EU on the crossroads, round-point or at dead-end?

In 2012, the EU embarked upon difficult path towards deeper economic and possibly also political integration. As a reaction to the Eurozone crisis, several integration initiatives have been presented, among them the so-called Report of the 4 Presidents (Towards a Genuine Economic and Monetary Union) that built upon Barroso’s Blueprint for a Deep and Genuine EMU. Another informal (and intergovernmental) contribution to the debate represents the output of the Future of Europe grouping.

As a result of the December EU summit in 2012 some of the most ambitious proposal – such as the creation of a shock absorption mechanism for the Eurozone – has been scrapped, at least for the time being. The June European Council saw some progress on the Banking union and promised to further work on: social dimension of the EMU, possible contractual arrangements between EU and the member states on carrying out structural reforms complemented with a solidarity mechanism serving as a form of incentive.

Also, in its September working paper, the International Monetary Fund has further advocated the need for a true fiscal integration in the Eurozone via better oversight of national policies, increased risk sharing (some form of fiscal capacity for the Eurozone), borrowing at the center and fiscal backstop for the euro area banks.

Meanwhile, every blueprint or plan outlining possible deeper integration highlights the need to work on the aspect of political and democratic legitimacy, although without specificities in this respect.

The looming EU Heads of States and Governments Summit in December 2013 should make it clearer (Continued on page 2)
what has remained of the ambitions to complete the Genuine Economic and Monetary Union. Without doubt, the German parliamentary elections have slowed down the dynamics in the ongoing processes. Despite the convincing outcome, the coalition deal – that would have to entail the EU-related positions, is yet to be struck.

... AND WHAT HAS THE VISEGRAD GROUP TO DO WITH IT?
The Visegrad Group found itself confronted with these developments with every country in a quite different situation.

- The Czech Republic, not a member of the Economic and Monetary Union, has just experienced yet other early elections and enjoys relatively stable economy. The previous government had been reserved towards deeper integration, being one of the two countries that have not signed the so called Fiscal Compact. With the new government still in the making, there might be some significant shifts in the country’s position.

- After undergoing a serious economic crisis that hit its open economy outside the EMU Hungary has returned to economic growth in 2013. The political relations of the current leadership and its European partners are going through a challenging period, however, marked by several difficult institutional dialogues and EU concerns about several measures in the economic area.

- Poland was able to walk through the crisis relatively unharmed and did not suffer severe economic downturn. Politically one of the “larger EU states”, with considerable influence, Poland is open to joining the EMU as it is towards deeper integration. Meanwhile it is trying to influence the development from outside of the Eurozone.

- Slovakia, with the smallest economy closely linked to that of Germany, and as the only EMU member in the Visegrad Group, claims it wants to be in the centre of the integration processes looming in the EMU. At what price - remains the subject of not yet quite comprehensive internal discussion.

The December summit in 2012 has shown that it is possible to deepen the integration without creating a deep divide between euro and non-euro countries and has left the door opened to those outside the Eurozone to join new initiatives, mechanism and cooperation frameworks. There is a clear ambition so far, not to create an involuntary send-class membership. Even so, if the EU evolves towards a deeper integrated entity, is it probable that not all of the current Members States will be involved in the same way. That being said, several questions arise, such as:

- What influence would it have in the Visegrad cooperation? Is it an opportunity or a challenge?
- Is the Visegrad group a useful platform for cooperation in the EU issues in general or just in natural particular policies?
- What strategic interests these countries share and where are they moving apart?
- What will be the post-election situation of Germany mean for this region and its future in the EU?

**V4 PERSPECTIVES**

David Král:

**TIME TO RESTART THE CZECH EU (NON-)DEBATE AFTER THE PARLIAMENTARY ELECTIONS?**

After quite a turbulent political year, the new Czech leadership that will emerge from the October 2013 early election will have to face a few uneasy choices. Regarding European politics, the new government will probably try to put the Czech Republic back onto the European stage and improve its image of cacophonous troublemaker. The signature of the Fiscal Compact would be the first logical step in this respect. However, it will not be enough and the government should start a more profound and wider debate about the future of the EU, engaging the relevant political parties, both the government and the opposition ones, but also the expert community and wider public. The current government strategy for the EU, which was adopted quite hastily and without proper discussion, will probably have to be re-open if it is to provide a durable guidance for the Czech engagement in the EU.

