How EU Economic Integration Advances on the Way of Some Important Unions

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Abstract: - Economic union and monetary union are deeply connected: two dimensions of the third stage of European integration. But achieving monetary union without a complete single market in the field of financial services proved the vulnerability of Eurozone to external shocks and the need to a further economic integration. While banking union has advanced quite fast in the last two years, capital markets union is only a project, also the fiscal union, which is the basic foundation of a true political union. A complete financial union will take a long time to accomplish due to many political, financial and bureaucratic obstacles facing such an ambitious project. Energy Union is another important project meant to remove market fragmentation, to enhance energy security and to reduce environmental impact of energy sector. Finally the political union, the last stage of European integration, the dream of many famous politicians and scholars, will be only possible on the long run as a new type of federation of nation states, provided that all components of economic union will be fully attained.

Key-Words:- integration, union, single market, monetary union, economic governance, policy, financial sector, banking sector, capital market.

JEL Classification: E 52, E 62, G 15, G 21, G 23, G 28, Q 48, Q 58.

1. Introduction

After a rapid progress of European integration between 1986 and 1992 mirrored by the completion of the Single Market in 1993 based on the four fundamental freedoms: free movement of goods, services, people and capital and on common policies and also by a new and important treaty, the 'Maastricht' Treaty on European Union concluded in 1993 aiming at establishing an Economic and Monetary Union, we have witnessed a considerable slowing down of the process over the next 15 years and only the outbreak of economic and financial crisis has led to new significant advances in economic integration. Can we accept the idea of a constant progress of integration in all fields which demonstrates the soundness and the imperfection of the European integration model? I rather think that we have a syncopation development, with many obstacles which were amplified as the European Community has expanded its geographic dimensions. We may apply the typology stop-and-go to this specific process, due to the alternation of acceleration periods with those of stagnation, the first shorter, the last longer. A multinational and supranational organization associated with a process which is in a state of permanent evolution, uneven and syncopated, can never be perfect and only may be improved constantly. The *"constant progress syndrome"* is a reality and also a permanent challenge for the European model of integration and this proves that European Union will continue to evolve all the time (Europedia), sometimes faster, trying to reach an integration ideal or objective, very difficult to attain, as political union is for example. Can external shocks contribute to the substantial progress of European integration as we saw in the past or indigenous political and social factors will attract the advance of integration, particularly in economic field? After an Economic and Monetary Union incompletely achieved we are witnessing the proliferation of some financial and specific economic unions, designed to deepen the level of economic integration and to support more effective the EU economic governance. We are going now through a period of acceleration, because of the crisis and some external factors, which could have spectacular results both in terms of economic integration and also in terms of political integration.

