

ARTICLES

Some Important Challenges for the EU Future

PETRE PRISECARU

Ph.D., European Studies Center

Institute for World Economy, Romanian Academy

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ROMANIA

petreprisebaru@yahoo.com

<http://iem.ro/departamente/centrul-de-studii-europene>

Abstract: *The reform of Economic and Monetary Union (EMU) is supported by some official documents adopted at EU level, like the Report of the Five Presidents (2015) and the Reflection Paper on the Deepening of the Economic and Monetary Union (2017) but was also strongly demanded by some European officials, namely Emmanuel Macron, who wants to speed up some important reforms for the EU's future, like for instance the achievement of a fiscal union. Banking union based on three pillars is partially implemented while capital market union is only a project. A better fiscal governance is already in place but a fiscal union accompanied by a political union is difficult to build due to the reluctance of some German politicians, together with the opposition of Nordic Group and backed by the "hard" position of the Visegrad Group. Energy union that was subject already to three evaluation reports must be finalized until the end of the current Commission's mandate. The reform of Common Foreign and Security Policy (CFSP), imposed by Trump Administration positions and by other important challenges started in 2016 with EU Global Strategy, followed by Defence Agenda, Reflection Paper on the Future of European Defence, the tenth progress report on Security Union, the Permanent Structured Cooperation (PESCO). Brexit negotiations face also some heavy obstacles: the agreed payment obligations of UK, determining the status of UK as a trading partner of EU, establishing a transition period, the fate of the four fundamental freedoms, especially free movement of people, solving border issues between Ireland and Northern Ireland. Under the strong migration pressure EU was forced to adopt some strategic orientations: working with countries of origin and transit, strengthening the EU's external borders, managing migration flows and curbing migrant smuggling activities, reforming the common European asylum system, providing legal migration pathways, fostering the integration of third-country nationals. Considering all of the above-mentioned issues with a medium and long-term impact on the future of the EU, our article proposes a synthetic treatment of the pros and cons for the implementation of all these projects, our analysis taking into account not only the present state of the European economy, but also the wider geo-political context, along with its exogenous challenges.*

Keywords: *EU reform, European Union, Economic and Monetary Union, Common Foreign and Security Policy, Energy union, Banking union, Fiscal union*

JEL Classification: *E 61, E 62, F 15, F 22, F 45, F 52, G 21, G 28*

1. Introduction

Two EU official documents adopted in recent years have played an important role in the reform of EMU. The first one is the Report of the Five Presidents (European Commission, Eurosummit, Eurogroup, ECB, European Parliament) from June 22, 2015, which revealed significant differences in fiscal policy in the euro area, which creates instability for the whole EU and therefore requires substantial progresses to a real Economic Union based on common structural features, to a Financial Union based on a Banking Union and a Union of Capital Markets, ensuring the integrity of the single currency (euro) and risk sharing with the private sector, to a Fiscal Union, designed to ensure fiscal sustainability and fiscal stabilization, to a Political Union based on democratic accountability, legitimacy and institutional strengthening. The second one is Reflection Paper on the Deepening of the Economic and Monetary Union from May 31, 2017 which presents some further steps towards

Economic Union, Financial Union, Fiscal Union, a better governance and 4 guiding principles for deepening the EMU: a) jobs, growth, social fairness, economic convergence and financial stability b) responsibility and solidarity/risk-sharing and risk reduction c) process open to all Member States d) transparent, democratic and accountable decision-making.

For Emmanuel Macron euro's survival and euro zone consolidation impose rapid reforms like a Minister of Finance, a common budget, eurobonds and other measures, some of them being displeased to German conservatives who do not really like a fiscal union. Germans are not only hesitant about Macron's ideas on eurozone reform but also on defense matters where necessary compromises must be found.

The relations of Franco-German engine with the USA have entered a difficult period, despite great diplomatic efforts. "*The times when we could completely rely on others are, to an extent, over,*", "*and therefore I can only say that we Europeans must really take our fate into our own hands*" said Angel Merkel while campaigning in the Munich suburb of Trudering last year. And this year after Trump denounced the nuclear deal concluded with Iran Angela Merkel said that Europe cannot put all of its trust in the U.S. when it comes to protection and should instead "*take its destiny into its own hands*" "*Let's face it: Europe is still in its infancy with regard to the common foreign policy,*" Merkel said, but insisted on the need for MS to act together against common threats.

