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*Istituto Affari Internazionali*

## Italy's Role in Europe under Renzi

by Ettore Greco

### ABSTRACT

The Renzi government has pursued two main and interconnected objectives within the EU: the promotion of Italy's role – not least in response to the ever-looming risk of marginalization – and the creation of new forms of integration and solidarity among member states. It has called, in particular, for more effective anti-cyclic efforts at the European level and advanced a number of proposals on migration, calling for a real collective management of the refugee crisis. However, on both fronts – migration and economic policy – most of the reform plans have been frozen or remained a dead letter. This has contributed to fuelling anti-EU sentiments among the Italian public. There have been also unprecedentedly sharp tensions with the European Commission on Italy's compliance with the EU's Stability and Growth Pact. Italy continues to find itself in a position of inherent weakness due to a series of persistent structural problems including massive public debt and a fragile banking system. The Renzi government has tried to cultivate preferential relations with Germany and France but a big three format is unlikely to consolidate.

*Italy's European policy | Italy's foreign policy*

keywords

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The Renzi government has pursued two main and interconnected objectives within the EU: the defence and promotion of Italy's role, not least in response to the ever-looming risk of marginalization; and the creation of new forms of integration and solidarity among member states, particularly in such sectors as the economy and migration, where vital national interests are at stake. However, Italy continues to find itself in a position of inherent weakness due to a series of persistent structural problems including massive public debt and a fragile banking system. There have been unprecedentedly sharp tensions with the European Commission and Germany on Italy's compliance with the EU's Stability and Growth Pact and other fiscal rules. In parallel, the Renzi government has continued to demand a redefinition of the EU's economic priorities and strategy that, in addition to a greater flexibility on national budgetary policies, would allow for broader risk sharing and a more effective anti-cyclic effort at the European level. It has also advanced a number of proposals on migration, calling for a real collective management of the refugee crisis based on the principles of solidarity and a more equitable burden sharing. However, on both fronts – migration and economic policy – most of the reform plans have been frozen or remained a dead letter. This has contributed to fuelling anti-EU sentiments among the Italian public. The Renzi government has tried to cultivate preferential relations with Germany and France but a big three format is unlikely to consolidate into a group capable of providing effective leadership at the EU level given the growing complexities of the diplomatic game within the EU. In fact, the advancement of a credible reform agenda requires a broader agreement among Eurozone members.

The most demanding challenges facing Italian foreign policy – growing neighbourhood instability, the migration crisis, the deepening terrorist threat and re-emerging financial turbulence – are the same as those other European countries are confronting, albeit with varying intensities. Triggered by phenomena and processes that have impacted on the whole European continent and jeopardized what appeared to be well-established political and institutional balances, these are challenges that, by their very nature, can only be confronted effectively at

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European level. It is therefore natural that, under the government of Matteo Renzi, as often in the past, the European Union has been Italian diplomacy's main field of diplomatic action.

The Italian government has pursued two central and interconnected objectives within the framework of the EU. First, the defence and promotion of the nation's role, not least in response to the ever looming risk of marginalization. Second, with regard to European Union political reforms, Italy has called for changes aimed at strengthening integration and solidarity among member countries particularly in the sectors of the economy and migration, even if arguably not all the government's positions and behaviours have been in line with this fundamental pro-integration stance. In a context marked by growing member divergences over both the short-term and long-term objectives of the European project, Italy has clearly stood in favour of deeper forms of integration that could also result in a change in the Union's institutional structure.

### 1. In search of a more prominent role

The greater stability that the Renzi government has enjoyed, at least up to mid-2016, compared with those that preceded it, has undeniably been one of its strong points in EU dealings. Major European partners, starting with Germany, were remarkably sympathetic with the government following its successful enactment – despite considerable opposition – of such domestic reforms as the “Jobs Act” which introduced greater flexibility in the labour market, although that initial reformist vigour seems to have waned with the passage of time.

The Renzi government has advanced various proposals to reform EU policies. To some extent, this has contributed to making its diplomatic profile within the Union more prominent. On the other hand, Italy continues to find itself in a position of inherent weakness due to a series of persistent structural problems. Weighing economically is a massive public debt that continues to rise (132.7 percent of 2015 GDP), without any credible prospects for reduction over the short or medium term, and a fragile national banking system that made headlines in the late months of 2016 (200 billion euro gross in non-performing loans at the end of 2015). Thus, in light of the renewed financial turbulence, the country continues to be viewed as one of the weak links in the Eurozone. The scarcity of dedicated resources for sectors such as defence and development cooperation due to budget constraints, coupled with a debateable order of priorities, has weakened the country's European and international role.

Moreover, Italy has had to contend with a lack of impetus from European institutions, which has hindered the advancement of its proposals to reform EU policies. Indeed, the Junker Commission has often shown excessive acquiescence to member state obstruction.