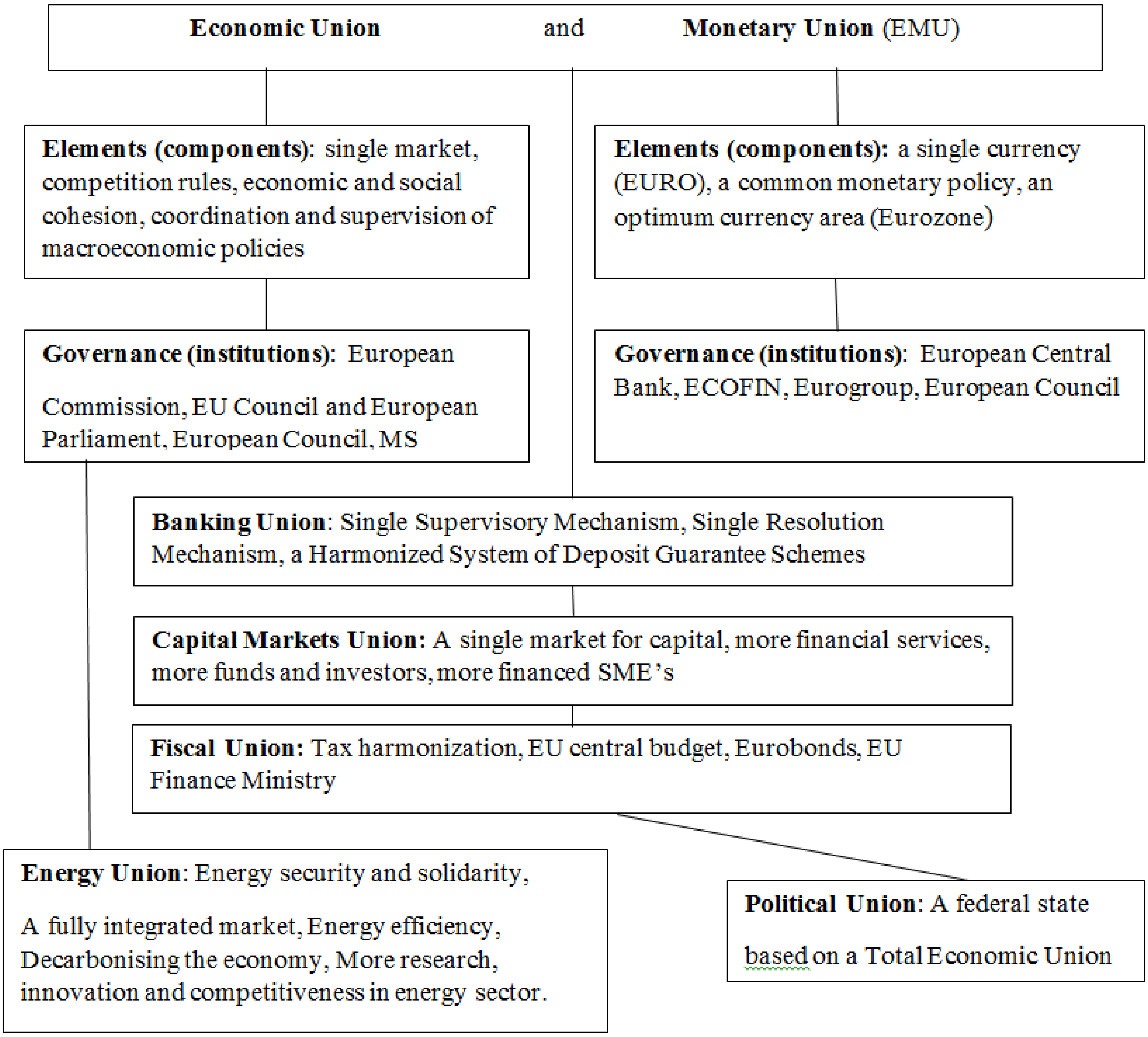
2. Economic and Monetary Union

Economic and Monetary Union (EMU) represents the fourth stage of economic integration and involves not only an economic union with all Member States of EU but also a monetary union with the participation of some Member States, forming so-called euro area. The decision to form EMU was taken by the European Council in Maastricht in December 1991, and was later enshrined in the Treaty on European Union (the Maastricht Treaty) based on the nominal convergence. Economic and Monetary Union is the next step further in European process of economic integration, which started in 1957 with the Rome Treaty of European Economic Community, after the previous step, that of the single (internal) market. Economic integration brings the benefits of a larger market, more efficiency and competitively of the EU economy as a whole and to the economies of every Member State, thus offering good opportunities for economic stability, higher growth and more employment, increase of living standard in Europe. Economic union is based on subsidiary principle which means less centralization of policy competences at EU level and it is founded on the internal market, common rules for competition on this market, economic and social cohesion and coordination of economic policy-making between Member States and coordination of fiscal policies (limits on government debt and deficit). The supervision and coordination of macroeconomic policies at supranational (EU) level is often called EU economic governance and the responsibility for this is divided between EU institutions and Member States, the main actors being the European Council that sets the main policy orientations, the Council of the EU (the Council) that coordinates EU economic policy-making and decides whether a Member State may adopt the euro, the Eurogroup that coordinates policies of common interest for the euro-area Member States, the European Commission that monitors performance and compliance, the European Central Bank (ECB) that sets monetary policy, with price stability as the primary objective, the European Parliament who shares the job of formulating legislation with the Council, and subjects economic governance to democratic scrutiny in particular through the new Economic Dialogue, the Member States that set their national budgets within agreed limits for deficit and debt, and determine their own structural policies involving labor, pensions and capital markets.

A monetary union in Europe succeeded the European Monetary System and began to take effect in 1990, over a series of three steps. The first step abolished individual member exchange rate control, the second step established the European Central Bank, which run an independent monetary policy and targeted the objective of price stability and the third step created the Euro as a single currency for the Member States of euro area. In Maastricht Treaty there are stipulated so-called convergence criteria. In order to be able to adopt the euro as single currency, a Member State must fulfill a number of economic and financial conditions also called convergence criteria. There are four conditions: price stability (inflation rate); government finances (fiscal deficit and public debt); participation in the exchange rate mechanism of the European Monetary System (ERM II); convergence of long term interest rates. For the countries not adopting the single currency the European Commission and the European Central Bank produce convergence reports on these Member States at least every two years. The reports examine the progress made by the Member States as regards compliance with the convergence criteria. The legal foundation for the convergence criteria is Article 140 of the Treaty on the Functioning of the European Union (EU) and they are subject to Protocol No 13 annexed to the founding Treaties of the EU.

Convergence criteria have become compulsory and permanent by means of Stability and Growth Pact concluded in Amsterdam in 1997, being supported by some regulations and directives adopted by legislative actors. The recent financial and economic crisis imposed some reforms of EU economic governance by enforcing the supervision provided by SGP with the aid of European Semester (stability and convergence programmes and reform programmes) and a package of six regulatory measures (5 regulations and a directive), introducing a new procedure for monitoring the macroeconomic imbalances (11 specific indicators), endorsing a permanent mechanism for ensuring the financial stability in Eurozone (ESM). New reforms for supporting the progress and success of economic governance were debated and adopted in the last two years in the field of banking union, capital markets union, fiscal union and energy union which are meant not only to provide the financial stability within EU but also to reinforce and extend the dimensions of the internal market.

