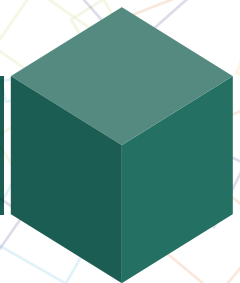




23-24 February 2017 / The Egg, Brussels

Reconstructing the Union



Conference Report



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Reconstructing the Union Insights from CEPS Ideas Lab 2017

The Egg, 23-24 February

Introductory note

Reconstructing the Union was the ambitious but timely theme of CEPS' fourth big forum for debate, the Ideas Lab. Experts from 11 policy domains shared their insights on the many and complex challenges facing Europe. In the view of many participants, this was the best Ideas Lab to date, with a total of 834 attending the event over two days.

This report gives an overview of the insights gleaned from the many discussions that took place during Lab and plenary sessions, prime talks and interactive debates.

The 2017 CEPS Ideas lab was organised in collaboration with the Maltese Presidency of the European Council and the Malta Financial Services Authority; we are enormously grateful to both for their support and contributions. A number of other research institutes and foundations also contributed to individual Labs with both human and financial resources, and various CEPS corporate members also provided financial support. We thank them all for helping to make this year's Ideas Lab a success.



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Opening Plenary: Reconstructing the Union

Speaker: Joseph Muscat, Prime Minister of Malta

CEPS Chairman **Joaquín Almunia** opened the event, highlighting its unique interactive features as a meeting place for policymakers, think-tankers, academics and representatives of the business world.

Jocelyn Kiley of the Pew Research Center briefly presented their study on the attitudes of Americans and Europeans towards diversity and refugees. Ms Kiley concluded that while there were huge differences of opinion among Europeans on these issues, a common finding was that young people in all countries were more willing to “embrace diversity” and see refugees as a benefit to societies.



Jocelyn Kiley, Joseph Muscat and Joaquín Almunia

The keynote address was given by the **Right Honourable Joseph Muscat**, Prime Minister of Malta. In keeping with the experimental nature of an Ideas Lab, he offered up five ideas to “provoke” debate. Mr Muscat stressed, however, that he was speaking in his capacity as a frustrated European citizen rather than as the Prime Minister of his country. His discussion points were:

- The EU should create a Social Pact to counter the many inequalities created by globalisation; the Pact should be linked to the idea of a social union and social mobility.
- The EU should set up a European ‘Brexit’ Fund to counter populism in communities that feel detached from the European project.
- Europe should stay engaged with Turkey and open Chapter 24 negotiations on Justice, Freedom and Security.
- Citizenship should be an innovative policy tool used by member states to give home to talented minds in the global race for the future.
- Europe should become the “Bitcoin continent”; rather than resist the slow rise of crypto-currencies, European regulators should be more innovative in how they protect consumers.

The ensuing question and answer session revealed that there is indeed a great demand for the EU to innovate in order to stay relevant for its citizens.

After the opening keynote speech, participants dispersed into the parallel discussion sessions, which are summarised in the following pages.

Digital Economy & Innovation

Culture and content in the digital single market

Discussion Leaders: **Per Strömbäck**, Member of the Board of the Swedish Film Institute, and Editor, Netopia; **Patrick Messerlin**, Professor, Sciences Po; **Pierre-Jean Benghozi**, Commissioner, French National Authority for Electronic Communications and Postal Services (ARCEP)

Moderator: **Giuseppe Mazziotti**, Professor, Trinity College Dublin and Associate Research Fellow, CEPS

Sensors and senses: Trust and privacy in the internet of things

Discussion Leaders: **Nikos Isaris**, Deputy Head, Internet of Things Unit, European Commission; **Tim Watson**, Director, Cyber Security Centre, University of Warwick; **Nick Wallace**, Senior Policy Analyst, Centre for Data Innovation; **Stacey-Ann Elvy**, Associate director of the Centre for Business and Financial Law, New York Law School

Moderator: **Lorenzo Pupillo**, Associate Senior Research Fellow, CEPS

Open science, open innovation, open to the world?

Discussion Leaders: **Robert Schröder**, Member of Cabinet, Commissioner Moedas, European Commission; **Reinhilde Veugelers**, Professor of Managerial Economics, Strategy and Innovation, Katholieke Universiteit Leuven; **Robert Madelin**, Chief Strategist, Fipra International; **John Higgins**, Director General, DIGITALEUROPE

Moderator: **Andrea Renda**, Senior Research Fellow and Head of Regulatory Policy Unit, CEPS

Introduction

The internet is transforming both manufacturing and services industries, upending our society and presenting Europe with tremendous opportunities and challenges. Our Lab sessions reflected this mixed picture.

On the positive side, Europe's tech sector is booming, with record levels of investment in 2016 it is developing into



a competitor to Silicon Valley. Its most advanced digital countries (in small peripheral states) are world-class performers, ahead of the US in most measurements of digital literacy and adoption. Many parts of the EU lead the world in e-government and in using digital technology to update and automate their public services. Even traditional European industries, from cars to coal, are increasing their digital investment.

On the negative side, Europe risks killing this golden goose through overregulation. Its talented entrepreneurs face high regulatory hurdles when scaling up to reach global markets. Far too few funds are pouring into high-speed web infrastructure. European content industries are suffering and need to find a sustainable way of recreating their business models.

This Lab examined two key challenges to realising a full digital single market for Europe: how to support culture and content production and distribution, and how to shore up public trust and security as the internet becomes ubiquitous. A third session looked at how the EU's innovation policy should be designed to tackle societal challenges and propel Europe towards global leadership.

Key points arising from the discussions

Content industries are facing a revolution. New internet technologies such as user-generated platforms and on-demand streaming have transformed earlier subscription and advertising models. Search and social media platforms

dominate the news diet of many readers and these powerful internet intermediaries are capturing a high share of content value. Through data analytics and algorithms, internet players match users' preferences with supply. With this built-in advantage, internet platforms are becoming vertical powerhouses, controlling both production and distribution. Yet public trust is a fragile thing. Many Europeans fear the internet and its hold on their lives, and are particularly fearful of having their privacy invaded. Following the Snowden revelations, many are wary of increased government surveillance. End-to-end encryption and cyber-security protection offer some reassurance, but not enough. Communication service providers rely on access to user data for revenue and product functionality. At the same time, insufficient private and public investment in cyber security was singled out as a danger in a world in which all our cars and household devices are moving online. In particular, experts worry about the safety of critical energy and defence infrastructures.

Implications for policymakers

European policymakers must avoid imposing too much regulation and fragmentation on digital sectors. Instead of creating a truly seamless digital single market, many participants saw the opposite happening in European Commission proposals. For example, the Commission's new telecom rules could force messaging apps, which now offer all Europeans the same service, to offer different services in different EU countries.

Participants felt strongly that net neutrality rules should be reinforced to ensure non-discriminatory access to content. They encouraged regulators to be careful before applying burdensome rules to dynamic and competitive ecosystems. If quotas on platforms are imposed, they will fail. Rather than reinforcing start-ups, these restrictions will reinforce the power of large, often American, platforms, which have the resources to manage invasive rules.

It will be difficult for policymakers to find a coherent way forward. Regulation is required in a different way for each of the internet's layers: on infrastructure where security vulnerabilities abound; at the service level for which liability regimes and the question of standardisation are key; and at the consumer level, where privacy must be respected

and confidence reinforced. In each case, too stringent rules and a lack of European harmonisation could hamper new services.

Governments should reduce barriers to innovation. True success for Europe's tech sector will only come bottom up and government should encourage these fast-growing ICT ecosystems. It must help accelerate, not slow down, the collaborative economy. A true digital single market is still a good idea: Europe's patchwork of national markets and its fragmented approach to core transmission networks appear anachronistic. More broadly, the EU should emphasise the role of openness and collaboration by providing open access to the results of publicly funded research, promoting open science, engaging more transparently with citizens and endorsing open innovation models to tackle societal challenge and long-term goals. One conclusion is clear: Europe must build on its present momentum and move rapidly into the digital era.

Special Session: Europe's Digital Frontrunners Powering the continent's surprising internet success story?

Speakers: James Waterworth, Vice President, CCIA; Niclas Colliander, Senior Consultant, Boston Consulting Group; Tom Wehmeier, Principal and Head of Research, Atomico; Hosuk Lee Makiyama, Director of Open Political Economy, Network; Christine Muller Andreassen, Advisor, Permanent Representation of Denmark to the EU

Moderator: William Echikson, Head of Digital Forum, CEPS

Introduction

Rather than falling behind fast-moving Asia and Silicon Valley in the global digital race, new research shows that Europe is catching up fast. Certain digital frontrunners are beginning to organise into a potent force, especially on the edges of the Union. Sixteen small European Union countries, from Denmark to Ireland and Estonia have formed a pro-internet 'like-minded' group. Together, they recently wrote a letter urging Brussels to ban data localisation.



Ideas Lab 2017 Conference Report

Key points

In its 'State of European Tech' report, London firm Atomico notes that the EU's tech sector invested a record-setting \$13.6 billion last year, compared with \$2.8 billion in 2011. And in its Digital Frontrunners study, Boston Consulting underlines how many small, export-oriented European Union members rank well above the US in what the consultants call e-intensity, measuring IT infrastructure, internet access and businesses, consumers and government engagement in internet-related activities. These 'digital frontrunners' generate about 8% of GDP from the internet, compared to 5% in Europe's Big Five, Germany, UK, France, Spain and



Italy – and digitalisation is expected to generate 1.6 million to 2.3 million more jobs than it eliminates in these front-running countries between 2015 and 2020.

Of course, weaknesses remain. Europe has not produced a tech giant to rival those in Silicon Valley, and although European tech entrepreneurs find it as easy as their American counterparts to raise startup funds, later-stage capital committed in the US is 14 times greater than that in Europe. That cash gap would disappear if European pension funds would allocate just 0.6% more of their capital under management to venture investments.

Implications for policymakers

A key weakness is the lack of a true European single digital market. In the US or China, tech entrepreneurs receive immediate access to a continent-wide population. In Europe, they still must navigate 28 different consumer tastes and regulatory regimes.

Although the European Commission promised to create a single digital market two years ago, estimating that it could boost the European Union's economy by €415 billion annually, there was little optimism among participants about achieving this goal. Many believe the digital regulations proposed will move in the opposite direction and increase fragmentation. The staunchest critics see the digital single market measures favouring traditional corporatist old industries.

The election of Donald Trump, with his protectionist, anti-immigrant and anti-tech policies, offers Europe a huge opportunity to take leadership. Europe has the tech talent to thrive, but it remains uncertain whether Europe has the political will to become the global digital leader.

Recommended reading from CEPS research:

**Reforming E-Communications Services:
A Critical Assessment, March 2017**

Andrea Renda

**Unleashing Innovation and Entrepreneurship in
Europe: People, Places and Policies, February 2017**

**Jose Manuel Leceta, Andrea Renda, Totti Könnölä, and
Felice Simonelli**

European Leadership in 5G, January 2017

Colin Blackman and Simon Forge

Better Regulation & Sustainable Development

Better regulation: aligning policies for the long term

Discussion Leaders: **Anne Bucher**, Chair, European Commission Regulatory Scrutiny Board (RSB); **Johannes Ludewig**, Chairman, Normenkontrollrat; **Céline Kauffmann**, Deputy Head, Regulatory Policy Division, OECD; **Michael Xuereb**, Director, Regulatory Development Unit, Malta Financial Services Authority; **Jens Hedström**, Chair, Better Regulation working group, BusinessEurope

Moderator: **Andrea Renda**, Senior Research Fellow and Head of Regulatory Policy Unit, CEPS

National productivity boards: Old wine in old bottles?

Discussion Leaders: **Fabrice Lenglard**, Deputy Commissioner-General, France Stratégie; **Sean Dougherty**, Senior Economist, OECD; **Alessandro Turrini**, Head of Macroeconomic Surveillance Unit, DG ECFIN, European Commission; **Lorenzo Codogno**, Professor, London School of Economics and Political Science; **Stefano Micossi**, Director General, Assonime, and Member of the CEPS Board

Moderator: **Andrea Renda**, Senior Research Fellow and Head of Regulatory Policy Unit, CEPS

Rebooting EU sustainability and decarbonisation

Discussion Leaders: **Jos Delbeke**, Director General, DG CLIMA, European Commission; **Teresa Ribera**, Director, IDDRI and former Secretary of State for Climate & Environment, Spain; **Nicholas Ashford**, Professor of Technology, MIT and Policy Director, Technology & Law Program; **Ingeborg Niestroy**, Associate, International Institute for Sustainable Development and Research Associate, Environmental Policy Research Centre, Free University of Berlin

Moderator: **Enrico Giovannini**, Professor, University of Rome Tor Vergata

Introduction

Better regulation does not mean more or less legislation; rather, it involves designing policies and rules that achieve their objectives at a minimum cost. Since EU policies have an impact on millions of citizens and companies, better regulation must be a pillar of EU policymaking. The current stage of policymaking raises two main questions: how can better regulation be achieved, and how can we re-align policies with long-term objectives?