Accession to the Eurozone has become a matter of strategic choice, and it cannot be any more reduced to pros and cons of adopting the single currency, which still tends to be a prevailing discourse in Czech politics as well as media. The Czech political scene has been divided on this issue and the obscurity of a new ANO 2011 movement, which is likely to be part of the next government, might not make it any easier to clarify the Czech position. Deeper integration of the Eurozone will dominate the EU debates in the upcoming years, and the Czech Republic should take a more pro-active approach. The Czech political leadership cannot afford anymore to pretend that this it does not concern them, so the issues such as two-speed Europe or political union should not be a taboo. In the atmosphere of declining trust towards the EU and euro it will be challenging. The good news is, however, that fervent euro-scepticism has been defeated in the parliamentary elections.

What will be the other points for the Czech EU agenda? Internal market will probably remain one of the top priorities, although with CSSD in the government there might be more emphasis on its social dimension and growth agenda. Structural funds are going to remain important, too – in this respect the Czechs will also have to do their homework and finally to adopt the civil service act. Energy security and infrastructure will also be important for the Czechs, and they might find a group of like-minded countries among the other Visegrad Four. In the realm of EU foreign policy, Eastern partnership will also stay a priority. In any case, the 2014 European Parliament elections represent a good opportunity to re-start the Czech debate: not least because due to a short lapse after the October elections, they will not be viewed as a referendum on the government.

(Continued on page 3)
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Agata Gostynska and Roderick Parkes:
POLAND AND THE FUTURE OF EUROPE

Moreover, it has weakened the community institutions. With Parliament relegated to a mere observer in negotiations on the Compact, and with the Commission sidelined as agenda-setter as national leaders stepped in to define the EU’s place in these sensitive economic policies, non-eurozone members’ reliance upon the supranational institutions has been shaken. Recent efforts to bolster the two institutions by means of the European elections are also met with caution. The drive for party-families to base their campaigns around a nominee for Commission President might narrow the democratic gap but it could also leave the post more exposed to national political influences— but not necessarily to that of outliers.

Or this, at least, is the fear in Central and Eastern Europe. Out here, governments have learnt to rely more heavily on the EU institutions than has, say London, another of the bloc’s relative outliers. Indeed, the CEE states’ concerns about being sidelined are actually being accelerated by the British domestic debate. The UK’s eventual withdrawal from some EU policies would raise questions about the rights of others to participate in decisions to which they are not yet bound. Legally obliged to adopt the common currency, but still some way from fulfilling the convergence criteria, Poland, Hungary and the Czech Republic would see the hurdles to full membership growing ever higher.

That said, Warsaw is far better at representing its interests in the EU than it once was. It’s not just that it now has the know-how to forge partnerships. An impressive rise in its GDP since 2007 and a pro-European sentiment well above the CEE norm (78% compared to 43% in neighbouring Czech Republic) have also strengthened its hand in influencing the future of Europe. At a time when East-West cleavages in the EU are being replaced by North-South divisions, these factors combine to make Poland a partner of choice not just for Germany but on occasions even France, the prime architect of an intergovernmental EU. As a result, Poland now finds itself recognized as a ‘pre-in’ – a country whose firm intention to join the euro gives it a right to shape its future.

And yet, Warsaw’s growing prominence in European affairs is fraught with risks. The title of ‘pre-in’, for instance, comes not just with rights but duties, including pressure to set out a timetable for joining the common currency. Close association with the EU’s core states, Germany and France, means that consort with outliers such as the UK or even the other CEE states becomes trickier. Most of all, Poland’s speedy ascent up the ranks of the member states will probably challenge its attachment to the community method. This seems understandable, but if its Eurozone partners are once again forced to move ahead en bloc, Warsaw might have fewer safeguards to rely upon.