Figure 1. EU Economic Governance and its New Components



Source: Made by the author

3. Banking Union

Banking Union is a process imposed by financial crisis and sovereign debt crisis effects in the Eurozone and was defined as based on four pillars: a single regulatory framework for financial institutions, a Single Surveillance Mechanism (SSM), a Single Resolution Mechanism, a harmonized system of deposit guarantee schemes, the last three being essential components of this union.

Sovereign debt crisis induced by the financial crisis focused on the great difficulties encountered especially by the banks from Ireland, Spain, Greece, Cyprus, and also by the banks from more developed countries, mainly due to the over financing of real estate sector and also due to the risky derivative transactions and to the massive purchase of state bonds, has revealed not only the serious deficiencies of corporate governance in the banking sector but has demonstrated that financial stability can not be achieved at national level because of the vicious circle created between banks and national governments (shocks transmitted from the governments to the banking sector and from this to the governments) and hence the need to remove it by creating a banking union (Stratfor, 2013)

Based on the provisions of EU Regulation no. 1024/2013 European Central Bank has constituted a Supervisory Board within its structure, apart from monetary policy tasks, that was involved in assessing banks participating in Single Supervision Mechanism through audits and stress tests. The Supervisory Board will supervise 124 banks from euro area, which each has net assets of more than 30 billion euros, a balance sheet that exceeds 20% of gross national income of the Member State, is among the first most important banks or credit institutions in the country and may receive direct financial support from the European Stability Mechanism. Supervisory Board was set up at the beginning of 2014 and was involved in the evaluation based on audits and stress tests of the 124 banks participating in the Single Supervisory Mechanism (SSM). Evaluation of assets quality that preceded the stress tests was practically carried on in 2014 by the Supervisory Board (ECB) in collaboration with the national competent authorities (NCAs) of the Member States participating in SSM and was sustained by independent third parties at all levels. Overall evaluation consisted of three interlinked elements: a) an assessment of supervision risk to review, quantitatively and qualitatively, key risks, including liquidity, leverage and financing risks; b) an analysis of assets quality to enhance the transparency of banks' exposure, including the assets adequacy and evaluation of guarantees and associated provisions; 3) a stress test to examine the resilience of banks' balance sheet in various stress scenarios (Oxford Analytica, 2014). The assessment was based on capital benchmark of 8% (which may descend to 5.5% under a severe adverse scenario) and on the definition of the Capital Requirements Directive IV and the Regulation on capital requirements, including transitional arrangements both for evaluating the assets quality and for the base scenario of stress test. The details of the stress test were announced in time, in coordination with the European Banking Authority that has issued several reports on risk assessment in the European banking system, the last one in 2014.

Single Resolution Mechanism(SRM), is based on the provisions of Directive 2014/59 / EU of 15 May 2014 adopted by the European Parliament and EU Council establishing a framework for the recovery and resolution of credit institutions and investment firms. Each Member State will have to establish a national authority responsible for the resolution of troubled banks in order to solve the difficult situation. All credit institutions and investment firms that are regulated by the Capital Requirements Directive will be covered by the provisions of Directive 2014/59 and will have to prepare recovery and complete resolution plans that may provide valuable information to the resolution authorities, plans to be updated at least once a year and which may require appropriate measures to restore the financial soundness or for business reorganization and should not rely on massive public financial support (bail-out). The recovery and resolution of banks will be based on different scenarios, including systemic instability scenario and will provide appropriate tools/ways for the resolution of banks that experience difficulties. The resolution authority may implement actions based on its investigation/inquiry regarding the capital requirements, assets, liabilities, financial position and its prospects, which are designed to promote the public interest and avoid dissemination of systemic risk. The main resolution actions or tools include: a) sale of business; b) creating a bridge institution (the temporary transfer of assets to a public controlled entity); c) separation of assets (transfer of impaired assets to an asset management vehicle); d) recapitalization measures (the imposition of losses, with an order of seniority, for shareholders and creditors/uninsured depositors, the so-called bail-in. Single Resolution Board, composed of representatives of the ECB, the European Commission and the relevant(supervisory) national authorities will prepare an adequate solution for a bank resolution, decided by the European Commission. The European Resolution Fund of 55 billion Euro will be established in 8-10 years and it will be under the control of the Single Resolution Board to ensure needed funds for medium-term financing of restructuring operations of troubled banks, it will be created by the contributions of banking sector and thus replace the funds of the Member States participating in the banking union.

For bank deposit guarantee schemes there have been applied the provisions of Directive 94/19 /EC, as amended in 2008 and 2010, now we have the provisions of Directive 2014/49/EU of the European Parliament and the EU Council of 16 April 2014 but also the provisions of Article 109 of Directive 2014/59 /EU of 15 May 2014 of the European Parliament and EU Council on the use of deposit guarantee schemes in the context of resolution.