2. Reform of EMU

2.1. Financial Union

2.1.1. Banking Union

EU has to complete its monetary union by accomplishing the financial union, and first of all the banking union. It is not enough to have only a single currency-euro- and the European Central Bank, one needs mechanisms and instruments to counteract or solve major financial imbalances and shocks. Banking Union based on three pillars is not yet fully complete because only the first and partially the second pillar were built, and yet a fiscal union is wanted by President Macron, but achieving a financial union involves major reforms that the European Council should agree by the end of June, although they are very difficult to negotiate and come to a result, as European elections approach and Eurosceptic forces consolidate their positions within the monetary union and beyond it. Before starting other ambitious projects it should be solved the third pillar of the banking union, the creation of a European common fund to guarantee deposits of up to 100,000 euros, which could initially exist together with national schemes/funds, in a co-insurance system where European money may be used only when the national funds are not enough or are depleted. The European Commission had proposed a European Deposit Insurance Scheme (EDIS), but it is very difficult to achieve it without reaching to a consensus of all members from Euro Area (Ferdinando Giugliano, 2018). Banking crisis has affected not only the countries that have benefited from the Cohesion Fund, established in Maastricht, but also banks from more developed ones, like Italy, Netherlands, Germany, and the main explanation is the vicious circle between sovereign entities and commercial banks. Joint deposit insurance would benefit almost all Euro countries and reduce the risk for conducting banking activity. For paying a smaller contribution to a joint insurance scheme (or fund) the banks will have to cut or limit the risks related to non-performing loans, financial derivatives, and excessive sovereign debt on their balance sheets.

Anyhow German leaders not really agree with a joint deposit insurance, which could be introduced only in a distant future (Angela Merkel, 2007). Another matter of debate is linked to ensuring a backstop to the Single Resolution Fund (SRF), which was set at 55 billion euro, meaning the use of European Stability Mechanism for providing rescue funds for banking sector. There is also the proposal to turn the ESM into a more flexible institution, a European Monetary Fund, able to lend money to Euro countries without being forced to make fiscal adjustments and structural reforms. The Single Resolution Fund will have a minor role in providing limited additional risk-sharing between countries after bail in procedure by which investors and large depositors will cover the bank losses through so-called burden-sharing.

2.1.2. Capital markets union

It is a very ambitious project based on a Green Paper published by European Commission in February 2015- Building a Capital Markets Union (COM/2015/063 final) and its aim is related to a better functioning of capital markets within EU by increasing and diversifying the financing sources, especially for SME's. The projects of banking union and capital markets union are mutually strengthening and may contribute to the consolidation of the single market for financial services (Constâncio, 2017). A strong and integrated banking system could better support the development and integration of capital markets, and both unions may represent

strong and effective means for counteracting the effects of a financial crisis or for absorbing asymmetric shocks, at least at national level, despite the numerous and powerful obstacles towards achieving them (Paul, 2017). In the Reflection Paper on the Deepening of EMU from May, 2017 European Commission has proposed two phases for some important reforms related to economic (financial) union: the first one for completing with needed pillars for both financial unions (end of 2019) and the second one for other necessary support measures like safe European assets, changing regulatory framework of national bonds, a fiscal stabilization function, changes of institutional architecture (European Commission, 2017)

2.2. Fiscal Union

After some preceding steps like Macroeconomic Imbalance Procedure (14 Scoreboard indicators), Fiscal Compact (structural deficit 0.5% or 1%), Barroso's proposals from June 2012, the Report of the five Presidents (European Commission, 2015) represents the most significant move towards a real fiscal union within EU. It has revealed that national public debts must be sustainable based on sound fiscal policies, effective automatic fiscal stabilizers should be used for counteracting financial shocks, a fiscal stabilization function for the euro is needed on the long run, it should be targeted increasing of economic convergence, enhancing of financial integration and coordination, pooling of decisions on budgets. A better fiscal governance was implemented after the crisis with the support of European Semester, new regulations and directives for Growth and Stability Pact, Fiscal Compact, but further progress can be made towards a genuine fiscal union with an advisory European Fiscal Council (complementing national fiscal councils), by creating an automatic mechanism for stabilizing the euro area, with other measures, rules or reforms.