Jos Delbeke, Nicholas Ashford, Teresa Ribera & Ingeborg Niestroy

Key points

Better regulation requires evidence-based decisions based on an open transparent process that involves stakeholders. Yet experts disagree on the most appropriate method to collect robust evidence. How can we ensure consistent methodologies that produce comparable figures? On transparency, EU policies may include the sources of the data used for policymaking, as well as information on whether the decision made was based on evidence. Public consultations allow stakeholders to express their ideas, concerns and perspectives on specific topics and should be carried out through the entire policy process.

Aligning policies with long-term objectives is a complex process. First, the coherence between medium-term and long-term goals must be made explicit in the better regulation agenda. This is particularly true for environmental legislation. How can the EU avoid setting medium-term goals (i.e. for 2030) that are incompatible with the longer-

term ones (i.e. a zero-carbon economy)? While reducing CO₂ emissions may require investing in new low-carbon technology, deep decarbonisation may require re-tooling.

Second, some concepts may need redefining, such as competitiveness and productivity to encompass more than simply market share and profits. Some rules certainly need to be rewritten, such as fiscal policies. Furthermore, sustainability will not be achieved without coherent economic and social agendas. Some of these policy changes appear as the bases for a sustainable world for some experts, but are too radical for policymakers who believe in gradual change or are constrained by the need to secure political consensus. The open debate on whether these changes should be gradual or radical further emphasises the complexity of aligning policies with long-term goals.

Moreover, the quality of EU policy depends on national agendas and its ultimate impact on implementation by national administrations, which are starkly uneven across member states. This is why the creation of national productivity boards, in charge i.a. of ensuring the smooth implementation of EU law at national level, could be a game changer if accompanied by adequate institutional design and powers. After the financial crisis, there was a strong consensus that having different productivity rates within the eurozone was a problem, and that it was necessary to realign productivity among member states. Consequently, in July 2016, the ECOFIN Council adopted a specific recommendation to establish productivity boards in every eurozone member country. Despite misgivings in some member states about the potential interference with the wage negotiation process, for example, or overlap with other national boards providing policy advice, such as the German Council of Economic Experts, member states will have to appoint a dedicated productivity board by May 2018. The need for a broad notion of productivity that encompasses the reduction of poverty and inequality and looks at social and environmental sustainability was emphasised during the debate. Likewise, adequate governance and incentives within the context of the European Semester are needed. Otherwise, there is a risk that investing new resources will replicate old schemes, which are doomed to remain ineffective.

Implications for policymakers

Achieving better regulation entails: collecting more accurate feedback on implemented EU legislation, analysing its distributional impacts, enhancing the involvement of all member states, encouraging the European Parliament and European Council to base their decisions on evidence and assess the impact of their amendments to Commission proposals. The European Commission could, via the European statistical office, share with member states evidence collected at EU level. This would support evidence-based decisions at the national level, increase multilevel cooperation among policymakers, and should also facilitate the alignment of policies among member states. Aligning policies with long-term goals requires member states to share common objectives and policies. In the case of national productivity boards, the European Commission could act as a coordinator of these bodies, provide guidance and facilitate their work. Furthermore, with regard to sustainability, aligning policies with long-term goals may require a switch from a single focus on emissions reduction to a broader focus that could encompass the development of new materials, and of a circular economy, for example.

Special Session:

Advancing Regional Energy Collaboration: Will Central & South-Eastern Europe lead the way?

Speakers: Ivo Prokopiev, Chairman, Alfa Finance Holding; Adina Crisan, Policy Coordinator, DG ENERGY, European Commission

Introduction

Central and South East Europe Gas Connectivity (CESEC) has broadened the scope of regional cooperation in Central and South East Europe since the High Level Group meeting in Budapest (September 2016). This has created new impetus in the region to move beyond natural gas networks to market coupling and electricity trading, renewables integration, energy efficiency policies, and the development of digital solutions.

Key points

The achievements of CESEC include the creation of interconnectors through a limited number of infrastructure projects, reverse flow agreements and the implementation of rules to enhance connectivity. Accomplishments further include the prioritisation of projects, diversification of energy sources and routes addressing security of supply for Central and South East Europe, and making pipelines operational, comprising the development of an LNG terminal in Croatia.

Major progress on infrastructure projects ('hardware') has been achieved, and attention is now shifting to what is frequently referred to as 'software' (i.e. rules to ensure market functioning - reverse flows, setting cross-border tariffs and capacity allocation), where significant development is being made at the technical level. The next steps are extending CESEC to electricity, renewables and energy efficiency for more energy security and growth.

Implications for policymakers

Regional energy cooperation is the key driver of the Energy Union, and should be reinforced. Solar projects could be viable and create value, based purely on market conditions without support from consumers/taxpayers, if the obstacles are removed. Considering the introduction of different restrictions on Renewable Energy Sources (RES) projects as compensation, the European Commission should introduce a regulation and make sure that RES (and solar in particular) compete on equal grounds with other electricity technologies. There should be no extra taxation for new RES projects if there is no public support for them, and RES should neither be privileged in grid access and grid connection, nor be penalised.

By creating a single European market for Guarantees of Origin (GOs), investors in Renewable Energy Sources could have new sustainable revenue streams in their projects. Storage for renewables should be promoted, while developing long-term forward contracts for electricity from RES could play a key role in investment decisions for new capacities. The objective of all regional initiatives should be the establishment of larger and more liquid regional energy markets.

Recommended reading from CEPS research:

How can Sustainable Development Goals be 'mainstreamed' in the EU's Better Regulation Agenda?, March 2017

Andrea Renda

Energy & Climate

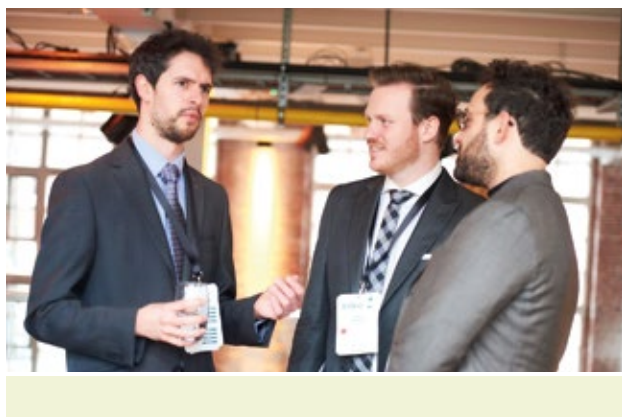
Digital energy: value chains and profits

Discussion Leaders: **Simone Mori**, Executive Vice-President, Head of European Affairs, Enel; **Eduardo Posch**, Principal Strategist, Industry Trends, Statoil; **Mark van Stiphout**, Deputy Head of Unit, DG ENERGY, European Commission; **Lorenzo Pupillo**, Associate Senior Research Fellow, CEPS

Moderator: **Geert Deconinck**, Professor, KU Leuven

Climate policy and technological developments are increasingly driving the growth of distributed energy resources, but it is the combination of this innovation and the digitalisation of energy infrastructure that is transforming the energy system at an unprecedented speed.

The decarbonisation of the energy sector cannot move forward without digitalisation and, more generally, innovation – both are required to establish a more integrated system. This can be done physically, by means



of infrastructure, and through collaboration between companies. In this changing system, consumers are more at the forefront and play an increasingly active role. Supplied with more data, they have the opportunity to use energy differently, providing room for bottom-up transformation to accompany the current top-down approach. To make a low-carbon digital energy system work, there is a need to build and operate power plants and grids that digitally balance the complex demand and supply response systems. Power generators and grids provide returns, but what value chains will appear and how profits will be distributed in a future system is still unclear.

Digital energy carries the risk of cyber attacks, so placing cyber security will have in a vital central role in the energy system. Cyber attacks in the electricity sector has already been the target of cyber attacks, and are already taking place and energy companies are working to prevent them. As technology proliferates and more of our energy services become digitalised, cyber such attacks are become a growing risk. Attacks will likely persist and evolve, so continual investment in cyber security is imperative.

Key recommendations for policymakers include increased: investment in cyber security, particularly for distribution systems. Incentives should be directed at grid operators to invest in upgrading their grid infrastructure. Research also needs to be carried out into who should own the data in a digitalised energy system. Demand-side response systems will be a key feature of the transition and should be stimulated.

Circular economy: A real opportunity to renew Europe's industry?

Discussion Leaders: **Arnold Tukker**, Professor, Industrial Ecology and Director of the Institute of Environmental Sciences, University of Leiden; **Iben Sohn**, Adviser, Confederation of Danish Industry; **Axel Kühner**, CEO, Greiner Group; **Stef Kranendijk**, Affiliate Partner, SystemIQ Ltd

Moderator: **Arno Behrens**, Head of Sustainable Resources and Senior Research Fellow, CEPS

The circular economy concept has gained currency because it is thought to provide a response to multiple challenges, including waste generation and greenhouse gas emissions, security of raw material supplies, and the competitiveness of EU industry. Yet, the transition to a circular economy is still at its early stages. Industry is rethinking business models along the entire value chain, to meet demand for goods and services and policy is looking into ways to facilitate this.

The discussion highlighted examples of how added value can be created for companies embracing circular business models. Innovations are often taken up by market for a host of different reasons, even if price differentials are low. In some cases companies choose to take voluntary action ahead of

legislation, e.g. the voluntary agreement to extend the life of electronics in Denmark. Building consumer trust was identified as one of the key enablers to the circular economy. Policy proposals revolved around three main issues: taxation, public procurement and removing legislative barriers. Regarding taxation, circularity could be encouraged by introducing reduced tax rates for companies that have successfully implemented the circular economy. Similarly, a tax on virgin materials could accelerate recycling. Green Public Procurement could also increase demand, thereby allowing existing business models to be upscaled. Two regulatory barriers were addressed: the definition of waste and regulatory requirements, which, according to participants, prevent transport for recycling in other EU member states, and food safety regulation, which prevents recycling of plastics for reuse in the food industry. Another recommendation was the need to minimise the mix of materials to facilitate their sorting and recycling.

How disruptive are new urban mobility solutions?

Discussion Leaders: **Paul Nieuwenhuis**, Co-Director, Centre for Automotive Industry research & Electrical Vehicle Centre of Excellence, Cardiff University; **Tapani Touru**, Head of Transport System Planning Group, Helsinki region transport authority; **Fabienne Weibel**, Head of Public Policy, BlaBlaCar; **Thierry Le Boucher**, Deputy Senior Vice President, EDF R&D; **Elke Bossaert**, Managing Director, Mobiel 21; **Agata Wacławik-Wejman**, Head of Public Policy & Governmental Relations, Uber Technologies

Moderator: **Christian Egenhofer**, Associate Senior Research Fellow, Head of the Energy and Climate programme and Director of Energy Climate House, CEPS

This session discussed ways forward towards sustainable, low-carbon transport. The EU-wide objective to decarbonise the transport sector is driving a technological transition, and digital technology is enabling new trends like car sharing, multi-modal transport and autonomous driving. But GHG emissions in the EU transport sector were 20% higher in 2014 than they were in 1990. In both cities and rural areas, conventional gasoline and diesel fuelled cars still predominate.

It was acknowledged that electric mobility is facing barriers related to business, technology and behaviour. Addressing the political and social inertia to reduce private car ownership

was identified as a key policy challenge. The transport sector needs planning by government bodies because of network effects. Autonomous driving was seen as a possible disruption, and electrification could be driven by opposition to air and noise pollution, which would have a significant impact on the electricity sector. There is significant potential for car-sharing (presently only 1.7 occupants per car on average), particularly in short-distance car sharing. Benefits would include higher economic efficiency, lower emissions and less time spent in traffic. It could also provide social benefits by making mobility cheaper.

There were mixed views on the role EU policy (vs. member state/local policy) should play. Some agreement for more efficient use of the collective car fleet was reached, which would imply an evaluation of existing policy on car sharing. There remains a dilemma in the transition to electro mobility. Without existing electric charging/hydrogen refuelling infrastructure, these technologies are not able to fully replace conventional combustion engines. But investment in this infrastructure is currently risky and therefore scarce. It is debatable whether the EU's technology-neutral decarbonisation policy will be able to overcome this dilemma. The timely assessment of regulatory issues surrounding autonomous driving could allow for the rapid development of this technology once it gains momentum.