4. Capital Markets Union (CMU)

The Capital Markets Union (CMU) is a plan of the European Commission aiming at creating deeper and more integrated capital markets in the 28 Member States of the EU and by which the European Commission will explore ways of reducing fragmentation in financial markets, diversifying financing sources, strengthening cross border capital flows and improving access to finance for businesses, particularly SMEs.

The CMU is considered to be a pillar of Europe's single market and its creation is seen as a key element of the Investment Plan announced by the Juncker Commission in November 2014. In February 18th, 2015 European Commission published the Green Paper*: Building a Capital Markets Union* (**COM/2015/063 final).** Accompanying the Green Paper it is the Commission Staff Working Document*: Initial reflections on the obstacles to the development of deep and integrated EU capital markets* (**SWD/2015/0013 final**)

The purpose of the Green Paper is to consult all interested parties on the EC's approach to putting in place the foundations for CMU by 2019, the underlying economic rationale of CMU, and on possible measures which could be taken to achieve this objective.

The main areas that the Green Paper seeks to address are:

- improving **access to financing** for all businesses across Europe and investment projects, in particular start-ups, SMEs and long-term projects;
- increasing and **diversifying the sources of funding** from investors in the EU and all over the world;
- making the **markets work more effectively** so that the connections between investors and those who need funding are more efficient and effective, both within Member States and cross-border.

A CMU would ensure greater diversification in the funding of the EU economy and reduce the cost of raising capital, particularly for SMEs. More integrated capital markets, especially for equity, would enhance the shock-absorption capacity of the European economy and allow for more investment without increasing levels of indebtedness. A Capital Markets Union should enhance the flow of capital - through efficient market infrastructure and intermediaries - from investors to European investment projects, improving allocation of risk and capital across the EU and, ultimately, making Europe more resilient to future shocks.

A Capital Markets Union will differ from Banking Union: deepening capital markets requires steps that will be distinct from the key elements of Banking Union. However, the Banking Union's focus on breaking the link between bank failures and sovereign entities in the euro area will provide a platform of stability to underpin the development of a Capital Markets Union across all EU Member States. Likewise, well integrated capital markets will contribute to the resilience of the Economic and Monetary Union.

A Capital Markets Union should be based on the following key principles:

- it should maximize the benefits of capital markets for the economy, jobs and growth;

- it should create a single market for capital for all 28 Member States by removing barriers to cross-border investment within the EU and fostering stronger connections with global capital markets;

- it should be built on firm foundations of financial stability, with a single rulebook for financial services which is effectively and consistently enforced;

- it should ensure an effective level of consumer and investor protection;

- it should help to attract investment from all over the world and increase EU competitiveness.

If we refer to the current state of capital markets in Europe one should notice that total EU stock market capitalization, for example, amounted to €8.4 trillion (around 65% of GDP) by end 2013, compared to €1.3 trillion in 1992 (22% of GDP). The total value of outstanding debt securities exceeded €22.3 trillion (171% of GDP) in 2013, compared to €4.7 trillion (74% of GDP) in 1992. However there is wide variation in capital market development across EU Member States while private equity markets in the US are around twice the size of those in the EU (as a percentage of GDP), whilst private placement markets for bonds are up to three times bigger in the US.

On the demand side, improving access to finance, including to risk capital, notably for SMEs (for example innovative and high growth start-ups), is an important priority. On the supply side, the development of capital markets in the EU will depend on the flow of funds into capital market instruments. Achieving bigger, more integrated and deeper capital markets will depend on overcoming the barriers that are fragmenting markets and holding back the development of specific market segments.

As priorities for early action European Commission has proposed: lowering barriers to accessing capital markets, widening the investor base for SMEs, building sustainable securitization, boosting long term investment, developing European private placement markets.

Improving access to finance, especially for SME's is extremely important and capital markets can complement the role of bank lending for SMEs in particular for start-ups and small but rapidly growing firms in innovative industries. Related to SME's financing EC insists upon: addressing information problems, standardization as a mechanism to kick start markets, enabling alternative means of financing to develop. For developing and diversifying the supply of funding capital markets need to attract institutional, retail and international investors. For boosting institutional investment like that made by investment (mutual) funds, pensions and insurance funds one needs to remove regulatory barriers and other factors. Boosting retail investment by attracting private households in investing in capital markets is possible only if they are able to get a better return on their savings and also if is provided a better regulation and supervision of capital markets which may contribute to building investor confidence. Attracting international investment by ensuring market integrity, financial stability and investor protection is important due to negative impact of financial crisis on gross capital inflows and outflows (as a percentage of GDP) which were lower in 2013 than in 2007. At the end of 2013 according to IMF data the total stock of cross-border portfolio investments between EU Member States was €9.6 trillion, whereas portfolio investments coming from outside the EU amounted to €5 trillion.