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Vladimir Bílčík:
SLOVAKIA: DISCUSSION BEYOND THE EU’S PAINS

When in July 2012 Slovakia’s Prime Minister Robert Fico had talked about an unprecedented course that European integration would take in weeks and months ahead, he certainly overstated the magnitude of recent changes in the makeup of the EU. However, whilst the Union’s design has not altered fundamentally, the importance of costs associated with hitherto achievements of European integration has risen substantially. Today, the growing pains of Europe’s fusion are threatening

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deeper dividing lines across the EU and offering new building blocks of a potentially alternative European project.

Since 2009 European institutions have attempted to manage the threat of disintegration, which has been the major driving force behind political and institutional innovations in the EU. The focus on immediate costs of saving the euro and maintaining a functioning single market led to further piecemeal and patchy EU responses inside and outside the Union treaties. Measures like the six-pack, two-pack, fiscal pact, Euro-plus, the EFSF and the ESM as well as qualitatively new role for the ECB have so far assured the euro’s survival. Yet, the governance features designed to give a second chance to policy goals from the Maastricht Treaty have also underlined more tangible dividing lines both between the EU and the Eurozone and within the Eurozone.

It has become harder to make the EU an attractive project for the public. In the past broad profits of integration such as the common market came at relatively small marginal cost. Today, many view the EU as an entity which brings significant domestic constraints while it offers no additional benefits for an average citizen.

Politicians are facing a problem that the Union is merely asking for more resources and commitments without providing new and publicly popular policies. Responses vary widely across the EU. Just a snapshot look at the Visegrad countries shows how differently national leaders have approached the crisis. Although the Polish governing elite emphasized the strategic importance of joining the Eurozone, the Czech leadership tended to stress reasons for not adopting the common currency. Slovakia’s politicians have committed to new EMU structures by underscoring recent benefits of integration while in Hungary, the government found additional arguments for delaying Eurozone entry.

Public legitimacy of the EU and the euro has been tied to national discussions about the costs of saving or joining the Eurozone. Member states and their domestic politics have become increasingly decisive in determining the fate and popularity of integration. At the same time new institutions produced by the crisis such as the European Stability Mechanism may now enter the Union treaties. Measures like the SSM are a good example of how future big decisions could be formed among member states that has very different geographic and economic background. The case of the SSM is also a good example of how supranational and national interests can be harmonised. Although Hungary would join the Single Supervisory Mechanism / Single Resolution Mechanism as a full member only when it will introduce the euro, the final outcome of the discussions in last December offered great opportunity for the country to live within the new framework. The case of the SSM is also a good example of how future big decisions could be formed among member states that has very different geographic and economic background. The case of the SSM is also a good example of how future big decisions could be formed among member states that has very different geographic and economic background. The case of the SSM is also a good example of how future big decisions could be formed among member states that has very different geographic and economic background.

Europe and the European Union have been central to the Hungarian foreign policy since 1990. Among the three main objectives of the Hungarian foreign policy (Euroatlantic integration, good-neighbourly relations and support for Hungarian ethnic communities across the borders) Europe has always been and always will be a decisive factor. After the successful EU presidency in 2011 the government published a document under the title “Hungary’s Foreign Policy after the Hungarian Presidency of the Council of the European Union” in which the government stated its strategic view on Europe.

The sovereign debt crisis has weakened the foundation of the integration. In order to restore the credibility and the stability of the EU, several basic issues must be solved. Hungary is strongly committed to European integration, and she wants to pursue active EU policy. Hungary is interested in a strong Europe, in which solidarity and social sustainability could be maintained.

During the sovereign debt crisis the European Union has slowly developed a new form of economic governance. It is widely understood that decisions on the future of the integration will shift to the hand of the Eurozone member states. An ever closer union is on the table with further political integration prospects and even with differentiated integration plans. Hungary is currently not member of the Eurozone therefore she needs to carefully represent its interest both in the changing EU and Eurozone institutions.