Does a fiscal union also need a political union as former German finance minister thinks? Political integration under the form of a federation of nation-states was proposed by José Manuel Durão Barroso, the former president of EC, in September 2012, and it is also sustained by the French President, Emmanuel Macron and by the German social democrat leader Martin Schultz, while Visegrad Group strongly rejects the idea of a European federation, pleading only for a union of sovereign states. Some famous experts, like Dani Rodrik from Harvard University, believe that a monetary union may function quite well without a fiscal union but only with a complete banking union. But Emmanuel Macron insisted several times on the subject of fiscal federalism, involving a common budget of the area administered by a Minister of Finance, greater coordination of tax regimes, a European procurement policy, introducing Eurobonds or partial mutualisation of eurozone public sector liabilities.

Many disputes are focused now on the matter of how much public debt should be held by the banks because bad public fiscal management may negatively impact on the banking system. Germany wants banks to reduce the share of government bonds in their balance sheets in order to prevent any sovereign debt crisis to turn into a banking crisis, also it wants a mechanism for restructuring much easier the sovereign debt when a country requires assistance from the European Stability Mechanism. These grievances were rejected but the French side. On the other hand the Germans dislike the desired Macron's fiscal union, especially the establishment of European taxes and their gathering at European level and the issuance of Eurobonds related to public debt.

2.3. Energy Union

For the EU, depending more than 50% on imported primary energy resources, it is almost crucial the diversification of energy sources and suppliers of primary resources, which are two major objectives that will contribute to energy security of the EU. Green energy and finding new natural gas suppliers are two ways to enhance energy security, to reduce dependence on imports and lower the environmental impact. The European Council meeting in March 2015 argued that the EU will undertake the task to build a Union Energy with a solid component of climate policy future-oriented based on the strategy framework of the Commission, with three objectives: security of energy distribution, sustainability and competitiveness and also based on five dimensions that are closely interlinked and mutually reinforcing: a) energy security, solidarity and trust; b) a fully integrated European energy market; c) energy efficiency that contribute to moderating demand; d) decarbonisation of the economy; e) research, innovation and competitiveness.

Three evaluation reports assessing the situation of energy union were conducted by the European Commission, the first published in November 2015, the second on February 1, 2017 and the third on November 23, 2017. The third report highlights major progress in developing the renewable resources in the last 10 years, and a significant decrease in emissions of greenhouse gases. Energy efficiency, subsidies to coal and power stations, national integrated plans on energy and climate, financing opportunities also enjoyed a special attention. The next evaluation report on energy prices and costs from 2018 will provide updates on fossil fuel subsidies in EU. Energy transition should focus on several dimensions: a) An energy transition socially equitable; b) An

energy transition that requires a strong infrastructure; c) Transition energy as an investment opportunity; d) The external dimension of the energy transition.

In the last two years, the European Commission has submitted most of the necessary legislative proposals to provide a regulatory framework predictable and actions to be implemented to speed up public and private investment for supporting a transition to clean energy and socially equitable. However, further efforts are needed urgently to ensure that the Energy Union is finalized until the end of the current Commission's mandate in 2019, such as: a) Delivery of legislative framework; b) Delivery of permissive framework; c) Engaging all parts of society.

3. Reform of CFSP

3.1. EU release from under USA tutelage

The need for the rapid reform of CFSP is quite obvious due to numerous challenges confronting EU: political and military reconfigurations on the global scale, resurgence of trade protectionism due to Trump policy, Russia aggressive policy in Eastern Europe, wave of nationalism and populism facing the EU, the impact of increased migration and the resurgence and escalation of terrorism in Western Europe, Administration Trump position to bilateral relations, complex relations with BRICS, China and international organizations. After 1989 EU relied too much on the role and contribution of the United States for its security while neglecting the development of its own policy on security and defense, but nowadays USA leadership is coming to an end and we have now a multipolar order. While USA gives priority to the relations with Asian countries and Israel, Donald Trump doesn't like EU as a strong entity and prefers bilateral relations with MS, he wants only a limited US involvement in solving global problems, he announced US withdrawal from Paris Agreement and from nuclear Iranian deal, on the contrary he wants US disengagement based on financial reasons and prefers ad hoc arrangements. Angela Merkel and Emmanuel Macron want a more powerful Europe (but they are not against NATO) and to strengthen its security, but one needs urgent actions, the allocation of adequate resources and removal of bureaucratic obstacles and maybe more political integration (a political union, a large federal state). EU has different positions to USA on the global governance, role of international organizations, approaching climate changes, solving Middle East tensions and conflicts, supporting commercial liberalization.