Recommended reading from CEPS research:

Towards an Effective EU Framework for Road Transport and GHG Emissions, July 2016

Christian Egenhofer, Andrei Marcu, Vasileios Rizos, Arno Behrens, Jorge Núñez Ferrer, Arndt Hassel and Milan Elkerbout

The Circular Economy: A review of definitions, processes and impacts, April 2017

Vasileios Rizos, Katja Tuokko and Arno Behrens

Climate policy in 2025 - after eight years of Trump in the White House, December 2016

Milan Elkerbout



Trade & the Single Market

How might the UK design its own trade policy?

Discussion Leaders: **Robert Madelin**, Chief Strategist, Fipra International; **Roderick Abbott**, Senior Adviser on trade policy, ECIPE

Moderator: **Jacques Pelkmans**, Senior Research Fellow, CEPS

Trade policy in the age of populism

Discussion Leaders: **Carl B. Hamilton**, former Trade Minister of Sweden and Special Adviser on Trade Policy to the EU Commissioner Cecilia Malmström; **Cécile Toubeau**, Director, Better Trade and Regulation, Transport & Environment

Moderator: **Jacques Pelkmans**, Senior Research Fellow, CEPS

Effective EU trade policy with 38 decision-makers?

Discussion Leaders: **Mauro Petriccione**, Deputy Director General, DG TRADE, European Commission; **Marco Bronckers**, Professor of WTO Law and European Law, Leiden University; **Julie Bynens**, General Representative of the Flemish Government to the EU; **David Weis**, Mertens Counsellor, Permanent Representation of Luxembourg to the EU

Moderator: **Guillaume Van der Loo**, Researcher, CEPS

Introduction

Anti-globalisation is on the rise, the US is turning away from international free trade and the UK is leaving the largest trade block in the world. All this calls for a new vision and a firm response from policymakers and trade experts. Moreover, civil society has become increasingly concerned about how free trade might impact national governments' right to regulate environmental protection and labour standards. While some of these concerns are legitimate, some policymakers and civil society groups attack international trade to serve their populist or nationalist agenda. At EU-level an effective trade policy is hampered by the increasing involvement of national, and even regional, governments and parliaments, as evidenced by Wallonia's stance in the signature of CETA.



Key points

The UK-EU trade relationship after Brexit can become the model for future trade patterns. In fact, the UK's trade policy not only concerns the UK and its future business with the EU, it will also need to deal with other players, such as Latin America, North America and Asia. What appears clear is that the UK will try to replicate (as closely as possible) the tariff and quota schedules it already has in place as an EU member and that there is currently no appropriate existing economic integration framework (e.g. the EEA or the Swiss 'bilateral' way) that would be acceptable and feasible for both the EU and the UK. Even though a mirror tariff schedule would hit both the EU and the UK, especially in industries with integrated supply chains (e.g. the car industry), it seems to be the only feasible way to reach agreement between the two partners and, as a consequence, to define future UK trade relationship with non-EU countries. The paradox is that Brexit supporters embrace globalisation and free trade, but as a sovereign state, not as an EU member.

The inclusion of new chapters in FTAs (e.g. IPR, services, investment (protection) and sustainable development) has sparked heated debate on the EU's legitimacy to conclude these trade agreements. Member states argue (for example in the pending Opinion on the EU-Singapore FTA before the Court of Justice of the EU) that the new generation of FTAs goes beyond the scope of the EU's exclusive Common Commercial Policy and that therefore these agreements should be concluded as

'mixed agreements', requiring the ratification of all member states (and in Belgium even the regional parliaments) and the EU. Member states increasingly insist on 'mixity' because this gives them a veto in concluding these agreements. But this carries the risk that member states use their veto to extract last-minute (non trade-related) concessions, raising the question of how, and to what extent, member states should be involved in EU trade policy. How to find a fair balance between effectiveness and legitimacy in EU trade policy, while respecting the exclusive nature of the EU's Common Commercial Policy? Is it democratic that a region in one member state can jeopardise the conclusion of an agreement for the entire EU? And is the provisional application of trade agreements an appropriate instrument to mitigate the negative effects of mixity?

Implications for policymakers

Transparent and active political engagement at all levels of EU decision-making are key to re-establishing public confidence in international trade negotiations, without dismantling existing procedures and competences. In fact, most of the negative reactions to TTIP and CETA at member state level only emerged during the final stages of negotiations, although national governments are i) constantly updated on negotiation outcomes and ii) have given their mandate to the European Commission to negotiate. Nowadays, the democratic legitimacy of the EU's trade policy is ensured by the European Parliament, which has already shown that it is not afraid to use its new competences in the area of trade by, for example, rejecting the Anti-Counterfeiting Trade Agreement (ACTA).

Nonetheless, the lack of transparency perceived by citizens is driven by a soft engagement of both national and regional governments during the early stages of negotiations. Hence, it is a duty of these authorities to engage seriously throughout the entire negotiation process via the Trade Policy Committee, not only when it comes to the signature and ratification of the agreement. Moreover, national governments should also engage in a serious and constructive political debate with their national and regional parliaments and civil society before giving the mandate to the Commission for future negotiations on FTAs.

Splitting FTAs based upon different competences (i.e. separating the elements falling under EU competences from those falling under member state competences into two agreements) might work as a temporary solution, but it would certainly weaken EU decision-making and negotiating power in

the long run. Moreover, in light of Brexit, when the EU will have to negotiate one of the most important FTAs in its history, the Commission's negotiating power must be stronger than ever. Concerns, enquiries and special interests from national and regional authorities about the future trade relationship with the UK must be clearly defined at the start of the negotiations. Only with a deep and well-defined understanding of both European and British interests will it be possible to put in place a comprehensive agreement that will limit the losses from Brexit for both sides.

Recommended reading from CEPS research:

An Assessment of the Economic Impact of Brexit on the EU27, March 2017

Michael Emerson, Matthias Busse, Mattia Di Salvo, Daniel Gros and Jacques Pelkmans

Does Wallonia's veto of CETA spell the beginning of the end of EU trade policy?, October 2016

Guillaume Van der Loo and Jacques Pelkmans

EU-China Leadership in Trade Policy: Feasible? Desirable?, March 2017

Weinian Hu and Jacques Pelkmans



Finance

Will banks survive the age of digitalisation?

Discussion Leaders: **Alvaro Martin**, Head Economist, Digital Regulation, BBVA Research; **Michael Stephan**, COO & Founder, Raisin; **Olivier de Groote**, Managing Partner Financial Services Industry, Deloitte, Belgium

Moderator: **Sylvain Bouyon**, Research Fellow, CEPS



While banks have had difficult years since the crisis, with poor financial results and significant deterioration in consumer trust, restructuring and regulatory intervention have helped them to recover. One of the current challenges for banks is the low interest rate environment. By contributing to cut operational costs, digitalisation has been seen as a potential response to this particular challenge. Nevertheless, in coping with the difficulties in their digital transformation, banks need to question many aspects of their business models: ICT systems, tax systems, internal human organisation, etc. In this respect, there are some serious legacy issues that need to be overcome. In order to be competitive and improve customer services by increasing speed and accuracy, many systems need to be radically reshaped. This transformation requires new skills that banks generally do not have themselves and which are fairly difficult to acquire.

Conversely, new entrants such as Fintech startups have no legacy issues, resulting in short lines and high flexibility in

their decision-making process. Banks know how to spot the FinTech startups they need to acquire or collaborate with in order to support their digital transformation, but often prove unsuccessful in integrating them efficiently. Potential new entrants such as GAFAs (Google, Apple, Facebook and Amazon) have some advantages and might be able to target some attractive niche markets; however, if they decide to deploy significant resources to enter the banking market, they will have to address the issues related to the multiplicity of banking rules.

Against that background, it is still not clear if policies will end up protecting banks in their digital transformation rather than favouring new market players. Overall, whereas policymakers need to continuously address specific risks related to consumer protection and financial stability, they also need to ensure that providers have sufficient room to innovate constantly. In that respect, the use of regulatory frameworks such as sandboxes can help supervisors better monitor the innovation dynamics in financial services, especially by being informed of new products much more in advance. To conclude, although the real future impact of technologies such as blockchain seems to be difficult to predict, questions can be raised about how such technology could lessen the compliance burden.

Implementing the new regime: bail-in and systemic risk

Discussion Leaders: **Nadège Jassaud**, Head of Unit for Resolution Strategy and Cooperation, Single Resolution Board; **José María Roldán**, Chairman and CEO, Spanish Banking Association and Vice President, European Banking Federation; **Philippe Lamberts**, MEP, and member of the ECON Committee

Moderator: **Willem Pieter de Groen**, Research Fellow, CEPS

This Lab session assessed the challenges for the resolution regime, which is the main novelty in the post-crisis regulatory and supervisory financial architecture in the EU. The resolution framework must ensure that banks and supervisors are, on the one hand, better prepared for

resolution. On the other hand, that the losses will be wound down on the bank creditors through a bail-in rather than on taxpayers, as was the case during the crisis.



Philippe Lamberts, Nadège Jassaud, Willem Pieter De Groen

The resolution mechanism is still a work in progress on various fronts. Although the mechanism is already operational, the resolution authorities are still working on drafting the resolution plans and the banks are still in a transition phase to close the €100 billion gap in minimum required bail-inable liabilities (MREL). There are, however, some more structural issues that still need to be addressed to make also the resolution of mid-sized and large banks credible. Currently there are no provisions establishing who may hold bail-inable liabilities, which may mean that some creditors who are supposed to be bail-inable prove not to be so after all (e.g. some retail clients, other banks). There is also no back-up facility if the resolution fund proves insufficient. Moreover, the required liquidity provisioning is only implicitly arranged through the existing Emergency Liquidity Assistance (ELA) facility of the central banks, which is officially only available for solvent institutions with a liquidity shortage.

Several policy and supervisory measures were proposed to improve the functioning of the resolution mechanism and enhance the credibility of the resolution mechanism. The sales of bail-inable liabilities might, for instance, be restricted to 'sophisticated' investors that are able to assess and diversify the risks (e.g. pension funds, insurers). In order to improve the ability of those investors to determine the riskiness of the bail-inable liabilities, the resolution authorities and/or the banks should consider disclosing at

least part of the resolution plans. The European Stability Mechanism could function as a backstop for the resolution fund. Finally, the liquidity issues could be addressed with a special ELA facility established exclusively for the banks that are being resolved.

Strategic Investments and Development Banks

Discussion Leaders: **Benjamin Angel**, Director, Treasury and Financial Operations, European Commission and member of the Steering Board, European Fund for Strategic Investments; **Iliyana Tsanova**, Deputy Managing Director, European Fund for Strategic Investments, European Investment Bank; **Debora Revoltella**, Director, SG Economics Department, European Investment Bank

Moderator: **Karel Lannoo**, Chief Executive Officer, CEPS

This session focused on three issues: i) the overall performance of the European Fund for Strategic Investment (EFSI) since its creation two and a half years ago, ii) the interaction of EFSI with the private sector and the banking sector, and how this can be improved and iii) the macroeconomic impact of EFSI, particularly on investment in the EU.

Since summer 2015, when EFSI was officially launched, more than 400 projects have been approved in 28 member states, leveraging 54% of the full €315 billion envisaged. Due to this significant performance, investment in the EU is picking up and recovering, as a recent survey by the EIB reveals. This is happening in a very uneven way among countries, asset classes and firm size, however, for a number of reasons. The distribution of funds is mainly concentrated towards old member states and only 8% is being channelled towards new member states. There is a general lack of transparency and understanding about how EFSI works. More focus should be placed on climate change (green finance and sustainable investments) and SMEs, while the cooperation between EFSI (EC and EIB) and the local financing institutions, and the local development banks, needs to be improved. Nevertheless, financial instruments will not change the market overnight. The right balance between traditional activities (i.e. infrastructure and climate) and new financial instruments is crucial. What matters is the quality rather than the quantity of capital and how to motivate technological shifts and innovation.

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There were several important recommendations to further improve and strengthen investment within the EU. For example, to incorporate more private investors, one recommendation was to slice projects into senior (triple- or double-A rating) and junior tranches, to allow development banks to invest in the former, while private investors could invest in the latter. The development of public-private partnerships could also be a way forward, but public opinion does not always support these initiatives (i.e. the state selling its assets), while investors don't want to own the assets, only to invest in them. Better education of the general public on PPPs and their effect on Europe's economy could also be helpful. Finally, more work is needed to finance SMEs, especially on the maturity of lending and on collateral requirements.