Improving market effectiveness – intermediaries, infrastructures and the broader legal framework- may be achieved through development of a single rulebook, enforcement of EU financial legislation, ensuring a fair competition, supervisory convergence, development of common data and reporting across the EU, a proper market infrastructure and securities law, adequate EU legislation in the field of company law, corporate governance, insolvency, and taxation, rapid development of new technologies as electronic trading platforms, high frequency trading and so-called "FinTech" companies.

5. Fiscal Union

The first step to a fiscal union may be considered the establishment of the Macroeconomic Imbalances Procedure (under the provisions of Lisbon Treaty and package of six regulatory measures) with two components: a preventive one based on 11 Scoreboard Indicators and a corrective one involving an action plan and measures to be implemented by a state under the supervision of European Commission and EU Council.

Maybe the second step towards a genuine fiscal union is Fiscal Compact or Treaty on Stability, Coordination and Governance in the EMU signed on 2 March 2012 by all member states of the EU, except the Czech Republic, the United Kingdom, and Croatia. Fiscal Compact defines a balanced budget as one with a general budget deficit not exceeding 3.0% of the GDP, while the structural deficit is not exceeding a country-specific Medium-Term budgetary Objective (MTO) which at most can be set to 0.5% of GDP for states with a debt-to-GDP ratio exceeding 60% - or at most 1.0% of GDP for states with debt levels under the 60%-limit. The country-specific MTOs are recalculated every third year and might be set at stricter levels compared to what the treaty allows at most. The treaty also contains a direct copy of the "debt brake" criteria outlined in the Stability and Growth Pact, which defines the rate at which debt levels above the limit of 60% of GDP shall decrease.

In June 2012 president of European Commission José Manuel Durao Barroso laid ground for future EU Treaty change, making some suggestions related to a fiscal union by setting "upper limits" on member states' annual budgets; by a “prior approval” for issuing government debt” beyond the level agreed in common"; by issuance of "common debt" as a medium term option; by setting up an EU "treasury office"; by closer coordination on "labor mobility" and "tax coordination". For Barroso "*Fiscal union is about much more than just eurobonds*," proposed by French President François Hollande.

Debating Europe Forum has recently presented some reliable arguments for and against EU fiscal union.

Arguments for a fiscal union

a) Debt crisis has provided enough evidence that monetary union cannot properly work without fiscal union because the euro-zone is unable to manage its macro-economic imbalances without some sort of federal structure to oversee revenue collection and expenditure. Without this structure, the euro will always be vulnerable to asymmetric shocks. As we may see combining supranational monetary policies with national fiscal policies is unsustainable, so there is a great need for a fiscal union run by a fully empowered EU Finance Ministry under proper democratic oversight which may give to the EU enough strength and stability, mutualizing credit risk while imposing tough fiscal discipline.

b) Closer economic union is the only way to halt Europe’s decline in the new global environment. In 1990, EU nations made up half the world’s 10 biggest economies, but Europe is losing ground in the global game and by 2050, Europe will have only two nations in the top. The former arrangements made under SGP have not worked properly and Greece case proves that markets can easily ruin the weakest members of euro zone in terms of fiscal policy and economic governance. Fiscal union is needed for raising Europe’s market credibility and bring eurobonds to the level of US treasuries.

c) Fiscal union would be the second major step after a single currency towards a true political union if it will be administered by real federal bodies. Despite the fierce opposition of euroskeptics, central tax resources and mutualized debt may become powerful symbols of a united Europe, but we need less democratic deficit and more representation and accountability on behalf of new shaped and stronger institutions, like a two-chamber European Parliament and a directly elected European Commission, the last one evolving to a genuine body of a federal state (United States of Europe) able to impose as a leading power in an emerging multipolar world.

d) A European fiscal union backed by proper institutions will be able to provide a better economic governance in the EU and to impose an ex-ante control in order to avoid tax and budget irresponsible behavior, that may cause damaging financial bubbles and unsustainable deficits and debts. A better economic management will give more trust to investors and stimulate economic growth, in providing more stability and prosperity in Europe.

Arguments against a fiscal union

a) European Union consists of independent nations which have their own elected governments; their economic and financial problems are essentially specific and they need specific solutions. For Southern Europe countries entering the Monetary Union was a failure, which may be exacerbated by entering a Fiscal Union. Governments need flexibility to deal with their own problems. A Fiscal Union implies a centralized budget with an appreciable financial volume what may cause heated disputes between Member States regarding individual contributions, to which it may be added the involved bureaucracy and possibilities of frequent blockage in decision-making process.

b) One of the arguments frequently used by Great Britain against fiscal integration is that fiscal policy and national budget are the responsibility of sovereign parliament and other public authorities and any transfer of these tasks to Brussels institution would be undemocratic and ineffective. It is quite difficult for the citizens from a country to accept any taxation without representation. How popular or unpopular a fiscal union would be depends not only by its components (structure) but also by the opposition/propaganda of anti-European political demagogues, who have strengthened their position in the European Parliament and are trying to undermine the foundations of the EU.

c) Fiscal Union implies the tax harmonization that will be done mainly by increasing taxes in most Member States. Most European citizens will pay higher taxes and countries like Ireland, Slovakia, Romania, Bulgaria that applied lower revenue and profit taxes which boosted their economies will be forced to increase the level of taxes and achieve the fiscal harmonization (do not forget French-led crusade against fiscal dumping) and this will negatively affect the economic competitiveness and households consumption.

d) Moral hazard may characterize not only the Monetary Union but also on the Tax Union. Countries with budget or fiscal surpluses like Germany will be in a position to finance (bail out) the deficits of other countries, and a Fiscal Union involving high financial transfers will not boost the budget discipline and the implementation of structural reforms in Southern and Eastern European countries whose high deficits and high debts will continue to impede the progress of all Union.

