Istituto Affari Internazionali

The European Council and Europe's Magic Lantern

by Nicoletta Pirozzi

The European Council resulted in a good deal, arguably the best possible under the circumstances. It took four days and more than 90 hours of negotiation to reach an agreement on the Next Generation EU package, proposed by the Commission to help the Union address the economic and social consequences of the crisis, and the next 2021–2027 budget.[1]

It was a much-awaited summit, for which ambitions exceeded expectations: the first held in person since the outbreak of the COVID-19 crisis, the first under the German presidency of the EU Council and a crucial step for European recovery. Conscious of their responsibility, the Heads of State and Government have not given up, despite the wide gap between the so-called "frugal" and "Mediterranean" states' positions on total allocations, the relative amounts of subsidies and loans and their governance, with France and Germany firmly in support of the initial proposal advanced by the EU institutions.

Figures do matter, as we know, and the delegations have focused especially on this. The summit delivered an ambitious instrument to allocate 750 billion euro in loans (360) and subsidies (390), to be added to the 1,074,3 billion euro of the multiannual financial framework (MFF). The size of the budget does not match the Commission's expectations, let alone those of the European Parliament.

To make ends meet, discounts for net contributors to the budget and the share of duties on imports collected by member states have been increased, while research, innovation, climate, migration and health programs have been cut down. All 40 EU programmes financed by the MFF will now have to

[1] European Council, *Special Meeting of the European Council – Conclusions* (EUCO 10/20), Brussels, 21 July 2020, https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf.

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be agreed by the European Parliament and Council and, if the resolution passed by the Plenary in the aftermath of the summit is any indication, it will be a hard battle.[2]

Much more has emerged, however, from this European Council, both from the point of view of institutional and political balance and in terms of prospects for the integration process. The final agreement incorporates the revolutionary provisions of the Franco-German proposal,[3] supported by the Commission.[4] The latter will be in charge of issuing bonds on the financial markets to fund the Next Generation EU package on behalf of the whole Union, thus removing the taboo on debt-sharing at the European level. Moreover, new resources will be needed by the Union itself, in the form of taxes on plastic, carbon and digital services, the prelude to a possible fiscal union.

The Commission will also be entitled to evaluate the financing requests contained in the member states' recovery and resilience plans, and to submit the allocation proposals to the Council of the EU, which will decide by qualified majority. The veto power the Dutch were demanding has been warded off, but a member state still has the possibility to activate an "emergency brake" and refer a case to the European Council – yet the procedure will have a three-month limit.

In other words, consensus is not defined in a purely intergovernmental logic, which oftentimes and in many areas has forced the Union to inaction or led to ineffective and overdue action, first and foremost to the detriment of citizens.

So it seems that the EU, after the Brexit blow, is now headed towards a new phase in its process of integration. As a matter of fact, the "frugal" countries – risen from four to five during the summit, with Finland joining them – have been tough negotiators and somehow replaced Great Britain at the table, but they have failed to block the process of further integration. Of course, strong differences persist, both among national governments and within the European political families.

Not only has the summit crystallized the diverging positions of different groups of member states – namely the "Frugal 5", the "Mediterranean", the the Visegrád 4 (V4) and the Franco-German axis. It has also revealed huge differences in the approaches of governments belonging to the same political groups, such as the social democrats of the Frugal 5 vs the Mediterranean on the grant/loan ratio, or the conservatives of the V4 vs the rest of the centre-right

[2] European Parliament, *Resolution of 23 July 2020 on the Conclusions of the Extraordinary European Council Meeting of 17-21 July 2020* (P9_TA(2020)0206), 23 July 2020, https://www.europarl.europa.eu/doceo/document/TA-9-2020-0206_EN.html.

[3] *French-German Initiative for the European Recovery from the Coronavirus Crisis*, Paris, 18 May 2020, https://www.diplomatie.gouv.fr/en/coming-to-france/coronavirus-advice-for-foreign-nationals-in-france/coronavirus-statements/article/european-union-french-german-initiative-for-the-european-recovery-from-the.

[4] European Commission, *Europe's Moment: Repair and Prepare for the Next Generation* (COM/2020/456), 27 May 2020, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020DC0456.

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governments on the rule of law.

This raises questions for the future, when, hopefully, the emergency triggered by the COVID-19 outbreak will come to an end and the structural reforms of European governance will need to be lucidly sorted out. A path of differentiated integration appears increasingly likely, with some member states willing and able to move towards tighter integration in certain sectors and others allowed to join later on, when they also are willing and able to do that.

Finally, despite doubts that the Franco-German engine had called it a day, it is still firmly leading the Community process. The renewed harmony between Chancellor Angela Merkel and President Emmanuel Macron has been decisive: not only did it lay cards on the table with the joint proposal first presented last May, but it has also been the heart and soul of the negotiation in Brussels, along with European Council President Charles Michel and European Commission President Ursula von der Leyen. Having overcome her initial reluctance and distanced herself from the "frugal" front, the German Chancellor has bestowed her political legacy on the summit.

In the meantime, Italy stood next to the Franco-German couple and with the "Mediterranean" front, on the right side of history but with limited bargaining power, given its economic and financial troubles. The unwavering and resolute strategy of the Italian team has paid off: Italy should receive 209 billion euro in loans (127) and subsidies (82), starting from 2021. Now, what needs to be done is to turn this capital into credible reforms.

The summit has worked like a magic lantern, outlining the possible scenarios for Italy and Europe in the future. Achieving them will require insight, political courage and citizen support.

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