Recommended reading from CEPS research:

**The Future of Retail Financial Services: What
policy mix for a balanced digital transformation?,
February 2017**

Sylvain Bouyon

**European Bank Resolution: Making it work!,
January 2016**

Thomas Huertas

Economy

The ECB's unconventional policies: Time to declare victory and get out?

Discussion Leaders: **Markus Brunnermeier**, Professor, Princeton University; **Massimo Rostagno**, Director, Monetary Policy, ECB; **Frederik Ducozet**, Senior Economist Europe, Pictet Wealth Management

Moderator: **Marek Belka**, former Prime Minister and Governor, Central Bank of Poland

EMU governance: a reality check

Discussion Leaders: **Pierre Moscovici**, Member of the European Commission with responsibility for Economic and Financial Affairs; **Niels Thygesen**, Chairman of the European Fiscal Board; **Mario Vella**, Governor, Central Bank of Malta

Moderator: **Olli Rehn**, Member of the Board, Central Bank of Finland

What is the biggest risk facing EMU?

Discussion Leaders: **George Papaconstantinou**, former Greek Finance Minister; **Katinka Barysch**, Director of Political Relations, Allianz SE; **Reza Moghadam**, Vice-Chairman for Global Capital Markets, Morgan Stanley

Moderator: **Aart De Geus**, President and CEO, Bertelsmann Stiftung

Introduction

The acute phase of the euro crisis is thought to be over but, according to many experts, the present framework and economic trends in the EMU are not economically, politically or socially sustainable. Eurozone economic growth remains sluggish and unemployment in some member states is still high. At the same time, the debt-to-GDP ratio has risen to over 90% in the eurozone. One reason why it remains difficult to reduce debt levels is the low inflation rate, which despite ultra-low interest rates and unconventional monetary policies, has not rebounded because the core inflation rate is still significantly short of the (close to) 2% target. Uncertainty about the future of the EU seems to be a big

factor. This undesirable and unsustainable status quo raises the following questions: how to reform the EMU's governance structure? What are the biggest threats to the EMU? How can we increase the EMU's resilience to future shocks? How/when to return to a 'normal' monetary policy stance?



Olli Rehn, Pierre Moscovici, Niels Thygesen & Mario Vella

Key points

Initial discussions dealt with the role of the ECB, in particular how and when to exit QE and raise interest rates. Two interesting points arose during the discussions. The first concerned the ECB's inflation forecasting: why should we trust current favourable forecasts when in the past they often turned out to vastly overestimate future inflation? Lab participants argued that the upward bias in forecasting models was due to uncertainty about underlying economic issues, which often turned out to be more severe than assumed. Some thought that reality might now improve, getting closer to the rosier forecasting scenarios. Some participants argued that the ECB's projections also face political constraints, as they have to convey confidence in the bank's ability to control inflation.

Participants further engaged in a heated debate on the ECB's exit strategy from quantitative easing (QE). Two main options were discussed: the first, and presumably safest, option is to hold all purchased bonds to maturity and react to inflationary pressure by using conventional monetary policy, i.e. increasing the ECB's key interest rates. The second option would be to 'undo QE' by gradually selling off bonds,



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which would reduce the ECB's currently large balance sheet. This could be done by selling off sovereign bond holdings as ESBies (European Safe Bonds) and EJBies (European Junior Bonds) which would be fully collateralised by the underlying portfolio of bonds held by the national central banks.

Participants agreed, however, that even such supportive actions would not suffice without a reform of the EMU governance framework.

Exactly how to complete the EMU architecture was the subject of lively debate. The notion of the 'impossibility quadrangle' was raised, as the ideal EMU governance system has to be simple, automatic, economically efficient, and politically sustainable. The feasibility of designing a system to meet all four criteria is doubtful. What could be the best compromise? Participants agreed that both clear rules and strong institutions are necessary for the 'second to ideal' governance framework. While rules guide the actions of policymakers by setting specific goals, institutions guarantee the implementation of these rules, ensure constructive dialogue within EMU, and allow for necessary flexibility. How to balance clear and enforced rules with offering flexibility could not be resolved as there was strong disagreement about how one should take centre stage in the EMU.

If there is no agreement on how to move forward, we are likely to be stuck in a muddling-through policy approach, which carries substantial political risk. The experts acknowledged that while several economic risks threaten EMU, none is comparable to the political risks embodied by the recent rise of populism.

Part of the population feels that the introduction of the euro has led to divergence rather than convergence in the eurozone, and they link austerity to the euro. Yet we also know that almost 70% of the eurozone citizens feel somehow 'attached' to the euro. The euro promised to bring stability to member states, which it has only partly delivered. The 'EMU delivery gap' was thus pinpointed as one of the biggest risks to the EMU.

One topic kept resurfacing: how to better showcase the benefits of being in the EMU? One argument was to allow for more democracy and transparency in macroeconomic surveillance as a further step to improving EMU governance. Having a stronger voice during joint decision-making might increase the willingness of smaller member states to comply

with decisions and, thus, improve implementation. The need to enhance national ownership to increase support for and the legitimacy of the EMU was underlined, as was the need for further integration to enhance the resilience of the EMU.

Implications for policymakers

Communicating the ECB's exit strategy from QE is a sensitive issue, requiring great care and confidence. Both the timing and modalities of exit are crucial: gradually scaling down asset purchases and simply holding bonds to maturity – with its only main downside of creating a temporary safe bond scarcity – appears to be the safest choice. Despite lacking a clear counterfactual, it seems likely that the ECB's asset purchase programme has delivered its objectives and unconventional monetary policies will remain a policy option in the future.

There is a need to strike a balance between decentralisation and centralisation pressures. Addressing the disconnect between EU policymakers and member states emerged as a crucial challenge to be overcome to create the political pre-conditions for further integration. One key proposal was to reinforce exchanges between national parliaments and the EU parliament.

As regards economic risks, speakers underlined that further risk mutualisation among member states is essential to ensure the resilience of the euro area, but this would also require risk reduction to stem moral hazard.

Recommended reading from CEPS research:

Is there a need for additional monetary stimulus? Insights from the original Taylor Rule, April 2016

Cinzia Alcidi, Matthias Busse and Daniel Gros

Structural reforms as a panacea? The European Productivity and Growth Puzzle, December 2016

Daniel Gros

Ultra-low or Negative Yields on Euro-Area Long-term Bonds: Causes and Implications for Monetary Policy, September 2016

Daniel Gros

Social Europe

Is the Youth Guarantee a waste of time and money?

Discussion Leaders: **Jacqueline O'Reilly**, Professor, University of Brighton; **Selma Mahfouz**, Director, Research and Statistics, Ministry of Employment and Social Dialogue, France; **Massimiliano Mascherini**, Research Manager, Employment and Change Unit, Eurofound

Moderator: **Miroslav Beblavý**, Associate Senior Research Fellow, CEPS

Youth unemployment has been prominent on the EU policy agenda since the Great Recession, which in many member states had a particularly strong impact on the younger generation. In 2017, one decade after the outbreak of the crisis, millions of young citizens are still not in employment, education or training (NEET). To address this important issue, the EU launched the Youth Guarantee in 2013. The Youth Guarantee is not a single European policy, it is a combination of national programmes that commit member states to ensure that all young people under the age of 25 receive a good quality offer of employment, continued education, apprenticeship or traineeship. As Europe is now starting to recover from the crisis, we might ask whether the Youth Guarantee has made any mark, which is also important for the legitimacy of the EU.

One concern put forward in the debate is that the Youth Guarantee is too little, too late, as insufficient funds were provided to have a big impact and it was only launched in 2013. It resembles earlier policies, like old wine in a new bottle. Not all member states actually took measures to tackle the issue of youth unemployment according to the guidelines of the Youth Guarantee, which, it has been argued, are prohibitively bureaucratic.

Another issue related to quality and expectations: as member states struggle to provide every eligible young person with an opportunity, the quality of opportunities offered may go down. At the same time, the expectations that youngsters have of these opportunities may not correspond to reality. Many, for example, hope for a job opportunity but end up with an internship or in education instead. The Youth

Guarantee has not so far been an effective lever to encourage further improvements in national policies or to strengthen public employment services. Despite these issues, or maybe because of them, the Youth Guarantee has placed NEETS at the centre of the European policy debate. Moreover, when sufficiently targeted and taking gender, ethnicity and sectoral differences into account, it may actually be quite effective, as illustrated in France, where the specific focus on youngsters who were very far from the labour market led to its success.



Selma Mahfouz, Miroslav Beblavý, Massimiliano Mascherini & Jacqueline O'Reilly

Interestingly, the consensus reached in the debate was that abolishing the Youth Guarantee is not a viable option. There was instead a plea for continuity in this policy domain, which is subject to frequent changes that affect a particularly vulnerable group. The measures should also be studied to understand their long-term impact. Engaging employers with labour market policies like the Youth Guarantee was seen as an essential step for the future; setting the right incentives for national policymakers and other stakeholders may prove to be vital.

Are social partners still relevant?

Discussion Leaders: **Esther Lynch**, Confederal Secretary, European Trade Union Confederation; **Marco Torregrossa**, Secretary General, European Forum of Independent Professionals; **Guglielmo Meardi**, Director, Industrial Relations Research Unit, University of Warwick; **Laurens Harteveld**, Advisor on Labour Conditions, AWWN

Moderator: **Frank Vandenbroucke**, Professor, University of Amsterdam

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Social partners' capacity to reach compromises on issues on which employers and employees hold opposing views has allowed them to take up powerful positions in society, as evidenced by their role in collective bargaining on wages and working conditions, which have affected the lives of millions. Against the backdrop of the economic crisis, Europe's labour markets are once again undergoing significant changes, this time driven by digitalisation and technological progress. As existing jobs disappear or are being significantly transformed, social partners may play a critical role in ensuring that the benefits of these advancements are reaped, while protecting those most affected. Nevertheless, trade union membership is in sharp decline and similar trends are reported for employer representatives. At the same time, new forms of representation have emerged. This raises the question of whether traditional social partners are still relevant.

Consensus quickly emerged that the social partners are still likely to play a major role for the foreseeable future. Yet, while the world around them is changing, social partners do not seem to have changed much: take-up of new digital technologies seems to be rather limited despite their potential, notably as one of the best ways to organise collective action. Similarly, while some unions allow the self-employed to join, most have maintained their focus on employees. Social partners thus struggle to keep pace with labour market change.

The discussion also touched on the collaborative economy, the status of those who work through an online platform and the responsibilities of the platforms. The case of UK Deliveroo workers receiving assistance from the trade unions when faced with difficulties is an interesting one. Online platforms may be disruptive forces, but more research on their impact is needed. Similarly, their approach to social protection cannot be at the expense of their business models.

Traditional social partners need to engage more with new organisations or new forms of representation, to find common solutions and to reach compromises – thereby fulfilling their usual role. Digitalisation will inevitably affect the role of the social partners, and newly available data, methods and tools may radically change the way collective bargaining and industrial relations are conducted. In that

sense, if platforms could share their data in real time with social partners this would allow further transparency and collaboration. Despite increasing attention being given to these issues, whether the social partners are ready for this change is an open question; unions need to 'think outside the box'.

What is already clear is that policymakers need to level the playing field between the different labour market actors to ensure that the same rules and regulations apply to traditional and new types of social partners. It was also mentioned that the EU has a role to play, particularly in protecting transnational rights.

What to do about the failure to integrate refugees into the labour market?

CEPS gratefully acknowledges financial support from MEDAM for this Lab.

Discussion Leaders: **Herbert Brücker**, Professor, Institute for Employment Research, Nürnberg; **Jelena Drenjanin**, Member of the Municipal Council, Huddinge, Sweden; **Yonous Muhammadi**, Director, Greek Forum of Refugees

Moderator: **Mehtap Akgüç**, Research Fellow, CEPS

As evidenced by high unemployment rates, the labour market integration of refugees is a challenge and the recent refugee crisis has made integration a point on the agenda. On the one hand, host-country citizens are worried that newcomers will take their jobs or live on welfare benefits without contributing to social security systems, and these fears are being fuelled by populist discourse. On the other hand, quite apart from humanitarian concerns, refugee inflows could present an opportunity in the context of ageing societies, a shrinking labour force and skill shortages. More importantly, labour market integration is a prerequisite for social integration. To this end, there have been several initiatives to better integrate refugees into labour markets, focusing on skills and qualification recognition and investment in destination country language skills. However, it is not clear whether these measures are enough to overcome the barriers that refugees face in the labour market.