3.2. Requirements for a new CFSP

In June 2016 the High Representative of CFSP presented EU Global Strategy consisting of several parts:

A. Values (interests): peace and security, prosperity, democracy, a rules-based global order

B. Principles (principled pragmatism): unity, engagement, responsibility, partnership

C. Priorities of EU external action:

1. Security of union: security and defense, counter-terrorism, cyber security, strategic communication;

2. State and Societal Resilience to EU East and South: enlargement policy, neighbors, resilience in our surrounding regions, a more effective migration policy;

3. An integrated approach to conflicts and crises: preemptive peace, conflict settlement, political economy of peace;

4. Cooperative regional orders: The European security order, a peaceful and prosperous Mediterranean, Middle East and Africa, a closer Atlantic, a connected Asia, a cooperative Arctic;

5. Global Governance for 21st Century: reforming, investing, implementing, widening, developing, partnering;

D. From vision to action: a credible Union, a responsive Union, a joint up Union, the way ahead.

A better CFSP needs: a) addressing the challenges by combining internal and external policies b) a strategic vision and adequate tactics on short and medium term c) using rules and arrangements based on balancing/harmonizing the diverse interests of various actors and on multilateral negotiations and broad consensus.

3.3. Road to a Security and Defence Union

In the **Reflection Paper on the Future of European Defence** published in June 2017 by European Commission there were envisaged three scenarios: a) security and defence cooperation b) shared security and defence c) common defence and security. The differences between them consist in different degrees of cooperation and integration of Member States. For each scenario are detailed principles, actions, capabilities and efficiency. EU must increase its defence expenditures (1.34 % of GDP, 3.3% in USA), support the integration of military equipment market, build a single market for military industry, and promote more technological progress, more research and development activity in the field.

The tenth progress report on Security Union, presented by the European Commission on September 7, 2017, reviewed the activities in the relevant fields in 2016 and the prospects for the next 12 months. The Commission supported Member States' efforts that they have made in 2016 in the two main pillars: (i) combating terrorism and organized crime, and the means available to them; and (ii) strengthening of EU defence and resistance means to these threats. The report focused on a few key priorities: improving security at external borders; improving the exchange of information: restriction of the perimeter for acting terrorists; preventing radicalization.

3.4. Common Security and Defence Policy

Combating terrorism and providing EU internal security require a range of measures as mentioned by European Council in June 2017 while transatlantic relationship and EU-NATO cooperation are essential for the global security of the EU. In Helsinki it was set up the European Excellence Center for Counteracting Hybrid Threats, also the European Defence Fund (5.5 billion euro/year) was created as an initiative to finance for research and one for capabilities. European Defence Agency has a comprehensive and wide-ranging work agenda: a) *Preparatory Action on Defence Research (PADR)*; b) *Capability Development Plan (CDP) update*, c) *Coordinated Annual Review on Defence (CARD)*, d) *Key Capability Programmes*; e) *Implementation of Agency's Long Term Review*.

Defence Agenda presented in semester II-2016, represents a **defence package** composed of three major pillars:

1. new political goals and ambitions for Europeans to take more responsibility for their own security and defence. **Implementation Plan on Security and Defence**: A new level of ambition for security and defence was set, with three priorities for taken actions: responding to external conflicts and crises when they arise, building the capacities of partners, protecting the European Union and its citizens through external action

2. new financial tools to help Member States and the European defence industry to develop defence capabilities. **European Defence Action Plan**: is focused on establishing new financial tools to help Member States to develop defence capabilities

3. a set of concrete actions to follow up on the EU-NATO Joint Declaration in July 2016 which identified areas of cooperation (**Taking EU-NATO cooperation to a new level**): countering hybrid threats, operational cooperation including maritime issues, cyber security and defence, defence capabilities, defence industry and research, parallel and coordinated exercises, defence and security capacity building

On October 18th 2017 European Commission presented **Anti-terrorism Package** to better protect EU citizens, which consists of:

1. Support of MS in protecting public spaces;
2. Close the space in which terrorists can operate;
3. A new EU Action Plan to strengthen chemical, biological, radiological and nuclear (CBRN) security;
4. Supporting law enforcement in criminal investigations online;
5. Countering radicalization;
6. Reinforcing the EU's external action on counter-terrorism.