On the other hand, the Renzi government has failed to clarify to the national public opinion the responsibilities the country has assumed in the EU context. This has contributed to feeding a rising anti-Europe sentiment. Renzi's repeated complaints about "euro-bureaucracy" has caused tensions in particular with the European Commission. Some new mechanisms for dealing with the crisis recently introduced with Italy's consent have been denounced by the government as "bureaucratic" constraints imposed by Brussels. On several occasions Renzi has put into question the rules of the European semester process, in particular the EU's right to assess and advance recommendations on national policies and reforms. Rather contradictorily, he has instead urged a more proactive and incisive Union role in sanctioning macroeconomic imbalances, in particular Germany's huge current account surpluses. Also, the Renzi government has not spared criticisms on the new "bail-in" rules for resolving banking crises, which were approved by the previous cabinet.

Nevertheless, the government has made a constant effort to stay within the established fiscal parameters (Italy had come out of the excessive deficit procedure in 2013 during the government of Enrico Letta). This dual track has become increasingly controversial in the eyes of the public opinion, contributing to the steadily declining approval ratings for the government's performance.

The escalation in Premier Renzi's criticism of EU institutions at the start of 2016 created unprecedented sharp tensions with the European Commission, particularly with its President Jean-Claude Juncker. Subsequently, the controversy, which was centred on the application of the Stability and Growth Pact, subsided not least thanks to the more constructive attitude adopted by the Italian government, which Brussels was quick to appreciate. On the other hand, Juncker has arguably lacked the necessary flexibility, as in other occasions, to cope with criticism or complaints against the Commission's work.

It is primarily in economic matters that the Renzi government has sought to obtain changes in Union policies. The January 2015 Commission Communication on flexibility in applying the Stability and Growth Pact (SGP) incorporated some proposals advanced by Italy. The flexibility issue was also placed at the centre of the European debate during the Italian presidency of the EU in the second semester of 2014. Italy has obtained a 14-billion-euro flexibility margin for the 2016 budget, but no further fiscal derogations are envisaged for the 2017 budget, whose deficit Italy has promised to contain within 1.8 per cent of GDP: an objective that appears highly ambitious in light of the general budget trend, sluggish growth and the government's declared intention, at the same time, to approve a series of tax cuts and income-boosting measures.

Consequently, when the Commission examines Italy's public finances – the first occasion will be in November 2016 – problems could arise with Brussels. It must be added that, in its latest country-specific recommendations on Italy the Commission underscored "limited progress" on some structural reforms that the government itself considers crucial to stimulating growth, such as modernisation

of the public administration, economic liberalisation and the spending review. In fiscal matters, the government has even taken decisions in open contrast with the Commission's recommendations – but also with every other major international economic and financial institution – such as to abolish the property tax on first-owned homes. Indeed, the apparent slowdown in the implementation of the reforms has weakened Italy's position in the intra-EU debate on growth policies.

### 2. Push for EU reform

Nevertheless, the government continues to demand a redefinition of the EU's economic priorities and strategy that, in addition to greater flexibility on national budgetary policies, would allow for broader risk sharing and a more effective anti-cyclic effort at European level. The government faces three main obstacles in its pursuit of these objectives: the persistent pro-austerity stance of Germany and other member states (the majority of the non-Mediterranean nations) who, instead, continue to emphasise compliance with budget rules and risk reduction, and have shown a strong reluctance to accept new solidarity mechanisms; the eruption of other emergencies – the migrant crisis and the wave of terrorist attacks on European soil – which have tended to replace economic reform at the top of the European agenda; and the lack of impetus from European institutions mentioned earlier.

In an effort to counter the tendency to procrastinate and dilute the reform process of EU economic governance spelled out in the Five Presidents' report, in February 2016 the government submitted a comprehensive document calling for greater symmetry in the process of macroeconomic adjustment, increased common infrastructure investments and completion of the European Banking Union through the establishment of the envisaged common European Deposit Insurance Scheme. These proposals, which aim to accelerate reforms or, better to say, to put them back into actual motion, place a strong emphasis on the need to mobilise new resources for confronting emergencies such as the migration crisis and terrorism. There is therefore a link between Italy's proposals for European economic governance reform and those aimed at strengthening the Union's role in the management of the migrant crisis and the fight against terrorism.

The Italian government has expressed a clear preference for the creation of mechanisms that allow access to the necessary resources at European rather than national level. This would require progress in the establishment of a real fiscal union, one of the objectives that remained decidedly in the background of the Five Presidents' report and that continues to encounter strong opposition. The Italian government has also strongly supported the structural investments plan approved by the Commission – known as the "Junker Plan" – and actively sought to take advantage of its opportunities. However, the plan is having a hard time getting off the ground, not least because of the difficulty in attracting the hoped-for private investments.