It takes refugees longer than migrants to integrate into the labour market, but that does not necessarily mean failure; there seems to be a consensus that legal clarity

is a condition sine qua non for labour market integration. Long asylum processes keep people out of the labour markets, as does a lack of host-country language skills. Learning the host-country language is especially effective when combined with business programmes (e.g. internship or on-the-job-training). Yet evidence shows that there is a problem of supply for language courses for refugees.

Another issue relates to educational attainment. Evidence shows that although refugees lack human capital, and have had very little vocational training, their educational aspirations are high. Several initiatives have been put forward to integrate them into schools and universities, but more investment is needed for refugees to complete their education. Another obstacle arises from inefficient matching in the labour market. Most refugees find jobs through friends or family members in the 'migrant economy' of cleaning and hotel services etc. - the public employment services are not always efficient or able to provide the right support.

Race discrimination is another significant hindering factor in the integration process and does not receive enough attention. Gender was also brought up: women face greater difficulties to participate in labour markets and their integration takes longer than men. At the same time, female refugees have skills that could be useful for destination countries but these women are not aware of the demand in labour markets. Finally, residence obligations often hinder better integration outcomes and can create lock-in effects for refugees.

Considering these various aspects, one of the policy recommendations relates to the important role that local and regional public authorities play in the integration process, as they have links with both employers, businesses, local administration and refugees; in other words, they are more aware of the local situation. To this end, tailor-made contextual programmes connected with employers should be encouraged. Combining immediate access to labour markets with training, life-long learning and further education possibilities seems to be a very efficient approach as well, especially considering that those working in professions for they were trained tend to be more productive in their jobs. Technology is also important: given the low level of digitalisation in the public sector, further efficiencies could be achieved by using technologically advanced tools for the successful integration of refugees into labour markets.

Recommended reading from CEPS research:

Are student workers crowding out the low-skilled youth?, 2015

Miroslav Beblavý, Brian Fabo, Lucia Mýtna Kureková and Zuzana Žilinčíková

Five things we need to know about the on-demand economy, January 2016

Ilaria Maselli, Karolien Lenaerts and Miroslav Beblavý

Labour market integration of refugees: A comparative survey of Bosnians in five EU countries, December 2016

Mikkel Barslund, Matthias Busse, Karolien Lenaerts, Lars Ludolph and Vilde Renman



Rights & Security

The EU asylum system: Time to move beyond the Dublin logic?

Discussion Leaders: **Henrik Nielsen**, Head of Unit for Border Management and Return Policy, DG HOME, European Commission; **Jean-Pierre Schembri**, Head of Communications & Stakeholders Unit, European Asylum Support Office (EASO); **Sophie Magennis**, Head of the Policy and Legal Support Unit, UNHCR; **Anneliese Baldaccini**, Executive Officer, Asylum and Migration, Amnesty International

Moderator: **Sergio Carrera**, Head of Justice and Home Affairs Programme, CEPS

Introduction

The main focus of this session was the future of the EU's Common European Asylum System (CEAS), and whether the lessons of the past two years could tell us anything about the future. This relates to experiences with hotspots in Italy and Greece and the relocation scheme for those in need of international protection. The recasting of the Dublin Regulation was discussed as the major controversial element in the current proposals for CEAS reform.

Key points

The common understanding that there is a lack of solidarity and that the number of asylum seekers in the EU is in principle manageable does not translate into common ideas on how to move forward. Some argued that both the relocation mechanism and the Dublin principle of first country of entry are premised on the coercion of asylum seekers, and fail to take into account their preferences and ties. Others argued that the 'hotspots' and relocation mechanisms do provide a basis to build upon for the future, and that a radical reform of the Dublin logic towards more preference-matching is unrealistic. The role of the new EU Agency for Asylum – now the European Asylum Support Office (EASO) was discussed; this agency has already been active in Greece and Italy in the hotspots, supporting relocation and the Greek asylum procedures. Under Commission proposals, it will have a greater role in Country of Origin information and more human resources at its disposal.

Discussions also focused on cooperation with third countries, such as Turkey. Several participants argued that the 'deal' is problematic, in particular its assumption that Turkey is a 'safe third country' and the resulting policy of deeming asylum requests made in Greece inadmissible.

Implications for policymakers

The current legal and operational state of affairs is not satisfactory, either for asylum seekers or for member states. The Dublin rules are not producing effective responsibility-sharing. How can we build a CEAS that delivers reception conditions and asylum procedures that comply with the rule of law across EU member states? The new EU Agency for Asylum can play a major role in delivering such a system. Although some stressed that the current political climate would not accommodate a fundamental overhaul of the Dublin logic, others proposed concrete ideas for improvement, such as the mutual recognition of positive asylum decisions in the Schengen Information System, which would allow those granted asylum to move to other countries rather than wait for five years in the country where asylum is granted. EU institutions and agencies should use all tools available to promote an EU rule-of-law-compliant CEAS, which would address the structural disparities across the EU, monitor and address national developments that challenge compliance with the rule of law, both by providing (financial) incentives for compliance and by being assertive with infringement procedures where necessary.

EU migration policies: Are there effective ways to address smuggling?

Discussion Leaders: **Hon. Ian Borg**, MP, Parliamentary Secretary for the EU 2017 Presidency, Government of Malta; **Agnieszka Sternik**, Policy Officer, Unit C1: Irregular migration and Return, DG HOME; **Brian Donald**, Head of the Office of the Director, EUROPOL; **Regina Catrambone**, Co-Founder and Director of Migrant Offshore Aid Station-MOAS; **Michele LeVoy**, Director of PICUM, Platform for International Cooperation on Undocumented Migrants

Moderator: **Lina Vosyliūtė**, Researcher at Justice and Home Affairs Programme, CEPS

Introduction

There has been increasing priority given to anti-smuggling policies across Europe and beyond, especially in direct response to the surge in asylum seekers via Greece and the Balkans in 2015-16, the so-called 'refugee crisis'. The EU institutions – including the Commission – have cited this as a primary policy objective and several EU operations in the Mediterranean have identified 'fighting' smuggling as their goal. This session took stock of the EU's legal, political and operational



Lina Vosyliūtė, Agnieszka Stelmik, Hon. Ian Borg, Regina Catrambone, Brian Donald & Michele LeVoy

anti-smuggling actions, particularly the consequences of these actions for search and rescue (SAR) and the relationship to legal pathways to access asylum in Europe.

Key points

All agreed that smuggling is not a desirable way for individuals to reach Europe. It often takes place via unsafe routes, exacerbates individuals' vulnerability and is sometimes used for profit by groups engaged in other criminal activities. At the same time, it was noted that smuggling has always existed, often supported by ordinary citizens who offer humanitarian assistance. Smuggling often constitutes the only way for people to reach a place of safety or to seek better opportunities. Viewpoints diverged on how to address the challenges of smuggling; for example how to understand the link between SAR and smuggling. The numbers of lives lost in the Mediterranean have soared in recent years. Some argue that more SAR activities have led to more dangerous smuggling routes, while others point to the lack of safe legal routes as the major explanation for smuggling activities.

Implications for policymakers

EU institutions and agencies are making anti-smuggling policies a priority. The discussions showed that this should not, however, be a goal in itself without addressing the underlying causes and unintended consequences of smuggling. The drivers of smuggling should be better examined and addressed, and alternative safe legal routes for people to reach Europe should be developed, both for seeking asylum as well as for labour market opportunities. From a criminal justice perspective, cross-border crimes are to be investigated and prosecuted, while ensuring that humanitarian assistance to individuals is not hampered. The key question for the coming years is how EU anti-smuggling policies can move beyond the logic of the immediate responses to the so-called 'refugee crisis' and develop and implement evidence-based approaches that address the underlying causes and human costs of smuggling.

Who owns privacy law? Enforcement in the tussle between the EU and the US

Discussion Leaders: **Jennifer Daskal**, Associate Professor, American University Washington College of Law; **Michael Olmsted**, Senior Counsel for the EU and International Criminal Matters, US Department of Justice; **Florence Raynal**, Deputy Director and Head of the European and International Affairs Department, Commission Nationale Informatique & Libertés; **Bruno Gencarelli**, Head of the International Data Flows and Protection Unit, DG JUST, European Commission; **Matt Cagle**, Technology and Civil Liberties Policy Attorney, ACLU of Northern California

Moderator: **Valsamis Mitsilegas**, Professor of European Criminal Law, Dean for Research and Head of the Department of Law, Queen Mary University London

Introduction

The need to use data in the prosecution of crime arises from the widespread digitalisation of our daily lives. Law enforcement authorities are increasing their demands to access the personal information produced, processed and stored in the servers of private companies. The transnational dimension of internet activities poses a number of challenges for law enforcement agencies and judicial authorities operating on both sides of the Atlantic and raises questions about data privacy, in particular, who owns it?

Key points

Two different concepts of privacy emerged. In the US, the assumption is that electronic information (including travel, user and content data) constitutes 'electronic footprints' to be made available to investigators. In the EU, however, the concept is based on the principle that 'privacy follows your data'. To prevent and solve the legal conflicts that arise from the extraterritorial application of different legal regimes, transatlantic cooperation is governed by the EU-US 'Umbrella Agreement' on data protection.

The legal realities on both sides of the Atlantic are more nuanced, however, and cannot be expressed as a dichotomy in which the EU only prioritises privacy and the US champions security. Both the EU and the US are dealing with the same questions in a rapidly changing societal and technological context. Agreeing on common rules is therefore essential.

Implications for policymakers

On the EU side, the general data protection Regulation is currently under discussion. It will provide the baseline for future cooperation in the framework of transatlantic relations. The new internal rules set out by the upcoming regulation have in fact been developed with attempts made to clarify how data transfers should work between the EU and the US. These attempts have resulted in the adoption of the EU-US Privacy Shield (Commission Implementing Decision 2016/1250).

The EU-US dialogue should be inspired by transparency and information sharing, also in the form of reciprocal 'explanations'. At the same time, concerns were expressed in relation to a series of legal, jurisprudential and policy developments, occurring especially in the US. First, US law enforcement authorities are increasingly using electronic surveillance for the purposes of national security. Most recently, an Executive Order has been issued by the new US administration that excludes a number of non-US nationals from the protection granted under the Privacy Act. Second, the CJEU has shown its global ambitions to redefine the boundaries and reduce the ambiguities between the domains of privacy, law enforcement and national security. It is expected that the Court will intervene in the interpretation of how the 'privacy shield' should be implemented.

Overall, accessing electronic data for law enforcement purposes involves sensitive and complex legal and procedural issues. There are particular difficulties regarding the need to identify criteria and connecting factors between whichever jurisdiction is the establishing one. It is all the more important that both across the Union and in relations with the US, law enforcement authorities cooperate in ways that are efficient and that respect the EU's rule of law and fundamental rights standards.

Special Session: Solidarity and the 'Refugee Crisis'- Perspectives from Central and Eastern Europe

Speakers: **Vladimir Simonak**, Head of Unit on Asylum, Immigration, Integration, Readmission and Free Movement, Permanent Representation of the Slovak Republic to the EU; **Maciej Duszczak**, Associate Professor, University of Warsaw; **Márta Pardavi**, Co-Chair, Hungarian Helsinki Committee; **Karolína Babická**, Legal Advisor, International Commission of Jurists

Moderator: **Leonhard den Hertog**, Research Fellow at Justice and Home Affairs Programme, CEPS

Introduction

The 'refugee crisis' in 2015 brought to the forefront the divisions between EU newcomers from Central and Eastern European Countries (CEECs) and the EU15 member states. In the heat of the crisis, the CEECs' governments challenged the adequacy of EU responses in distributing responsibility over asylum seekers. In particular, the CEECs challenged the obligatory relocation key, which came with a financial penalty of €250,000 for each refused person, and responded in various ways. For example, the Hungarian authorities erected fences at their external border and pushed asylum seekers back to Serbia, as an operational response. And as a political response, the Slovak presidency introduced 'efficient solidarity' to shift the focus from refugee protection to enhanced cooperation on returns.

Key points

What kind of European solidarity is needed in the field of the Common European Asylum System, or indeed what kind of solidarity is the EU capable of showing, with all its institutional constraints?

At the core of the political debate in CEECs is the question of balance between border security and human rights. The Schengen Borders Code is clear that the two elements are indivisible. In Hungary, however, where the ‘security approach’ prevails in the form of blanket push-backs of asylum seekers and a lack of registrations, evidence shows that not only human rights but also security standards seem to have been bypassed.