The **Permanent Structured Cooperation (PESCO)** is the part of the European Union's (EU) security and defence policy (CSDP) in which 25 of the 28 national armed forces pursue structural integration and it is based on the provisions of Article 42.6 and Protocol 10 of the Treaty on European Union (the Treaty of Lisbon from 2009). PESCO was first initiated in 2017 and the initial integration within the PESCO format is a number of projects planned to be launched in 2018.

3.5. Recent positions on CSDP

Jean Claude Juncker, president of European Commission (EC,2016), recently called for a single operational headquarters, building of joint military assets (which would be owned by the EU), establishing a budget for defence capabilities (a European Defence Fund), stimulating research and innovation, a permanent structured cooperation as a vehicle for deeper cooperation in defence matters.

Emmanuel Macron has proposed the strengthening of European defence and security policy by creating a joint intervention force, a common defence budget and establishing a common doctrine, creation of a European Academy of Information, setting up a European Public Prosecutor, creation of common antiterrorist forces and a common civil protection against natural disasters, establishing a European Asylum Office to harmonize and speed up asylum procedures in all Member States and the gradual establishment of a European border police.

Large differences or different opinions on defense still persist between Germany and France and it seems that it is very difficult to find some compromises for triggering rapid progress in the field and to recruit new supporters among MS. Any major progress is possible only if France and Germany agree on the necessary

steps because they are the political and economic leaders within the EU and both hold 50% of military and industrial capabilities after Brexit. Important and concrete bilateral projects in defense industry or military field, like a new generation of jet-fighters, are maybe more important than PESCO, France's European Intervention Initiative, or other initiatives, like the Northern Group. Lack of cooperation or failing to compromise may affect not only the leaders but also other countries and will undermine EU possibility to build a strong military capacity (Claudia Major, Christian Molling, 2018). Germany and France had different visions on PESCO, the first wanted a large and inclusive group, the second an exclusive club less real contributors with forces to operations. European Intervention Initiative launched by France is involving United Kingdom, so extends outside EU with political and institutional implications. Great military industrial potential of France and Germany is not so easy to exploit together, especially for exporting military equipment.

4. Brexit tricky game

Brexit was anticipated by very few politicians, even the British, very few observers and analysts of the European integration process and it has produced a very heavy shock on the European Community and put into question the reconfiguration of the balance of forces in Europe and rethinking of the whole European project. United Kingdom joined the European Community in 1973 and gradually acquired a special status, which has deepened since Maastricht where UK opted to remain outside EMU together with Denmark and after that with Sweden. After the financial crisis, which highlighted the weaknesses of monetary union, David Cameron and the Tories won the elections because they promoted systematically a certain detachment from the EU, being supported by Euroskeptics and British mass media that blamed the Brussels bureaucracy who decide on the economic fate of Britain. But the exit referendum from 23 June 2016, promised and organized by David Cameron, was a great mistake due to its result (U.K. withdrawal from EU) and its numerous and adverse consequences.

Looking at Brexit realistically it seems a dramatic event, a start for fragmentation of the EU, but it can also be viewed as a positive event, by removing a permanent obstacle in the way of European integration progress. For euroskeptical parties from other MS Brexit may be seen as a good example to follow and maybe they will try to organize similar referenda. On medium and long term the main consequences of Brexit will be on geopolitical side, EU losing an important and strong member both militarily and economically, and trade and financial ones, given the integration of markets, the stimulation of secession movements (see Catalunya) and trends for excessive regionalization. Not only the gross manipulation of naive people by populist politicians would explain the result of referendum but also the fact that in the last decade the benefits of EU membership and also the benefits of globalization were hardly felt at the society base where they were only illusory or too small to count, instead they focused more and more on top of the pyramid, where the rich have become richer. After a bad financial crisis and a period of economic and social austerity that strongly impacted on middle class and poor people it becomes quite obvious the crisis of political elites (national and European) in managing and reforming EU, in rallying and involving the citizens in public policies, in promoting and reforming the Social Europe, in the fight against social inequalities, in combating tax evasion, antisocial and anti-ecological practices of the corporations, in solving major economic problems, in counteracting populist, nationalist, xenophobic, anti-immigrant movements.