Hungary is committed to join the euro when appropriate. The excessive deficit procedure against Hungary was terminated in June 2013, the budget deficit is below 3 per cent for the third year, inflation rate was below 1 percent in September 2013 and the public debt is expected to decline in the future (the debt-to-GDP ratio may sink below 79 percent till December). Although the Maastricht criteria could be fulfilled in the coming years Prime Minister Orbán said in May that “Hungary’s potential bid to enter the euro zone can be considered when Hungary’s per capita GDP reaches 90 per cent of those of the euro-zone states, adding that this is unlikely to happen in the next decade.” (Orbán 2013).

Among the measures taken by the EU in the recent months banking union took precedence. The case of the planning and the setting up of the first steps of the banking union provided a good example of how supranational and national interests of the Eurozone and Non-eurozone member states can be harmonised. Although Hungary would join the Single Supervisory Mechanism / Single Resolution Mechanism as a full member only when it will introduce the euro, the final outcome of the discussions in last December offered great opportunity for the country to live within the new framework. The case of the SSM is also a good example of how future big decisions could be formed among member states that has very different geographic and economic background. The case of the banking union involves some conditions concerning the setup of the new framework:

- measures which create the banking union should not circumvent the EU’s current institutional and legal setting,
- countries outside the Eurozone should not be harmed by the new measures, their competitiveness should be maintained,
- the role of the ESM should be kept.

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• the banking union should not compromise the unity of the internal market,
• countries outside the Eurozone should freely decide whether to join certain measures or not,
• the measures should reflect the balance of rights and obligations of the member states, second hand membership should not be used,
• if Eurozone member states decided to set up special financial protective measures within the EMU than this framework should apply to member states outside of the Eurozone.

Hungary supports the German position which states that qualified majority voting if Eurozone member states decided to set up special financial protective measures within the EMU than this framework should apply to member states outside of the Eurozone.

The Single Resolution Mechanism for the Banking Union would complement the Single Supervisory Mechanism. The SRM is a good example of how current EU law can be the basis of significant new measures without harming the EU’s fundamentals. One of main concerns during the transformation of the EU is the gap widening and the harming of single market achievements. It is the interest of all member states that no new measures would be introduced without thoroughly testing their impacts on the single market.

On the institutional reform side the Hungarian government position is that Hungary is committed to the community method which should take precedence over intergovernmental decision-making. “Crisis situations could lead to the temporary strengthening of intergovernmentalism which can only be accepted if a return to decision-making within the framework of the Treaty is possible in the short run.” (HFP 2011:28) At the same time it should be noticed that changes to the core framework of the integration only acceptable on certain condition: “Hungary, however, pursues a policy of balance and does not approve of national competences being converted “on the sly” into community-level competences in the EU”. “There are more and more new proposals to disturb the balance between national and community competences this is unacceptable” (Orbán 2013). “Hungary’s European policy must strengthen efforts aimed at combating the leadership crisis and restoring the power of democratically elected governments.” (HFP 2011:27)

It is too early to judge the shapes of the institutional reforms, but it is understood that it will take place through the Eurozone. During the transitional period some temporary institutional and legal measures will be introduced only for the Eurozone member states, but multi-speed Europe must be avoided. Other proposals which have recently made headlines (like the proposals concerning the introduction of Eurobonds or a separate budget for the Eurozone) are not currently on the table for the Hungarian strategy makers. Of course common responsibility would be welcomed but this can be achieved only by completing the economic union.

These long term measures could be fully supported by Hungary if they would not harm the interest of the country as an outsider to the Eurozone. As it happened in the case of the banking supervision plans the future structures and institutions would be welcomed if non Eurozone member states would gain some power or at least would get strong observer status in the new institutional settings. Hungary would not make obstacles to the development of the Eurozone, but the process should be transparent and all the member states should support the new legal framework.

The position of a Eurozone Commissioner is acceptable but two conditions should be met: the power of the Commissioner should apply only for the Eurozone (budget), and the process of choosing one should be transparent for Non-eurozone members.