Implications for policymakers

The Commission should be stricter in applying its rule of law and fundamental rights standards for CEECs. EU-level monitoring is needed, as proposed by the European Parliament in its Resolution of 25 October 2016 on the establishment of an EU mechanism on democracy, the rule of law and fundamental rights. The Commission should verify compliance with the Schengen Borders Code and whether border controls are being implemented without prejudice to the right to asylum. The EU’s Solidarity and Relocation mechanism should have clear procedures and adequate safeguards for its required level of funding. EU neighbourhood countries should be partners in the EU’s refugee and migration policies, but not used to shift responsibilities from EU member states. For example, Serbia is accommodating the outcome of the closed Balkan

route and push-backs by EU member states. There should be more safe and legal channels to reach the EU for asylum seekers and migrants, and the Commission should promote positive practices of refugee integration in cities, including those at CEECs.

Recommended reading from CEPS research:

Can the new refugee relocation system work? Perils in the Dublin logic and flawed reception conditions in the EU, October 2015

Sergio Carrera and Elspeth Guild

The European Border and Coast Guard: Addressing migration and asylum challenges in the Mediterranean?, February 2017

Sergio Carrera, Steven Blockmans, Jean-Pierre Cassarino, Daniel Gros and Elspeth Guild

Access to Electronic Data by Third-Country Law Enforcement Authorities: Challenges to EU Rule of Law and Fundamental Rights, July 2015

Sergio Carrera, Gloria González Fuster, Elspeth Guild and Valsamis Mitsilegas



Institutions

CEPS gratefully acknowledges financial support from the **Centro Studi sul Federalismo** for this Lab.

Political Commission or guardian of the treaties?

Discussion Leaders: **Catherine Barnard**, Professor, University of Cambridge; **Jim Cloos**, Deputy Director-General, General Secretariat of the Council of the European Union; **Sylvia Hartleif**, Leader, Foreign Policy Team, European Political Strategy Centre

Moderator: **Tom Nuttall**, Charlemagne Columnist, The Economist

Judicial activism: Is the EU losing its last communitarian anchor?

Discussion Leaders: **Giuliano Amato**, Judge, Constitutional Court of Italy and Professor, European University Institute; **Franklin Dehousse**, Professor, University of Liège and former Judge, EU Court of Justice

Moderator: **Deirdre Curtin**, Professor, European University Institute

The squeeze on the political centre: What impact on the EU?

Discussion Leaders: **Heather Grabbe**, Director, Open Society European Policy Institute; **Ulrike Guérot**, Director, European Democracy Lab, European School of Governance, Berlin

Moderator: **Marco Zatterin**, Deputy Editor, La Stampa

Introduction

Commission President Jean-Claude Juncker (currently half-way through his term) claims to lead a more 'political' European executive than ever. He was appointed according to a unique, lead candidate (Spitzenkandidaten) electoral system. The European Parliament introduced this system proactively, thereby capturing decision-making power over the next Commission president and sidelining the European Council. The EP is expected to maintain this procedure for the next round of elections in 2019. Yet certain critics demand improvement of this system, whose continuation could depend on national leaders' agreement. While acting in an increasingly complicated

political environment, the Court of Justice of the European Union (CJEU) is dealing with challenges to its own legitimacy and has been criticised for its judicial activism, most notably in its ruling on the EU's accession to the European Convention on Human rights (ECHR). Meanwhile, dissatisfaction with EU politics is being expressed by European voters, as reflected in increasing support for populist parties.



Key points

Whether the Commission has indeed become more political than in the past with regard to its mission (own agenda, right of initiative) and its set-up (Commissioners sent by member states with the College approved by the EP) was a matter of lively debate. However, any (further) politicisation of the Commission, such as in targeting outcomes in pursuit of an agenda, is contentious, as this might compromise its role as enforcer of EU (rule of) law and guardian of EU core values. The lead candidate made the election process of the Commission president more transparent as it made 'back-door' deals public for the first time. Yet there is much room for improvement because the candidates are fairly unknown among the population and because European party families do not truly represent different civic groups. The continuation of this system greatly depends on the goodwill of Heads of State and Government, as this system rests on the EP's interpretation of treaties rather than being anchored in them. Judicial activism of

the CJEU used to be crucial to define and frame the community method in the early days of European integration, whereas there is an extensive body of legislation in place today, which forces the Court to act less.

The rise of populism is one of the most dangerous challenges that Europe is facing at the moment. This is an even bigger challenge at the European than at the national level, as the EU constitutes a system of multi-level governance that essentially relies on the concept of representation by officials and politicians, which populism rejects as an immoral and corrupt elite. Some populist parties, such as the Alternative für Deutschland (AfD), support a cross-over of economic liberalism and value conservatism, as they demand a liberal market and a strong private sector and at the same time a perpetuation of traditional societal values and beliefs. Ever since the economic crisis, European citizens perceive the EU as incompetent and ill-prepared to tackle today's multiple crises, which fuels the populist argument. Yet populist forces do not offer real, constructive alternatives. It is likely that they will burn themselves out and prove incompetent and/or corrupt, which would create the momentum for mainstream parties to show credibility and prove their competence to govern.

Implications for policymakers

Although not elected, the Commission is based on solid legitimate grounds, as it is appointed by the national governments and approved by the European Parliament. Commentators should stop questioning the Commission's legitimacy by comparing it to national governments and instead acknowledge the mixed 'DNA' of the EU and the numerous constitutional concepts behind its general construction.

The CJEU acts with more reservation than it has in the past, but an impression of activism still emerges, especially when legislators are unable to find a compromise and oblige the Court to take a decision on certain policy issues. Politicians and policymakers should safeguard the neutrality of the Court's jurisdiction by keeping it free from political decisions. There is no silver bullet to fight populism across Europe, but it is important to overcome the dividing lines that have emerged and intensified lately, such as between southern and northern EU states (particularly on austerity) and between rural and urban areas.

To constructively face and fight populism and Eurosceptic

tendencies, European actors should not only produce better policy results, but also reach out to the national level, particularly to MEPs in their respective constituencies. National politicians and policymakers also play a crucial role in building bridges between the EU and its citizens.

Special Session: Launch of the CEPS Task Force Report on EU Reform

Speakers: Joaquín Almunia, Chairman of the CEPS Board of Directors and Member of the CEPS Task Force on EU Reform; **Steven Blockmans**, Senior Research Fellow and Head, EU Foreign Policy Unit, CEPS; **Sophia Russack**, Researcher, co-rapporteur of the Task Force, CEPS; **Rosen Plevneliev**, former President of Bulgaria

The European Union is facing an existential crisis. With the spectre of Brexit looming, the EU27 have embarked on the 'Bratislava Process' to provide the European Union with a vision for the future, to be unveiled on the occasion of the 60th anniversary of the Rome Treaties. A CEPS Task Force of eminent persons is engaged in its own reflection process to offer practical recommendations to refit the EU for purpose. The discussions at the Task Force meetings were captured in the report launched during this session.

In presenting the Task Force report, Joaquín Almunia focused on the recommendations that are structured along the report's three buildings blocks: i) border management, ii) socio-economic and monetary integration and iii) a citizens' Union. Rosen Plevneliev, former Bulgarian President, reflected on the report as a neutral commentator. Subsequent questions from the audience triggered debate, particularly on the sense and sensibility of introducing a euro area finance minister; improving the lead candidate system; introducing a green card procedure for national parliaments and the need to mobilise civic platforms in member states.

The report itself offers 18 concrete and actionable recommendations, addressing politicians and policymakers at EU and national level. These ideas lie within the current Treaty framework where possible, but also go beyond if necessary. Hence, immediate implementation is possible in most cases, but some recommendations should also be considered for a broader long-term approach and a future round of treaty revision.





Special Session:

Je t'aime! Moi non plus? The European Union, its Citizens and the Struggle for Support

Speakers: **Catherine de Vries**, Professor of Politics, University of Essex; **Isabell Hoffmann**, Head of eupinion, europeanwide surveys by Bertelsmann Stiftung

Introduction

In this special session the key results of two studies based on eupinion, which are Europe-wide surveys conducted by Bertelsmann Stiftung) were presented: one focusing on the views of millennials (here defined as 14-34 years) on the future of the EU and the euro and one examining the rationale behind current support for populism across Europe.

Key points

Millennials are much less polarised than older voters (over 34 years of age, who are often either very positive or negative towards the EU), but there is a divide among the millennials, as they are more positive about the EU if they are still in education than if they have already entered the job market. Generally, young voters know much less about the EU than older generations.

Globalisation seems to be the decisive factor behind the demand for changes away from the political mainstream. Conflict between progressive and traditional values plays a minor role.

Europeans are almost equally split when it comes to how they view globalisation: a slim majority sees globalisation as an opportunity (55%), while 45% sees it as a threat. Voters who

fear globalisation are more likely to vote for populist parties, but there are considerable country differences when it comes to globalisation fears: in France and Austria, a majority of voters see globalisation as a threat. Age is a relevant variable in the context of attitudes towards globalisation: the younger the voter, the less afraid s/he is of globalisation. Gender does not appear to play a role in influencing these attitudes.

Recommended reading from CEPS research:

Recent Case Law on External Competences of the European Union: How Member States can embrace their own Treaty, January 2017

Friedrich Erlbacher

Can the EU survive in an age of populism?, January 2017

Daniel Gros

Despite teething problems, the ECI stimulates European-wide debates, March 2017

Katja Tuokko and Justin Greenwood

Europe in the World

EU-Turkey 2.0

Discussion Leaders: **Nathalie Tocci**, Deputy Director, Istituto Affari Internazionali; **Sinan Ülgen**, Chairman, Centre for Economics and Foreign Policy; **H.E. Cornelis van Rij**, Ambassador of the Netherlands to Turkey; **Maciej Popowski**, Deputy Director-General, DG NEAR, European Commission

Moderator: **Toby Vogel**, Research Communications Officer, CEPS

Saudi-Iranian relations: What role for the EU in stabilising the Middle East?

Discussion Leaders: **Julien Barnes-Dacey**, Senior Policy Fellow, European Council on Foreign Relations (ECFR); **Clarisse Pásztory**, Head of Erbil Liaison Office, EU Delegation to Iraq, European External Action Service (EEAS); **Richard Giragosian**, Director, Regional Studies Centre, Yerevan

Moderator: **Steven Blockmans**, Senior Research Fellow and Head of EU Foreign Policy Unit, CEPS

Eastern promises: Are the association agreements living up to expectations?

Discussion Leaders: **Eka Tkeshelashvili**, President, Georgian Institute for Strategic Studies; **Dirk Schuebel**, Head of Division Eastern Partnership bilateral, European External Action Service; **Oleksandr Sushko**, Research Director, Institute for Euro-Atlantic Cooperation, Kyiv

Moderator: **Hrant Kostanyan**, Researcher, CEPS

Introduction

Europe and its citizens are directly affected by events in neighbouring regions. The EU works with its neighbours to build on common interests and values, so it is appropriate to discuss: i) the direction of EU-Turkey relations considering the strategic importance of Turkey and the interdependence of the EU and Turkey in terms of regional security, migration deal and trade; ii) the role of the EU in stabilising the Middle East where the established system of states and borders are under pressure and the population is oppressed and iii) the lessons that can be learned from the implementation of the Deep and Comprehensive Free Trade Areas (DCFTAs) and the

Association Agreements (AAs) with member countries of the Eastern Partnership.



Nathalie Tocci, Sinan Ülgen & H.E. Cornelis van Rij

Key points

Considering EU-Turkey relations, the main conclusion was that the EU should stick to the positive aspects on the agenda. It can also construct a complementary framework that can be an alternative to accession to move forward. It is clear that Turkey has been backsliding on Copenhagen political criteria, but there is no structural reason for Turkey to end the accession process, as there is more to lose than gain by doing so. Turkey and the EU are interdependent and need to work together. The potential benefits of a Customs Union are impressive for both sides.

From a European security perspective, the deep historical and religious rivalry between Iran and Saudi Arabia is a hugely significant driver of division in terms of geopolitics and energy. Iran and Saudi Arabia are acting both defensively and offensively. Their domestic economic challenges, structural limitations and demographic issues should also be considered. The rivalry between these countries has escalated to a dangerous level. One should not forget that the EU has various interests in the Middle East, among them external security, migration and energy. There is a lot that EU institutions and member states can do, but it takes political will to invest politically, economically and militarily.