To fully materialize Brexit must face some major challenges: the agreed payment obligations of UK, determining the status of U.K. as a trading partner of EU, establishing a transition period, the fate of the four fundamental freedoms, especially free movement of people, solving border issues between Ireland and Northern Ireland. UK's official exit, regulated by Article 50 of the Lisbon Treaty, is planned for 30 March, 2019, with a 21-month transitional period, and the exit negotiations are focused on the subjects presented above and must end until October 2018. Exit negotiations between UK and EU, which started last year, are very complex because it is quite difficult to reach an agreement on the final amount UK must pay and for EU to accept the set of wide-ranging demands presented by British Government in January 2018 and referring to the rights of European citizens, to UK ability to influence new European laws adopted during transition period, to the possibility to negotiate free trade agreements (FTAs) with other countries.

Transition period would apply only if U.K. and EU will agree on a comprehensive withdrawal treaty by October 2018. British Government wants to leave the customs union and the single market, so a future trade relationship between the two parts is likely to take the form of a wide-ranging free trade agreement. While the remaining 27 EU member states are a unified voice during the Brexit negotiations the British government has become weaker and more divided. For EU it is essential to ensure a unity of views of all MS, to avoid no deal scenario and to take care of meeting deadlines. The Withdrawal Agreement must be ratified by both the U.K. and

the EU, but for the British Government is not an easy task due to the fact that there are a lot of pro and anti-Brexit opinions. Is the transition period long enough for the negotiations of the future relationship between the U.K. and the EU? An extension of the transition period may be asked by EU for further successful negotiations, and the British Government will accept definitely. The Withdrawal Agreement will only require a qualified majority vote in the EU Council, but a future free trade agreement between EU and U.K. will require a unanimity vote and maybe the support of regional parliaments.

Brexit divorce bill or how much U.K. must pay to Brussels is calculated based on UK's share in the EU's unpaid bills, loans, pension and other liabilities (including EU budget contributions until the end of 2020) accrued over 44 years of British membership. According to some sources (The Guardian, 2017) it could total £53bn to £58bn (€60bn to €65bn), while Theresa May offered € 40 billion last year (Reuters 2017), a figure that Britain is willing to pay to EU. The Financial Times (Laura Hughes, 2018) reported that Theresa May will not put a precise figure on her offer but instead will ask for specific details on how the bill would be calculated.

Some analysts, like Simon Wren-Lewis (2018), professor of Economics at Oxford University, believe that Brexit project is already a complete failure, because after March 2019 U.K. will not be able to influence the rules and laws, governing custom union and single market, where UK will remain during transition period, and because Brexit was based on a fantasy about U.K. power and influence, which is not true as EU does not want to make great concessions affecting both custom union and single market for the sake of having trade relations with U.K. Another fantasy would be that trade with the EU could be replaced by trade agreements with other countries. A great obstacle is represented by Irish border as EU does not want a hard border while Brexit supporters do not accept UK staying in the customs union and single market or a border in the Irish Sea. If irreconcilable positions on divorce bill, Irish border, free trade agreement will persist it appears the danger of perpetual Brexit negotiations. The EU will not negotiate an FTA without a border in the Irish Sea and no hard border in Ireland (Simon Wren-Lewis, 2018). While the Labour party wants a slightly softer Brexit than Theresa May, Tory party is deeply divided between hardliners and softliners. However an alliance of Tory and Labour lawmakers forced a vote on staying in the customs union which was a heavy blow for Brexit backers who wanted an independent trade policy.