6. Energy Union

European Union imports 53% of all the energy that is consumed and this share will increase in the future decades. But some Member States depend on gas imports coming from a single main supplier. That is why the diversification of energy resources and suppliers are two objectives that will contribute to energy security. The development of green energies and finding new gas suppliers are two major ways to enhance the energy security and to reduce environmental impact.

At **European Council** meeting in March this year it was maintained that EU is committed to building an Energy Union with a forward-looking climate policy on the basis of the Commission's framework strategy, based on 3 objectives: security of energy distribution, sustainability and competitiveness and also on five dimensions which are closely interrelated and mutually reinforcing - energy security, solidarity and trust; a fully integrated European energy market; energy efficiency contributing to moderation of demand; decarburizing the economy; and research, innovation and competitiveness. The EU institutions and the Member States will work together and the EU Council will report to the European Council before December, 2015, that will continue to give guidance. European Council emphasized the importance of all dimensions of the Energy Union and focusing on some of the aspects called for:

a) Accelerating infrastructure projects, including interconnections in particular to peripheral regions, for electricity and gas to ensure energy security and a well functioning internal energy market. There have been mentioned the recent agreement by France, Portugal, Spain, the Commission and the EIB for achieving the 10% electricity interconnections objective by 2020; the agreement by the Baltic States to proceed towards synchronous operation of Member States within the Continental European Network which also contributes to the increase of energy security; the work of the Central East South Europe Gas Connectivity High Level Group; the setting up by the Commission of Regional High Level Groups composed by all relevant key players to ensure regular monitoring of progress in the selection and financing of projects of common interest.

b) Fully implementing and rigorously enforcing existing energy legislation;

c) Reinforcing the legislative framework for the security of supply for electricity and gas; energy security may also be strengthened by robust grids, increased energy efficiency and having recourse to indigenous resources as well as safe and sustainable low carbon technologies;

d) Ensuring full compliance with EU law of all agreements related to the buying of gas from external suppliers, notably by reinforcing transparency of such agreements and compatibility with EU energy security provisions. As regards commercial gas supply contracts, the confidentiality of commercially sensitive information needs to be guaranteed;

e) Assessing options for voluntary demand aggregation mechanisms in full compliance with WTO and EU competition rules;

f) Developing a more effective, flexible market design which should go together with enhanced regional cooperation, including with neighboring countries, and help integrate renewables, while ensuring that public intervention is compatible with the internal market and that the right of Member States to decide on their own energy mix is respected. This will help provide affordable energy to households and industry;

g) Reviewing and developing legislation related to emissions reduction, energy-efficiency and renewables to underpin the agreed 2030 targets; developing a reliable and transparent governance system;

h) Developing an energy and climate-related technology and innovation strategy, including for example on the next generation of renewables, on electricity storage and carbon capture and storage, on improving energy efficiency in the housing sector as well as on sustainable transport;

i) Using all external policy instruments to establish strategic energy partnerships with increasingly important producing and transit countries, notably with a view to promoting energy security, while ensuring that the sovereignty and sovereign rights of Member States to explore and develop their natural resources are safeguarded.

The European Council supports a strong coordinated action through an active European climate diplomacy ahead of the COP 21 (United Nations Climate Change Conference) in Paris to be held in December, in line with the ambitious objective fixed by the October 2014 European Council, as reflected in the contribution submitted recently by the EU and its Member States and urges all Parties in a position to do so, including major economies, to submit their contributions by the end of March 2015. It is also necessary to intensify work on solutions on financing, technology transfer and capacity-building, which are key issues in view of an ambitious agreement in Paris. COP 21 has a crucial role because it must result in an international climate agreement which will limit global warming to below 2°C. The first decision to be made is a binding agreement on climate change that applies to all countries and the second decision is related to intended national determined contributions (INDC) representing the investment that each country is able to make. Climate finance will also be a major component, the initial capitalization of the Green Climate Fund will amount to $9.3 billion, including nearly $1 billion from France. Local and regional initiatives developed by local governments, civil society organizations and businesses will bring their positive contribution, increasing the contributions made by states. In 2014 governments and private companies have invested $ 270 billion in renewable energies, 17% more than in 2013.While China and Japan have focused on photovoltaic parks, investing $74.9 billion in this field, European Union has invested $18.6 billion in wind parks. Maybe that is why the GHG emissions have not increased in the last years, attaining 32.3 billion tons in 2014.