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Relations between the EU and the countries of the Eastern Partnership that have AAs with the EU, namely Georgia, Ukraine and Moldova, aim to bring about irreversible democracy. There is little awareness in Eastern Partnership countries of the possibilities of an AA or a DCFTA, even within economic interest groups and business. Moreover, some interest groups are undermining the process of AAs. Ukraine, in particular, would like to be a part of the policy development process in the EU rather than being obliged to just follow the rules adopted in Europe. There are still vulnerabilities in Georgia because of the polarisation of politics there. Moldova suffers from systemic corruption and the recent election of a pro-Russian candidate as president of the country complicates its relations with the EU. The Russia factor in this region should also be taken into account.

Implications for policymakers

Turkey and the EU should work towards the modernisation of the Customs Union as a priority. Negotiations should continue and Turkey should be supported in its efforts to resolve the refugee crisis. As for the deterioration of the rule of law, if Turkey crosses red lines such as introducing the death penalty, it should mean the end of negotiations. The potential impact of new constitutional amendments should be evaluated and necessary steps should be taken if the separation of powers is not respected.

In the Middle East, the EU can work with sub-national partners to create governable and economically viable spaces. It should also continue to support the region economically, institutionally and educationally. Moreover, the EU should strategically broaden its constituency in the Middle East and focus on the vulnerabilities and weaknesses in the region to combat the causes of these weaknesses.

In order to realise an AA/DCFTA, an inclusive process is necessary, whereby more of society is involved and different interest groups are represented, especially in policy formation. In Ukraine, for example, reforms are needed in the energy sector, banking, the judiciary and public administration. The aim of the Eastern Partnership is to integrate these countries into the EU market. People should understand what can be improved in their lives as a result of the EU's actions. To realise this, more needs to be done to raise awareness about EU projects.

Recommended reading from CEPS research:

Why the EU should terminate accession negotiations with Turkey, April 2017

Steven Blockmans and Sinem Yilmaz

EU-Iran Relations after the Nuclear Deal, May 2016

Steven Blockmans, Anoushiravan Ehteshami and Gawdat Bahgat

Assessing the European Neighbourhood Policy. Perspectives from the literature, February 2017

Hrant Kostanyan

Brexit

Brexit and the City

Discussion Leaders: **Jeremy Browne**, Special Representative of the City of London to the EU; **Joe V. Bannister**, Chairman, Malta Financial Services Authority; **Laura Ahto**, CEO, Bank of New York Mellon European Bank

Moderator: **Nick Collier**, Global Head of Government and Regulatory Affairs, Thomson Reuters

The financial centre of London has grown to the size it is today because of the EU's single market. It is an asset for the EU, and Brexit will be a cost, not only for the UK's financial industry, but also for the provision of financial services in the rest of the EU. A centre allows conglomeration factors to operate, and efficiency and specialisation to prevail. Brexit will lead to more fragmentation, and slow the process of concentration in the EU's financial centres.

The future structure of trade in financial services between the EU and the UK is still an open question. The equivalence provision for access to the EU's single market is not adapted to the degree of market integration between the EU and the UK. A broader and more certain equivalence regime is thus needed, but the UK may also consider a lighter regime, and thus increase regulatory competition.

For Laura Ahti of BoNY Mellon, the business model of the bank will not be affected by Brexit, as it is active in many different EU countries. For Jeremy Brown of the City of London Corporation, the City will remain preeminent in Europe. But other financial centres should not try to attract City business to their advantage, said Jo Bannister of the Maltese FSE. Limitations on migration may also affect the prospects of the City, it was argued.

Leaving the EU without leaving the single market

Discussion Leaders: **The Rt Hon. Liz Kendall, MP**, member of the Exiting the EU Committee, House of Commons; **Laurence W. Gormley**, Visiting Professor at European Studies Department, College of Europe

Moderator: **Marco Incerti**, Head of Communications, CEPS

The Brexit White Paper, published on February 2nd by HM government, set the stage for the start of negotiations following the triggering of Article 50 (which took place about one month after the Ideas Lab), and called for a Strategic Partnership (and not an Association Agreement). This relationship would include a "bold, ambitious and comprehensive Free Trade Agreement."

Some thought that the UK government seemed determined to shut down all debate on the UK's future in Europe and that Theresa May's vision for the future of the UK, which prioritises low taxes and low immigration, departed radically from the views of many EU leaders.

It was agreed that efforts must be made to ensure that the tone of the debate in the UK and the negotiations with the EU remain civil and cooperative. The current harshness is detrimental to the interests of both sides. Priority should be given to negotiating a 'transitional' agreement that sorts out immediate arrangements between the EU and the UK, and agreeing to deal with long-term issues at a later date. Finally, it is absolutely essential for the UK to remain sensitive and open to questions of immigration.



Laura Ahto, Jeremy Browne, Joe V. Bannister & Nick Collier

More defence in a UK-less EU?

Discussion Leaders: **Marta Dassù**, Chairwoman, ASPEN Institute Italia; **Daniel Keohane**, Senior Researcher, Centre for Security Studies, Zurich

Moderator: **Giovanni Faleg**, Associate Research Fellow, CEPS



Daniel Keohane, Giovanni Faleg & Marta Dassù

It was widely emphasised that one ought to think pragmatically about the future of European defence (the EU and NATO), as the UK is one of the key players in this arena. The EU needs to strike a sound, sustainable deal with the UK to keep it as a close external partner for the EU in the deployments of the Common Security and Defence Policy (CSDP), capability generation and defence industry cooperation. The panel also discussed whether Brexit would facilitate the emergence of a new core in the CSDP, promoted by France, Germany and Italy, particularly given the roadmap for deeper integration set out in the 2016 EU Global Strategy and the security and defence implementation plan.

The two main recommendations emerged from the session for policymakers: i) it is paramount to keep the UK as close as possible to CSDP decision-making and include it in CSDP operations and ii) EU member states should invest in building a more deeply integrated defence and technology industrial base, under the guidance of the European Defence Agency and a more proactive European Commission, but at the same time they should not shut the door to bilateral agreements with the UK on defence procurement.

The EU should move politically towards a European Defence Union, including the full use of the permanent structured cooperation – PESCO instruments available under the Treaty of

Lisbon, but pragmatism and realism should also be used when negotiating a good defence deal with the UK and its inclusion in future initiatives.

Recommended reading from CEPS research:

EU Financial Market Access after Brexit, September 2016

Karel Lannoo

An Assessment of the Economic Impact of Brexit on the EU27, March 2017

Michael Emerson, Matthias Busse, Mattia Di Salvo, Daniel Gros and Jacques Pelkmans

The Implications of Brexit for the EU's Common Security and Defence Policy, July 2016

Giovanni Faleg

Prime Talk: In Troubled Waters - Migration Challenges in the Mediterranean

Speakers: **Enrico Letta**, President, Jacques Delors Institute, former Prime Minister of Italy; **Mikołaj Dowgielewicz**, Representative to the EU Institutions, European Investment Bank; **Elsbeth Guild**, Senior Research Fellow at Justice and Home Affairs, CEPS; **Rear-admiral Mário Marques**, Chairman, European Coast Guard Functions Forum; **Udo Zolleis**, Senior Official, Ministry of the Interior, the Free State of Bavaria

Moderator: **Valentina Pop**, Reporter, Wall Street Journal

Introduction

One of the main EU responses to the surge in asylum seekers via Greece and the Balkans in 2015-16, instigating the so-called 'refugee crisis', has been the creation of the European Border and Coast Guard (EBCG) to incorporate coast guards in border management. The Commission has also put forward a package of proposals to recast the Common European Asylum System, most importantly, extending the mandate of the European Asylum Support Office (EASO). Yet, do these proposals address the true deficiencies in EU border and asylum policies? What should be the main EU policy responses? What can we expect from development cooperation and investment in countries of origin and transit? What should be responses within the refugee-receiving countries?



Valentina Pop, Mikołaj Dowgielewicz, Enrico Letta, Elspeth Guild, Rear-admiral Mário Marques & Udo Zolleis

Key points

Former Prime Minister of Italy Enrico Letta questioned whether we can afford to continue talking about 'crisis' responses. Although substantial numbers of asylum seekers have reached Greece via the Aegean Sea since summer 2015, the numbers in the Central Mediterranean have remained stable for several years. Thus, is it realistic to place expectations on the coast guard to manage the crisis? The chairman of the European Coast Guard Function Forum stressed that solutions lie in defence, diplomacy and development, not in the sea. The EIB Brussels representative supported the call to address long-lasting global refugee challenges in a holistic manner. Elspeth Guild, Senior Research Fellow at CEPS, called for a change of focus from seeing refugees as a 'burden' to refugees as 'an opportunity'. According to Eurostat, EU member states issued 2.5 million First Residence permits for work and family reunification reasons in 2015. Seen from this perspective, the refugee 'crisis' is not so obvious; when will the EU adopt evidence-based migration and asylum policies? Finally, can the EU cooperate with third countries, like Libya, without compromising its commitment to fundamental rights?

Implications for policymakers

The CEPS Task Force report on the European Border and Coast Guard Agency made the following proposals:

There should be a **de-linking of asylum responsibility from search and rescue (SAR) operations** by dropping temporary relocation decisions in exchange for targeted reform of the Dublin system. But if Dublin is not reframed as truly European, there could be a specific SAR relocation mechanism, in which those rescued at sea would be assigned to any one of the EU member states according to a quota system, not to the first country of irregular arrival.

The EBCG should fill in the gap and lead SAR operations. At the moment, EPN Triton operational areas are located at too great a distance from where SAR incidents take place, so the operational area should be expanded. Operations should be of a civilian nature and have a clearly humanitarian purpose.

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A merged European Border and Asylum Service (EBAS) should be established. This should be a professional EU civil service, endowed with its own staff and command/decision capability. Managing borders and asylum policy should be a shared legal responsibility between the EU and member states. This is in line with the Lisbon Treaty provision to adopt “any measure for the establishment of Integrated Border Management”.

More legal pathways to reach Europe for both asylum seekers and economic migrants should be opened up. The first category should be covered by the Geneva Convention and benefit from humanitarian visas, family reunification and resettlement. The second category should benefit from mobility, as there are skills shortages in the EU at all levels.

The root causes of migration should be addressed. Stabilise the countries of origin and provide more incentives and aid for development.

Recommended reading from CEPS research:

**The European Border and Coast Guard:
Addressing migration and asylum challenges in
the Mediterranean?, February 2017**

**Sergio Carrera, Steven Blockmans, Jean-Pierre
Cassarino, Daniel Gros and Elspeth Guild**

**EU-Turkey plan for handling refugees is fraught
with legal and procedural challenges, March 2016**

Sergio Carrera and Elspeth Guild

**A European Border and Coast Guard: What's in a
name?, March 2016**

Sergio Carrera and Leonhard den Hertog

Prime Talk: Between China and the EU - Making the Silk Road Run Smoothly

Speakers: **Jens Meier**, Chairman of the Management Board, Hamburg Port Authority; **Djoomart Otorbaev**, former Prime Minister of the Kyrgyz Republic; Sun Mingxi, Counsellor, Mission of China to the EU

Moderator: **Astrid Skala-Kuhmann**, Director for Global Partnerships, Deutsche Gesellschaft für Zusammenarbeit

After President Xi Jinping's speech at the World Economic Forum at the start of 2017, it became clear that China has transformed itself from being one of the most protectionist economies in the world into a strong defender of international trade and cooperation. This sound strategic approach, however, is not yet matched by liberal market access policies or by reducing FDI restrictions. The One Belt, One Road (OBOR) initiative is a telling example of this new era in China. Since its launch, China has significantly invested in infrastructure to improve land transportation towards the EU, while offering and organising wide-ranging international cooperation to stimulate the participation of many countries.

For the first time in history, China has become Germany's number-one trading partner, overtaking the US and all other European countries. This in itself is a clear sign of the need to improve talks with China, and the OBOR initiative is an incredible opportunity to do so while enhancing the relationship with Central Asia, which has implications for the development of the entire region, especially as most of the countries in Central Asia are landlocked and have always suffered from their isolated geographical position. Indeed, without these countries' involvement in the initiative, its realisation would not be possible, or at least not meaningful. Indeed, most of the trains arriving today in the EU from China do not return at anywhere near full capacity. It is thus of crucial importance for Central Asian countries, as well as for China as the final destination, to fill the gap and make this huge means of transportation sustainable and cost-effective.

Moreover, the One Belt, One Road initiative could help the transition from a supply-driven to a demand-driven relationship between the two economic blocs. As a speaker pointed out, the enhancement of infrastructure and living standards is a



necessary condition for a demand-driven business relationship, and this initiative aims to improve both factors across all countries involved.

The initiative is thus a strategic opportunity for both the EU and China to i) tighten existing relationships, ii) create new ones with countries 'in the middle', and iii) improve stability in the Central Asian region by fostering economic and social development.