It is not possible to complete the redesign of the European integration without creating new legally binding measures and creating new competences at the EU level. This means that at some point Treaty modification will occur. One of the most important tasks is to address the legitimacy questions of EU, hence the role of the national parliaments will again be discussed.

The role of the national parliaments should be strengthened, and their role will be crucial during the transitional period (eg. “the Hungarian strategic objective of joining the Euro is still valid but the final decision rests with the National Assembly”).

Among the main objectives of Hungarian EU policy are the preservation of the current structural, regional and cohesion policies and preservation of the Common Agricultural Policy. The de-coupling of some financial mechanisms from the current framework would be worrisome for the member states outside of the Eurozone. A complete redesign is unacceptable without assuring member states that at least the current achievements would be preserved.

The UK started the so called “review of competences” process in 2012 in which she examines the EU competencies on all policy areas. Hungary shares some common views with the UK within the review of competence process. “The completion of the internal market needs to be speeded up, primarily in the areas of free movement of labour and services.” “The further development of the single market and its extension (just its enlargement in space) constitute the sine qua non of this revitalising drive.” (HFP 2011:32).

The first rounds of findings of the UK review of competences (published in July 2013) are welcomed, since they are mostly backing the EU’s existing structures and policies. The EU and the member states need clear competences for the future common economic union measures.

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NO SINGLE VISEGRAD PERSPECTIVE ON THE FUTURE OF EUROPE

Slovakia, as the only Eurozone member, can work with its Visegrad partners to ensure the doors to the Euro-club remains open and community method is safeguarded. The Visegrad cooperation is however limited due to different political position towards the crisis development in the EU, argued experts from the region on the expert seminar.

Expert seminar was organized by EuroPolicy with the support of Heinrich Böll Stiftung Prague, Europe for Citizens Programme and EurActiv.sk. Four expert op-eds preceded the report of Heinrich Böll Stiftung Prague, Europe for Citizens Programme. The event took place in Bratislava on 18. November 2013.

POLAND: VISEGRAD POSSIBLY A RISK MITIGATION PLATFORM

The crisis of the sovereign debt in the EU required speedier and bolder cooperation. As a result, the non-Eurozone members have observed the boosting of the intergovernmental method in the EU decision-making, argues Agata Gostyńska, senior researcher at the Polish Institute for International Affairs.

“...the common denominator is the concern related to the implications of the exclusive Eurozone integration”. In her view, the V4 could mitigate this risk, besides the traditional fields of policies (Enlargement, Multiannual Financial Framework, Energy).

“I can imagine V4 cooperating on contractual arrangements within the so-called Convergence and Competitiveness Instruments. We all agree that these should be inclusive instruments, at least. Further issues are floating ideas for separate Eurozone budget or the issue Eurozone democratic legitimacy”, she suggests.

Poland comes as the most pro-European country according to the latest polls. It has a clear ambition to ascend to the core of the EU and has been very active in the discussions on the future of Europe. Poland’s Foreign Minister Sikorsky even took part in the deliberative forum on the Future of Europe of the former German Foreign Minister Westerwelle – the only non-euro member and only newcomer.

The overall development motivates Poland to enhance its partnership with the core member’s states and to invest more in the regional cooperation and its upgrade, Gostyńska concludes.

HUNGARY: BANKING UNION INCLUSIVENESS - A GOOD PATTERN

Hungary has many ongoing debates with the EU. Contrary to Poland, Hungary has become the most eurosceptic nation. Surveys show the support for the European integration at around 30 %, says Zoltan Galik, senior research fellow on the Hungarian Institute for the International Affairs. Paradoxically, Hungary is among the member states which fulfil almost all of the Maastricht criteria for the euro adoption almost since its accession to the EU.

That is why euro membership will be closer and closer, Gálik predicts, despite the political statement of the PM Viktor Orbán declaring it is not going to happen any time soon. As it is very likely that all the changes in the European integration will come from the Eurozone and Hungary must find a way to be closer and to define the behaviour, argues the analyst.