For **Martin Schultz,** president of European Parliament, Energy Union is a historic project and EU has to do more to diversify the oil and gas suppliers and act united when dealing with third parties. Martin Schultz believes that the dependence on a few suppliers, some of them dominant or unreliable, like Russia, makes EU vulnerable to divide-and rule tactics and threats of blocking energy supply routes. In the short-term EU has to connect to as many different suppliers as possible, in particular in south-eastern Europe while in the long-term EU should reduce the energy imports because is the largest energy importer in the world with more than half primary energy coming from third countries and costing € 400 billion per year.

EU must reduce the energy needs by prioritizing energy efficiency and must increase and diversify its own energy production in a smart and climate friendly way. Solidarity is important for a EU common energy policy because only by fully connecting the internal pipelines and grids, one can be ensured that the energy may flow freely within Europe, and reach the places where it is most needed at fair prices. Affordable and accessible energy is vital for keeping European industry in business and for keeping European citizens safe. Many people in Europe are not able to pay their electricity bill or cannot afford to heat their houses in winter so the national governments must tackle the energy poverty. Instead of paying billions for energy coming from outside the EU it is preferable to create jobs and growth by investing this money into an energy union: into merging EU fragmented market into a fully integrated energy market, also by fully implementing what has already been agreed: the Third Internal Energy Market Package; into research and innovation, in available and new technologies, in particular in the area of renewable energy and energy efficiency, as well as storage and transport of renewable energy. European renewable energy businesses have a combined annual turnover of € 129 billion, and employ over a million people; and making the houses and buildings more energy efficient is a must, as three quarters of the houses are not yet energy efficient, and this will create many more jobs and save a lot of money for the consumers.

The European Commission estimates that one trillion Euro will be needed for investing in the EU energy sector by 2020 and the money should be spent in a smart way for reaching the goals of creating jobs and growth. President Juncker's 315 billion Euro Investment Plan may play an important role in mobilising the required investments in energy infrastructure and innovation and obviously a part of these investments must be allocated to small and big infrastructure projects to create jobs, to reduce energy consumption and to lower energy prices.

EU energy policy impacts on climate change and EU wants to be a global leader in the fight against climate change and to be a positive example for other states. That is why the European Parliament will continue to put pressure on the EU to be more ambitious with regard to its own targets, including in relation to energy efficiency. In addition, the Parliament will continue to push for climate diplomacy. Ahead of this year's Paris Climate Conference the key challenge for the EU is to act as a leader and a common EU position is needed for a substantial progress. For reaching an agreement in Paris, one which will put the world on track to achieving the "below 2°C" objective one should address the issue of climate change in all relevant meetings with third countries. The energy union is about big questions, big figures, big interests and big ambitions and it will require many legislative proposals and it will need full support and implementation at all levels. The European Parliament believes in the objectives of the Energy Union, but will assess very carefully the required legislative proposals and the way the Parliament will be involved in the governance of this project that touches upon the key interests of the European Union and its citizens. Martin Schulz understands that some people are considering following the model of the European Semester for the governance of the Energy Union but he thinks that the European Semester has various aspects which can certainly be bettered. European Commission is currently planning to streamline the whole process and it is necessary to learn from previous experience and to develop an efficient approach from the start. Energy is a core business of EU and therefore must be dealt properly by the community institutions in a transparent, democratic and effective manner.

7. Political Union

On September, 12, 2012 the former president of European Commission José Manuel Durão Barroso delivered a speech in front of European Parliament pleading for launching a wide-ranging public debate for a major transformation of the European Union into a federation of nation states**.** He stressed that in order to survive, the Union should evolve and agree on "*a decisive deal for Europe*" that would establish a "contract of confidence" between member countries, EU institutions, social partners, and the Union's citizens "*We will need to move towards a federation of nation states. This is what we need. This is our political horizon*," he said. Barroso's vision for a federation of member states was by no means a "superstate", similar to the USA, as he wanted a democratic federation of nation states that can tackle the common problems, through the sharing of sovereignty in a way that each country and each citizen are better equipped to control their own destiny. Barroso was aware that the creation of such a federation would require a change of the EU treaties. Having in mind the Lisbon Treaty negotiations, which took three years to conclude after French and Dutch voters rejected a proposed EU constitution in 2005, he said the Commission didn't take it "lightly" and realized how difficult it was to change the treaty.As a matter of fact Lisbon Treaty was finally signed under strong political pressure of

German Chancellor Angela Merkel. Barroso said that a broad debate should start in Europe on treaty change, before a convention or an intergovernmental conference is called, and pleaded for a new kind of debate." *I would like to see the development of a European public space, where European issues are discussed and debated from a European standpoint. We cannot continue trying to solve European problems just with national solutions*," he said. Barroso appealed to the European Parliament to contribute, but also to "European thinkers", to "*men and women of culture, to join this debate on the future of Europe".*