Recommended reading from CEPS research:

Tomorrow's Silk Road: Assessing an EU-China Free Trade Agreement, April 2016

Jacques Pelkmans, Weinian Hu, Federica Mustilli, Mattia Di Salvo, Joseph Francois, Eddy Bekkers, Miriam Manchin and Patrick Tomberger



Prime Talk: EU Budget Reforms for post-2020 - Perfect Storm or Flop?

Speakers: **Nadia Calviño**, Director General, DG BUDGET European Commission; **Mario Monti**, Member of the Italian Senate and Chair of the High Level Group on Own Resources, European Commission; **Giacomo Benedetto**, Senior Lecturer in Politics & Jean Monnet, Chair in European Union Budget Policies at Royal Holloway, University of London

Moderator: **Jorge Núñez Ferrer**, Senior Research Fellow, CEPS

Introduction

There are signs of a change in approach by member states. They realise the need to use the EU budget to provide for citizens' most pressing demands, i.e. jobs and security, but delivering on those fronts will also help to combat Euroscepticism and populism. More generally, the focus on the EU's added value is gradually diminishing the relevance of net balances.

The rigid system of seven-year planning has been criticised. If, on the one hand, it is necessary to introduce additional flexibility to respond to unforeseen events and changing priorities, on the other hand, it is crucial to ensure predictability of long-term investment, which also enhances the macro-economic stabilising function of structural funds. In other words, the MFF can be reformed, but it has to remain an instrument for mid- to long-term planning.

The problem with the EU budget should not be framed uniquely as a communications strategy issue. The EU has lost legitimacy in the eyes of its citizens and must regain it. This goes beyond communication, which also needs to be improved, but an economic narrative alone will not suffice. Efficiency and competitiveness are not the only reasons for which we need a Union and its budget. The Council is moving forward on border protection, tax harmonisation and increasingly, on defence.

The EU budget is perceived as being mismanaged and non-transparent, despite following IPSAS international accountability standards, being discharged by the European Court of Auditors and published online in detail.

Implications for policymakers

Steps must be taken to make the EU budget more understandable to people. Europe is not a zero-sum game

and in order to free it from such a mentality, the budget must be able to reflect that reality. There is a call to abandon the net balance approach, which has characterised most budgetary negotiations, but is now preventing the EU from having the necessary means to deal with its increasing priorities.

Allocating just 2% of EU resources to security and citizenship is a huge failing; there are too few means to deal with the migration crisis, and top EU priorities do not appear to be in line with budgetary allocations. But how to move beyond the seemingly sacrosanct political decision to limit the budget to 1% of EU GNI? Size should be de-mystified; nobody knows what the right figure is, but it should be in line with agreed commitments and needs.

The EU budget should be seen as public expenditure of the EU28. Consequently, increasing the EU budget should correspond to diminishing national expenditures, not to an increase in the fiscal burden; it should in fact decrease the burden. Fiscal consolidation at member state level should be coupled with increasing EU expenditure, as this expenditure is mainly linked – with the exception of agricultural subsidies – to investment generating European public goods and growth.

Brexit brings risk but also opportunities to re-think own resources and expenditures. With the UK out of the picture, one key reason for the net balance approach vanishes. Will all rebates be abandoned? Can more contribution from GNI be considered? Is it possible to replace the roughly €10 billion loss from the UK's net contribution with new own resources? Perhaps the short time frame in which the decision has to be taken is a positive factor. A 'crisis' demands a response. While a fall in the budget will be a problem, what matters is not that the budget falls from €150 billion to €140 billion, but rather what is to be done with the remaining €140 billion.

Some recommend a more majoritarian model in adopting budget decisions. This shift can make the system more dynamic but would lead to a less democratic outcome for member states in the minority, making clear who are the winners and losers. Coordination and communication with national parliaments need to be improved.

Prime Talk: Who will continue to carry the torch? Changing global climate change leaders in the Trump era

Speakers: **Myron Ebell**, Director, Center for Energy and Environment Competitive Enterprise Institute and former Head, Transition Team, US Environmental Protection Agency; **Surya Sethi**, former Principal Adviser Power and Energy and Core Climate Negotiator, Government of India; **Enrico Giovannini**, Professor, University of Rome Tor Vergata

Moderator: **Christian Egenhofer**, Associate Senior Research Fellow, Head of the Energy and Climate programme and Director of Energy Climate House, CEPS

With the election of Donald Trump as US President, the coalition between the US and China that provided the impetus for the Paris Agreement has fallen apart. Myron Ebell, who led the transition for the Environmental Protection Agency for the Trump Administration, made it clear that the US will withdraw from global climate policy. Besides the campaign promises to overturn Obama's Clean Power Plan and withdraw from the Paris Agreement, Ebell remarked how the US will probably cancel US funding for UN climate bodies.

For Enrico Giovannini, there are many reasons for the EU to try to fill this leadership gap. Failure to lead on climate change could have negative repercussions for trade and international relations as well, given how closely interwoven climate policy is with the rest of the global agenda. Teresa Ribera and Surya Sethi added that the EU is punching below its weight if it considers global equity to be a priority. By leading on this issue, the EU could gain clout and legitimacy, particularly among those countries most vulnerable to climate change impacts. In the current political environment, however, it is not easy for the 28 EU member states to agree on common positions and move with the agility that is required to exercise such global leadership.



Christian Egenhofer, Enrico Giovannini, Myron Ebell, Teresa Ribera & Surya Sethi



Prime Talk: Ex Machina - Towards an Ethics of Algorithms

Speakers: **Tim Hwang**, Public Policy Counsel, Google; Vince Conitzer, Professor, Duke University; **Walter Sinnott-Armstrong**, Professor in Practical Ethics in the Department of Philosophy and the Kenan Institute for Ethics at Duke University; **Jérôme Perrin**, VP Scientific Director, Renault; **Toby Walsh**, Guest Professor, TU Berlin and Professor, AI, UNSW Australia

Moderator: **Andrea Renda**, Senior Research Fellow and Head of Regulatory Policy Unit, CEPS

Artificial intelligence (AI) and algorithms offer a dazzling array of technical advances for humanity, as well as the frightening prospect that machines, not humans, will dominate our world.

After outlining both the hopes and fears surrounding new technology, the academic and business leaders who are engaged in the quest to set ground rules for a safe, ethical and human-friendly AI discussed its impact on employment and inequality, and the role of government in both encouraging and policing it.

AI algorithms process and organise information. Originally programmed to remove human error and bias from decision-making, AI today supports and complements human thinking. Most agreed that machines are rather slow, inefficient learners, and a long way off from displaying key human qualities of intuition and common sense.

Even so, participants agreed that modern AI can outperform humans in specific tasks. AI algorithms help maximise trading volumes, improve demand and supply matching and reduce transaction costs. In manufacturing, AI-powered machines replace workers in heavy, perilous and highly repetitive tasks, which many participants thought could widen the polarisation within the labour force. At the same time, AI could create new job opportunities for those who create and operate machines.

Recent breakthroughs saw AI systems beat world champions in strategy games like chess, Go and poker. It was also argued that driverless cars were safer than human-driven vehicles and would drastically cut the number of road accidents.

As AI can take critical decisions alone, without human influence on the outcome, the academics on the panel highlighted its existential and ethical challenges for society. Some, for example, called for a clear ban on autonomous weapons. But such black and white decisions are rare; in a world driven by AI, we must answer tough questions in shades of grey. What moral principles must guide the programming of machines? If driverless cars must choose between running over a pedestrian or endangering a passenger, for example, who is responsible for the consequences?

Answers to these tough questions require the development of balanced safety and liability requirements in law. Policymakers should engage with stakeholders to adopt safeguards and incentives for more transparency and accountability.

The role of governments should focus on curbing negative externalities. Taxing automation is ill-conceived. Companies should not be punished for chasing efficiency and developing beneficial new technologies. Instead, governments should promote an even distribution of benefits. Everyone agreed that we must prepare for a world in which machines play a greater role. But everyone also agreed that humans can continue to control their environment. Automation, after all, cannot replace human care and creativity.



Walter Sinnott-Armstrong, Jérôme Perrin & Andrea Renda



Concluding Plenary: Scenarios for the EU in a Changing World

Speakers: **Daniel Mitov**, former Minister of Foreign Affairs, Bulgaria; **Anthony Luzzatto Gardner**, former US Ambassador to the EU; **Reza Moghadam**, Vice-Chairman for Global Capital Markets, Morgan Stanley; **Heather Grabbe**, Director, Open Society European Policy Institute

Introduction

The eurozone crisis that unfolded after 2009 has tested not only the effectiveness of EU institutions but their legitimacy and the values on which they are built, including the notion of solidarity between the member states. Various developments originating outside the EU – notably the migration crisis of 2015-16 – have heightened doubts about the robustness of the EU model, which received an additional psychological blow with the UK’s decision to leave the Union. The election of Donald Trump and Russia’s increasing assertiveness abroad (e.g. in Ukraine and Syria) have added to the anxiety, suggesting that traditional approaches to international affairs may no longer be viable. In the worst case, Trump’s policies could upend old alliances. In all this, the EU has not been an active player and has failed to shape its environment.



Key points

The EU’s legitimacy is at stake across three broad building sites: i) the euro, ii) migration and asylum and iii) and foreign policy and defence.

While the transatlantic relationship is undergoing a crisis following Trump’s inauguration, there continues to be a range of sectoral issues where the two sides have shared interests, including counterterrorism, trade, defence and intellectual property rights. Such issues could serve as building blocks for the reconstruction of a broader alliance, although US relations with Europe are likely to remain more transactional than they have been at any point in the past several decades.

By questioning the European contribution to NATO’s collective defence, the Trump administration might provide momentum for renewed defence commitments. Germany already appears poised to step up its engagement.

Implications for policymakers

The EU should deepen its involvement in guarding its external borders – to prevent unauthorised entry – and, in turn, in creating space for the Union’s internal solidarity. It is important that the EU demonstrate to its citizens that it is capable of joint action in an area that is seen by many as deeply problematic.

The EU must think much more strategically about foreign policy and emerging actors such as China.

The EU should actively defend the brand of liberal, free-market democracy, which is under attack by Russia, and its counter-narrative of democracy as an alien, western construct.

Other member states should undertake their own balance of competences reviews on the UK model to better understand what value the EU has for them, and where the set-up might need adjustment.

The EU needs to bring its house in order before it can regain international credibility – e.g. cleaning up its bank balance sheets by removing the bad assets. It should also concentrate its energies and talent on tackling some of the big questions that will shape the coming decades, such as climate change.





Special Lecture: European (Dis-)integration in an Age of Populism

Speaker: **Timothy Garton Ash**, Professor, Oxford University



Timothy Garton Ash

Professor Garton Ash gave the final academic lecture of this year's Ideas Lab to a packed house keen to hear his analysis.

He argued that one can trace the roots of today's crises of the European project to the moment of one of Europe's greatest triumphs: the fall of the Berlin Wall in 1989. In fact, Garton Ash cited eight lines of causality that stretch from the current crises to developments that have their origin at around the same time.

The year 1989 was a watershed for Europe, in many ways. As Communism fell, the ideals of freedom and democracy grew and Eastern Europe naturally wanted to join the European Union, with its freedom of movement across national borders. One of the unintended consequences of this freedom was the massive migration to the UK, which was perhaps the biggest single reason for the Brexit vote.

Garton Ash also argued that another consequence of 1989 was the birth of the euro. As a *quid pro quo* for reunification, Germany had to relinquish control over its currency. But, given its incomplete design, the euro area was not able to deal with the fall-out from the Great Financial Crisis of 2007-08. High unemployment and low growth in the euro area have provided populists with the argument that European integration simply does not work.

But 1989 was also the year of Tiananmen Square and the brutal repression of a democratic uprising. China formally stuck with Communism, but de facto created 'Leninist capitalism', as Timothy Garton Ash termed it, allowing the country to benefit fully from the wave of globalisation that also started around this time.

Globalisation not only fostered rapid growth in China, it also created losers everywhere, especially unskilled workers whose economic and cultural status declined as their jobs went to China and India. Better educated elites had secure jobs with rising incomes, which made it easier for them to embrace globalisation and multiculturalism. Populists claim to give a voice to those who feel left behind, both economically and culturally.

Garton Ash ended on the sobering note that the current wave of populism might not yet have reached its peak. Turning the tide will not only require reform in Europe, but also an enduring effort to create an alternative and emotionally appealing narrative.

Timothy Garton Ash's speech was recorded and is available in full here: <https://www.youtube.com/watch?v=eZK7B0Wjlqc>



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