Emma Ross Thomas (Bloomberg, 2018) thinks that by the end of this year, the two sides must agree on the withdrawal treaty and also on a framework for the future trading relationship, based on the EU's opening offer of a free-trade agreement that is not very favorable to carmakers, bankers or the service economy. By the end of 2018 or early in 2019 EU and UK parliaments will vote on exist deal, and British Parliament will not dare to reject the deal as lawmakers are aware of the risk of throwing U.K. into a chaotic no-deal divorce. In January 2021 transition period will end and UK will start trading with EU on terms of new trade deal. In 2024 U.K. will pay the last installment of its Brexit divorce bill. But now no one is sure that these deadlines will be respected.

On May, 14th The EU's Brexit negotiator Michel Barnier informed the EU Council that "no significant progress" had been made in negotiations with London since March, while Theresa May's spokesman said the focus is on getting good results rather than meeting a deadline. Michel Barnier said that "more work is needed to prepare for the UK's orderly withdrawal" and there are very serious outstanding issues, like Irish border. Until the summit of EU leaders programmed on June 28-29 2018 substantive progress on Ireland, on governance and all remaining separation issues should be recorded, according with the Bulgarian presidency official priorities. London is considering two options for post-Brexit customs cooperation, the first one to collect tariffs on the EU's behalf and the second one an approved list with the traders that can cross borders freely. Theresa May is under increasing pressure to make a decision on customs and to come up with a solution for the Irish border. After Brexit UK will be tied to EU custom rules for years. Some kind of extension of the two-year transition period will probably be needed. The British Cabinet is still divided about the future of U.K.-EU ties and trade. It will depend on the key adopted legislation by British Parliament what kind of ties and relations will be between the two entities. Until June 28 summit, EU wants significant progress on Ireland otherwise it may adopt a warlike rhetoric while too many or large concessions made by Theresa May will anger the Brexit hardliners.

5. Migration pressure and policy

In the last 3 years almost 2 million refugees and migrants reached EU, Greece and Italy being major arrival and transit countries. While in 2015 EU was not able to manage in a satisfactory manner the migrant crisis but the initiatives and measures undertaken in 2016 and 2017 improved the situation for migration and asylum policies. But the national sovereignty concerns and difficulties to integrate large flows of migrants have created deep divisions between Brussels and Germany on one side and several CEE countries on other side (Kristin Archick, 2017). Most refugees came from Syria but also from other Middle East and Northern African countries

and they prefer to go to generous asylum countries, like Germany and Sweden. Brussels tried to impose redistribution and resettlement programs, each member state being forced to accept a certain number of refugees. CEE countries like Hungary and Poland were fierce opponents because Muslim refugees may affect Christian identity, may create a lot of troubles and some of them might be potential terrorists. In September 2015 EU Council voted for a limited but mandatory plan to relocate some refugees despite the opposition of some CEE countries. In 2016 EU adopted some measures for discouraging people to come to Europe, among them an agreement with Turkey for preventing irregular migrants to cross from Turkey to Greek islands. In February 2017 EU announced its support for Libyan government measures for cutting migration across the Central Mediterranean area, including training and equipment for Libyan coast guard. EU intends to cooperate with countries near Libya to slow the migrant inflows and the funds allocated in 2017 amounted to € 200 million. The migrant flows affected the Schengen system, border controls being temporary introduced, and in October 2016 a new European Border and Coast Guard became operational for joint operations and rapid border interventions meant to reinforce national capacities at EU's external borders. Due to recent terrorist attacks in Europe, criminal and extremist activities, sexual assaults, inappropriate behavior of some refugees, a part of MS does not want to integrate Muslim minorities into their culture and society. Instead of positive results of migrant flows we may see an increase of social tensions and xenophobia in Europe and also a strong support for anti-immigrant, nationalist, euroskeptic political parties.

In the last years European Council and the Council of the EU played an important role in establishing an effective, humanitarian and safe European migration policy. European Council has set the strategic priorities and based on these priorities, the Council of the EU established certain lines of action and provided the mandates for negotiations with third countries and also adopted legislation and defined specific programmes. Over the past year and this year, the Council and European Council have worked to build up a strong response in several areas.