The government's other central goal, as stated earlier, is the completion of the banking union. Indeed, Italy has found itself fully in line with the Commission and the ECB on completion of the banking union (it has also unreservedly supported the latter's expansive monetary policy). However, the project ran aground mainly because of German opposition, in the absence of risk reduction, to the completion of the second pillar of the banking union (the single crisis resolution mechanism) with an adequate fund for addressing systemic crises, and to the creation of a common deposit insurance (third pillar). In parallel, the entry into effect of new European rules on bail-ins for resolving banking crises have put pressure on the Italian banking system, which has showed worrisome vulnerability due not least to the lack of common instruments to support banks in difficulty. At the same time, the government has strongly opposed some German proposals that could reflect negatively on the country's macroeconomic stability, such as the introduction of rules limiting the government bonds that banks can hold in their portfolios.

Italy has also played an important role in advancing proposals on migration, calling for a truly collective management of the refugees crisis based on the principles of solidarity and a more equitable burden sharing. The government's Migration Compact, presented in April 2016, places the emphasis on the need to dedicate more attention and energies to the external aspects of migration and asylum policy, and to earmark additional resources to improving development opportunities in countries of origin and transit, particularly those of Africa.

Italy has sought, in this way, to change the prevailing tendency within the EU to treat the problems of immigration predominantly from the standpoint of security. Implementation of the Italian plan, however, would require considerable resources and careful assessment of the real willingness of African governments to collaborate on the management of migratory flows by means that do not contrast with European principles and international law. Problematic in this latter regard appears the accord reached between the EU and Turkey in March 2016 to contain the flow of migrants and refugees toward Europe. The Italian government's idea that this could constitute a framework model for cooperation with other countries has raised considerable doubt.

On other no less important aspects of migration policy, progress has been extremely limited, much to Italy's chagrin. Indeed, the European plan approved in September 2015 for the redistribution on European soil of asylum seekers arriving in Italy and Greece, which gave rise to bitter political controversy, has remained largely unimplemented. By the same token, the proposal of reforming the Dublin Regulation through a new quota system based on the principles of solidarity and equal distribution of asylum-seekers, also continues to meet strong resistance.



### 3. Focus on the Mediterranean

In the field of European foreign policy, the Renzi government has undertaken numerous initiatives to promote a more active EU presence in the Mediterranean, a region of growing strategic importance for Italy. This effort has had a certain impact, contributing to strengthening the role of the EU as a whole in the management of regional crises. However, these remain unresolved – some have even worsened – and, in the absence of credible stabilisation processes, to which the EU could make a potentially decisive contribution, other actors such as the US and Russia, along with regional powers such as Iran and the Gulf monarchies, tend to dominate the scenario.

Moreover, significant differences persist within the EU over the strategy to adopt in the Mediterranean, particularly in relations with regional actors such as Egypt. This has been one of the primary obstacles to the definition of a common strategy for the solution of the Libya crisis, where Italy's vital interests are at stake. Prospects for consolidating the Serraj government in Libya – a goal shared by the UN and a large portion of the international community – remain highly uncertain. As a result, Italy's declared willingness to assume special responsibility in the stabilisation of Libya in the framework of an international mission – provided that the UN and the EU give their backing – has remained untested. At the same time, the Renzi government has actively supported the EU's plans to deepen cooperation with the countries of sub-Saharan Africa. The aforementioned "Migration Compact" is part and parcel of a strategy aimed at promoting national interests in the sub-Saharan African through a deeper involvement of the EU as a whole.

### 4. The differentiation challenge

Faced with the persistent crisis of confidence within the EU and the inability of the EU institutions to respond adequately, the Renzi government has also supported the prospect for broader-based Union reforms that would give it greater legitimacy and allow for more complete integration of Eurozone countries. In keeping with this, the government appears to have come to terms with the now widely accepted idea that there should be an increased differentiation between member states in the levels of integration. This differentiated integration framework would require, however, a core of member countries capable of providing impetus. To that end, Minister for Foreign Affairs Paolo Gentiloni has tried to promote a process of political consultation and coordination between the Union's six founding members. However, these efforts have met with considerable resistance among the other countries concerned, and it is doubtful that they can be revived in the new post-Brexit situation. For this reason, the Italian government has also focused on cultivating preferential relations with Germany and France within the so-called EU big three format. However, the growing complexities of the diplomatic game within the EU makes it unlikely that such format will consolidate into a group capable of providing effective leadership at the EU level. A search for a

broader agreement involving all members of the Eurozone could perhaps prove more effective especially in advancing the reform agenda of the economic policy governance and in mobilising new resources to deal with the ongoing crises.

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### Istituto Affari Internazionali (IAI)

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