ideas for differentiated integration are nothing new. They have been voiced repeatedly since the 1970s taking on various forms including a “Europe à la carte, a Europe with several speeds, a Europe with a core, concentric circles or with a variable geometry. Typically, they have been proposed as a way to overcome difficulties in the process of European integration and as a potential solution to deal with political deadlock. To that extent, differentiated integration can be seen as a pragmatic solution, sometimes it is also regarded as “better” in terms of quality and results. At the same time, it comes with new challenges notably preserving the Union of all members as well as fitting differentiated integration with the common body of EU law.

In practice, legal instruments to allow for cooperation of a limited number of member states have been created, notably via “enhanced cooperation” procedures, and a Europe with multiple speeds already exists in a number of areas e.g. for the single currency, Schengen or on criminal law.

Theoretically, there are two key factors for differentiated integration. The first is whether groups are based on ability (de facto differences) or willingness. The second is whether differentiation is temporary (implying a common goal to be reached at some point) or permanent. The White Paper puts somewhat greater emphasis on political willingness for integration. On some issues, notably the Euro area, it connects to differentiation that already exists but it remains rather silent on the time dimension.

Figure 1: Explaining ‘Enhanced Cooperation’

Enhanced cooperation (Article 20 TEU and Articles 326-334 TFEU) is a procedure where a group of EU member states - minimum 9 countries - are allowed to establish advanced integration or cooperation in an area. It takes place within EU structures but without all countries being involved.

Enhanced cooperation allows for integration at different speeds and also towards different goals than those outside of cooperation in the respective areas. It is a procedure designed to overcome paralysis, where a proposal is blocked by an individual country or a small group of countries who do not wish to be part of the initiative. What it does not allow for is an extension of powers outside those permitted by the EU Treaties. As an instrument, enhanced cooperation needs to be open to member states who want to join it - i.e. trying to prevent isolation - and compatible with EU law, notably not hindering the single market.

Authorisation to proceed with the enhanced cooperation is granted by the Council, on a proposal from the Commission and after obtaining the consent of the European Parliament.

The enhanced cooperation procedure has been used in the fields of divorce law, and patents, and also the financial transaction tax.

So far, experiences suggest that while the instrument provides a possibility for a group of member states to move forward, putting enhanced cooperation into practice has not come without (legal) challenges.

Source: Deutsche Bank, European Commission



The scenario prompts several questions, notably i. how the (different) groups would be defined, ii. for what issues is there sufficient political agreement to do more in particular areas among smaller groups, and iii. how differentiated cooperation with more groups on more issues could be dealt with on a practical level. The first point is crucial because on the one hand forming different groups comes with the challenge of doing it in a way that some member states do not feel being “left behind” or “excluded” or allegedly feeling pushed to participate. On the other, it is also a challenge to make cooperation in a group with joint willingness but differences in ability (even if it is smaller than 27 members). Also, a practical question would be to what extent the Eurogroup would form a minimum group moving ahead particularly on economic issues. If it would develop into a core group, however, there is the issue how it would work with the other non-Euro member states in these areas. As for the last point, it would most likely mean more reliance on enhanced cooperation procedures as they stand, perhaps complemented by more intergovernmental cooperation in some areas.

A Union with more differentiated integration is likely to be more complex. This is why clear definitions of rights and obligations are key in this scenario - not only from a legal perspective but also for citizens’ perceptions.

Initial Reactions to the White Paper

Several (groups of) member states have reacted to the White Paper since its publication. The Benelux countries have emphasized “the four freedoms, the single market, the social dimension - including a social market economy - and a strong and competitive eurozone” as well as the need for the EU to act firm on issues where there is a European added value. While showing some elements of scenarios 5 and 4, the Benelux have not ruled out the idea of different tracks of integration.

The Visegrád countries³ remain opposed to this idea as a future model for the EU. In their recent communiqué, they have been emphasizing the importance of the single market, calling for preservation and further development of the four freedoms, while at the same time noting that there are (and will be) differences among member states, notably on social standards. In addition, the four countries have stressed the role of the European Council and national parliaments. By and large, this rather suggests “carrying on” (“not more Europe, not less Europe but a Europe that is capable to act”) while somewhat circumventing the question how to ensure the necessary capabilities.

At a summit held in Versailles on 6 March, French, Italian, Spanish and German leaders have rather signalled a preference for differentiated integration going forward. German chancellor Merkel for instance said that “some countries must go ahead and lead the way” so that different speeds must be possible in the EU. Otherwise, the Union would be “bogged down”. However, she also emphasized that “Europe must always remain open, and not all members must be forced to be part of a given project.”

In this regard, Donald Tusk recently cautioned a bit, stressing that the main objective of the EU27 must be to strengthen mutual trust and unity among the EU27 rather than multi-speed.

³ This group comprises the Czech Republic, Hungary, Poland and Slovakia.

⁴ See https://www.bundesregierung.de/Content/EN/Reiseberichte/2017_en/2017-03-03-merkel-versailles_en.html



The initial reactions to the White Paper illustrate (some of) the different views on the future of the EU and particularly show the sensitivities on differentiated integration. In any case, the declaration to be presented for the 60th anniversary of the Rome treaties is going to be carefully screened for its wording, indicating preferences for the Union's future direction.

Choosing among the scenarios

The five scenarios are "idealised types". They aim to trigger discussion rather than to offer ready-made blue-prints. Each comes with pros and cons and in reality, the EU's future is certainly not limited to five alternatives. Also, the five options can overlap or some elements may be combined.

The upcoming elections in France and Germany in particular are going to be important factors influencing what direction or combination the EU27 is going to favour in the upcoming years.

What next?

The Council aims to draw its first conclusions at the December summit - but expect plenty of debate before that. The discussion about the future of the EU27 is going to continue throughout the year - with domestic political calendars packed and Brexit negotiations due to start soon.

During the coming months, five papers are going to be presented by the Commission on:

- Developing the social dimension of Europe - End of April
- Deepening EMU - End of May
- Harnessing globalisation - Mid-May
- The future of Europe's defence - early June
- The future of EU finances - End of June

These will provide more details for specific policy areas. From a market's perspective, it is particularly relevant what steps on the EMU could be expected and to what extent they can be standalone elements or contingent on developments in other policy areas or the direction of the Union at large. On this point, the paper on the future of EMU is going to be key to watch.



Appendix 1

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