The EU migratory policy comprises the following strands (European Council, EU Council, 2018):

a) *Working with countries of origin and transit.* Under the global approach to migration and mobility (GAMM) several dialogues on migration have been launched and developed, and cooperation frameworks have been established with relevant third countries. In 2015, EU leaders agreed on an action plan in Valetta to respond to the influx of migrants into the EU, primarily from African countries. In 2016, the European Council approved the establishment of a new migration partnership framework to deepen cooperation with key countries of origin. The same year, the EU-Turkey statement was adopted to tackle the irregular migration flow through Turkey to the EU. In addition, the EU is taking action to meet the urgent humanitarian needs of Syrian refugees in Turkey, Jordan and Lebanon.

b) *Strengthening the EU's external borders.* Effective management of the EU's external borders is essential if free movement within the EU is to function well. The European Border and Coast Guard Agency is an important tool for strengthening controls at external borders. The adoption of reinforced checks at external borders was being negotiated, as well as the strengthening of controls through the use of new technologies.

c) *Managing migration flows and curbing migrant smuggling activities.* One of the key priorities of the EU's migration policy is the prevention of illegal migration as well as the return of irregular migrants to their countries of origin. The return directive sets clear, transparent and fair rules for returning irregular third-country nationals. The EU readmission agreements are crucial to the implementation of the EU's return policy. The EU also has established a series of naval operations to secure EU borders, save migrant lives at sea, and fight human trafficking networks and smugglers.

d) *Reforming the common European asylum system.* The migration crisis highlighted the need to reform the Common European Asylum System (CEAS). Under the existing framework, asylum seekers are not treated uniformly and recognition rates vary, which may encourage secondary movements and asylum shopping. The Council is examining seven legislative proposals made by the European Commission to reform the CEAS.

e) *Providing legal migration pathways.* The EU is committed to providing safe and legal avenues to Europe for those in need of international protection. In July 2015, Member States agreed to resettle 22,504 people. The EU-Turkey statement of March 2016 provides that for every Syrian being returned to Turkey from the Greek islands, another Syrian will be resettled from Turkey to the EU. The Commission on 13 July 2016 proposed a permanent EU resettlement framework to establish common standards and procedures. In addition, the Council is examining a proposal to improve the blue card directive to attract highly-skilled talent that the EU economy needs.

f) *Fostering the integration of third-country nationals.* Relocation and resettlement measures adopted in response to the refugee and migrant crisis have emphasized the need to support member states which have less experience with integration. Indeed, third-country nationals across the EU often face barriers with regard to

employment, education, and social inclusion. In its conclusions in December 2016, the Council invited member states to exchange best practice on the integration of third-country nationals, to improve monitoring and assessment of integration, and to address the recognition of qualifications and skills of third-country nationals.

6. Conclusions

EU, namely Franco-German engine, is engaged in deep reforms designed to strengthen the Economic Union, like Financial Union, Fiscal Union, Energy Union, and to the strategic approaches related to reform of CFSP and especially for the development of the Common Security and Defense Policy, taking into account the evolution of bilateral political and trade relations with the US. Besides the close Franco-German cooperation and support of other Member States the reforms require the allocation of significant resources and a performance governance at national and European level. Global problems, such as the greenhouse effect, require an effective global governance, involving all stakeholders. Just the same it is needed a close regional cooperation associated to decent compromises on migration issues and the fight against terrorism. Likewise, Brexit faces some major challenges which require high level diplomacy, bilateral concessions and a realistic view of future relations.

Solutions to the array of issues and phenomena resulting from the financial crisis, the economic austerity, the multilevel governance dysfunctions and the Brexit are not being represented by two-speed Europe or Europe of concentric circles but accelerating economic and social convergence in the EU, the rapid reduction of disparities between MS and regions, prevention of crises and macroeconomic imbalances, promotion of sustainable growth and economic competitiveness. The most sensitive issue but also the most difficult to achieve is the convergence process in all its aspects: **real convergence**, measured by indicators of income and standard of living, including the issue of economic and social cohesion achieved through balanced growth, price stability, full employment, the **nominal convergence**, measured by the well-known macro-indicators established in Maastricht, **institutional convergence**, which involves upgrading the performance of administrative and institutional structures and also of national governance, **cyclic convergence**, that is the alignment to the predominant economic cycle. The complexity of this process requires the involvement of all stakeholders from all levels of EU governance and the implementation of a set of policies and strategies meant to accelerate and support the process at national and regional level.

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