According to Gálik, the Hungarian Foreign Policy understands that if we want to be a member of the Eurozone, we have to adjust the foreign policy to maximize our interests in the ongoing processes, like it was the case with the first stage for the Banking union. “This should be projected at other occasions”, he says.

Similarly to its neighbours, within the institutional reform Hungary is committed to the community method that should take priority above the intergovernmental decision-making. Construction of political union should have strong legitimacy pillars, not only in the treaties but also in the processes behind the treaty. Gálik believes that some fundamental treaty change will occur at later stage.

He considers Visegrad cooperation as such is a very fruitful one. “Something happened in the last two years and the ministries are open to this topic of the cooperation within Visegrad.” He names “Friends of cohesion” as an example of a “total success” for the Visegrad countries. “We tried and it happened.”

Also, he points to the UK’s review of EU competences that is not generally accepted, but the idea of re-evaluation the different policy areas, adding more Europe to some and nationalizing some others, could be a good thing. “But we need to be very careful in this”, he remarks as Hungary and Poland has a strong interest in CAP, for example.

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CZECH REPUBLIC: COMPLICATED DOMESTIC DISCUSSION

No single Czech perspective on the future of Europe can be identified, argues the director of Europeum Institute for the European Policy, David Král. The discussion on Europe is more polarized, not only on the political level, but also on the society level.

“We have more eurosceptic think-tanks and parties that base their very identity on the refusal of Europe”. He cites a poll from April 2013 indicating that 70% of the people asked believe that the decision taken at the European level are not in their interest.

Interestingly, Král presents findings of another poll, conducted by the Prague think-tank AMO, among a representative sample of elites from various fields, which shows quite different perception. Among the respondents 97% stated that full membership is more advantageous for the Czech republic than any other possible arrangement. Further, 76% said Czech Republic should join the Eurozone by 2020. At the same time the elites doubt the ability of the country’s leadership to define its interests at the European level and the ability to successfully European discussion in the domestic context is further complicated by the institutional rivalry – week coalition governments translate to a great deal of resortism, not only between ministries but also with the president trying to exert influence as an independent actor and Czech national bank. “Also, many things that are agreed upon on the expert level (universities and think-tanks) are killed at the political level”, comments Král.

In the Czech Republic, the multispeed is less perceived as a threat – variable geometry is considered a reality - as long as we keep some guarantees like the processes should be open based on conditionality and as long as we are not creating a new institutional and legal framework, notes Král. “There is a growing realization of this being a matter of a strategic choice, however.”

SLOVAKIA: DEFENDING THE COMMUNITY METHOD

Although the Visegrad debate is alive, we should “not kid ourselves”, because there are clear limits for the political cooperation – assessing the different impact of the crisis and different reaction to it, says Vladimír Bilčík, the Head of the European Studies Programe in the Slovak Foreign Policy Association.

Some of the main parameters of the debate have changed. It is not just how we can best reap the benefits from the EU membership any more. From 2009 the discussion has changed to what can we do about the rising costs of achieving EU integration. Here, the Visegrad countries stand on radically different positions, as also shown by this discussion.

European policy is going to be muddled in Czech Republic with the country trying to find out how not to join the eurozone at all, Viktor Orbán will stay in the office for two more terms probably, not wanting be the PM to bring Hungary to the Eurozone. Poland plays a big game looking further in time, but it is unclear how the situation in Poland will evolve after the parliamentary elections.

For the long time, Slovakia built upon the so called post-Meciar EU-related consensus. The euroscepticism has since emerged, and think-tanks) are killed at the political level”, comments Král. “There is a growing realization of this being a matter of a strategic choice, however.”

When it comes to the impact of the German elections, if the coalition is in place by Christmas and will be composed from CDU/CSU and SPD that will be a good news for the Visegrad group. “On the one hand, Merkel got a strong mandate to continue its EU policy, on the other hand SPD gives a good corrective mechanism to the style of that EU policy. In that make-up Germany will be a bit more serious about the community institutions”, estimates Vladimír Bilčík.