Also in September 2012 the Future of Europe Group, composed of Foreign Ministers from 11 European countries(Austria, Belgium, Denmark, France, Italy, Germany, Luxembourg, the Netherlands, Poland, Portugal and Spain), led by Germany, has proposed a European Federation through a common army, a common police force and a European Foreign Minister. There were envisaged two solutions for the future of the EU: a federation or a confederation. In the field of EU's Foreign and Defense Policy the decisions would not be taken unanimously in favor of a majority vote. The entire institutional architecture of the EU would have to be revised, and the European Commission and EC President should be elected directly by the citizens and lead a true European Government and the European Council and the Council of Ministers would be both replaced by a secondary parliamentary chamber of the states (a kind of Senate, if we consider the actual European Parliament an equivalent of the US House of Representatives) and this would contain a smaller chamber for the eurozone member countries.

8. Conclusions

Sovereign debt crisis has highlighted the fragility of the Monetary Union against the backdrop of a failure to achieve a complete and powerful Economic Union due to an incomplete single market and an ineffective coordination of macro-economic policies at EU level. Besides the reforms undertaken immediately after the crisis in the field of economic governance on the basis of the provisions of the Lisbon Treaty, European Commission has drawn the conclusion that it is needed a deep integration of the financial and banking markets for creating an ever closer Union in this domain. The process has began with the creation of the Banking Union with three pillars, the first of which is already in operation, since November 2014, the Single Supervisory Mechanism, while the second one and third one are in need of a longer period in order to become functional. It must be mentioned the replacement of the bail-out procedure, involving public money, with the bail-in procedure for saving banks, in which the burden of restructuring and revitalization of a bank in a difficult situation falls on the account of shareholders and big depositors/creditors.

Capital Markets Union (CMU) is a plan/project of the European Commission presented in a recent the Green Paper*:* Building A Capital Markets Union with the aim to boost financing for all businesses and investments across Europe, to diversify the sources of funding and to improve the operation of capital market in EU. Capital market in Europe has a great potential for further development if its dimension is compared with that from U.S.A. Now we have rather fragmenting markets, not enough flows and institutional investors (like mutual funds, pensions and insurance funds), not enough instruments and SME's financing.

As concerns Fiscal Union some small steps forward were made after the crisis like Macroeconomic Imbalances Procedure, Fiscal Compact and Barroso's proposals from June 2012. There are strong arguments for and against fiscal union, but this project is very difficult to achieve due to large transfer of sovereignty to the community level, hard to be accepted, especially by the British. As it involves real federal bodies for a centralized fiscal policy this project represents a giant step forward towards political federating of Europe.

Energy Union is meant to diversify energy resources, to provide energy security for all MS, to better protect the environment, to foster the economic competitiveness. A fully integrated European energy market must be based on solidarity, trust, cooperation and common positions in the relation with foreign suppliers, like Russia. Besides developing their resources, including green energies, MS may establish strategic energy partnerships with important suppliers, but cooperation between the European institutions and between them and MS has an essential role in the creation of this Union. EU is a global leader in the fight against climate change and a common EU position will be needed for a substantial progress in Paris at COP 21(United Nations Climate Change Conference).

Political Union has the goal to transform European Union into a federation of nation states, an ambitious project supported by the former president of European Commission José Manuel Durao Barroso and by Angela Merkel, Germany's prime minister. It involves a radical change in the Treaties and a lot of political will, both difficult to materialize under the circumstances created by the crises and economic stagnation. Only a quick, sustainable and substantial economic progress may create a favorable framework for starting a true and profound political integration.

In our opinion, at present the EU's future is full of uncertainties and traps, created by both internal and external factors. Internally, we have now some political parties, like UKIP and Front National, which are anti-European and anti-immigration seeing EU as an entity that undermines the national economy, sovereignty and well-being. European nationalism is based on specific history, language and culture and usually rejects other ethnic groups. It was the recent financial and economic crisis that has led to the current economic difficulties and social pressures which paved the way to anti-European parties affecting the political system and also the process of European integration. Now there is a strong and growing anti-immigration feeling in Western Europe, driven by the fear of Islamist terrorism and also by the influx of immigrants from Eastern Europe, Northern Africa and Middle East and other regions creating an extra pressure on the labor market. Mainstream parties, with neoliberal/right or neokeynesist/left ideology, are attached to European values and to the European Community membership but they are now facing strong nationalist and separatist movements difficult to counteract.

Under these adverse circumstances any hastening of the integration process by means of fiscal and political unions presents major political risks related to the possible dissolution of European Community, while financial and energy unions may provide some certain advantages for the financial stability and economic growth of EU.

Externally, the warlike attitude of Russia, the rise of China and other BRICS countries, the explosive situation in the Middle East, the uncertainties in the field of energy and climate will create other important geopolitical risks for the integration process and hence the need for working out a proper strategic vision and some reliable scenarios on medium and long term.

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