

# SNAPSHOT

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## The future of Europe: what comes next?

May 2019

As Europe prepares to go to the polls from 23<sup>rd</sup> May, the European Council, representing the Heads of State and Government of each of the Members of the Europe Union, meets in Romania for one of its last meetings of the current mandate. Top of the agenda for discussion will be the key findings of its *'Future of Europe Initiative'*. As Europe faces a crossroads on many fronts, leaders look to develop a future framework to remain strong and relevant in an increasingly competitive global environment. **FTI Consulting Brussels** predicts what is likely to come out of the summit in Sibiu on 9<sup>th</sup> May, in terms of what may go forward as priorities and what won't.

It wasn't so long ago that the EU used to be a universally loved and respected brand, beloved by its citizens and democratic societies, revered by its neighbours and partners alike.

However unprecedented challenges in recent years have taken their toll. Certain assumptions are no longer taken for granted. Externally, the political landscape is changing rapidly. We now live in a much more aggressive and uncertain world. Internally, the Union has had to deal with an unprecedented sequence of issues that have questioned its leadership and values. The rise of populism and nationalism go so far as to challenge the very need of a Union itself. There is a real chance that the future Commission, for example, could host up to three Eurosceptic Commissioners for the first time.

Despite the United Kingdom's intention of leaving, the remaining Member States generally agree that there is a need to stay together to deal with a host of problems - and opportunities - that are not going to go away.

The *'Future of Europe Initiative'* is the Council's fightback for a strong Europe. What it subsequently decides to prioritise is hugely important in terms of how the EU claws back its role and relevance.

### The intended tonic

In a year of change that will see the appointment of a new Commission President to replace Jean-Claude Juncker, a new Parliament and Commission, the Council will be the only real constant. On the back of this, President of the Council, Donald Tusk, under pressure from French President Macron, has understood the need for a step-change, ensuring that key economic and social development issues, security and migration have been addressed.

The process has been comprehensive. It started with a broad agenda, informed by an extensive European Commission outline of possible scenarios, that has subsequently been refined to a number of key priorities that the Council will now have to agree on. What comes out of Sibiu will determine the Council's strategic agenda for the next few years.

### So what's in...?

#### 1. Action on the industrial strategy

As a major thread running through the Future of Europe debate, global competitiveness has enjoyed significant progress in the current legislature, particularly through the industrial strategy. However, a serious question mark hangs over whether the EU can sustain its current model without falling behind China and the US. This has resulted in France

and Germany arguing that relaxed competition rules will help develop European Champions and strengthen Europe globally, while the Commission and many smaller Member States say the opposite. Regardless, with strong support from the largest Member States, industrial policy will certainly be covered in Sibiu and remain an important issue. A Commissioner or Vice-President for industrial policy is quite likely.

## 2. A Defence Directorate General

One of the key new areas is the likely creation of a dedicated EU directorate general (DG) focused on defence and security. Long resisted, the reality of today's threats in terms of Europe's perceived diminishing power and influence, ageing population and economic affluence are all driving the perception that one is now finally required. This has been compounded by the current US administration's strong push for more security spending (in the context of NATO) from its European partners. Views have varied. Whereas Chancellor Merkel's suggested steps towards (one day creating) a true European army, Charles Michel (the interim Prime Minister of Belgium) more concretely called for a special envoy to the Western Balkans where dedicated action is rumoured to be on the cards. The new DG is likely to take the shape in the form of a Commission Directorate General for cybersecurity, space policy and defence, with a strong focus on Artificial Intelligence (AI).

## 3. Digital Mainstreaming

Progress towards competitiveness has included shaping the framework for Digital Europe, the first ever dedicated programme for digitisation, despite uncertainty around the next budget. Research and innovation, with digitisation in particular, is key to European competitiveness. As part of the EU's efforts to stay ahead of the curve, it is rumoured that DG CONNECT (Communications, Network, Content and Technology) will be dismantled with Europe's cybersecurity and AI drive being managed by the new defence DG. All other aspects of digitisation will be mainstreamed, with each DG talking responsibility for digitalisation within their respective sectors. In this way DG AGRI (Agriculture and Rural Development), for example, could take the lead role in digital agriculture, DG FISMA (Financial Stability, Financial Services and Capital Markets Union) on FinTech and DG ENER (Energy) on smart grids and so on.

## 4. Consumer gains and youth action

The EU has understood the need to have a direct conversation with its citizens and to be seen to be delivering real benefits that affect people on a daily basis. The value attributed to the abolition of EU mobile roaming charges is a case in point. As part of the evolution to Sibiu, the EU has already undertaken a public consultation process and a citizens' dialogue tour, with a heavy focus on the most Eurosceptic member states. Consequently, tangible

outcomes and deliverables aimed at consumers will probably be included, with a view to increasing positive attitudes and sentiment towards the value the EU brings. Future announcements can be expected in several policy areas such as better value for money for investment products.

Additionally, on 8<sup>th</sup> May, the day before the summit, Sibiu will host a large Young Citizens Dialogue event, aimed against populism. This is a clear effort to engage the demographic that voted against Brexit and to mobilise them for the European elections.

With the eyes of young voters on the summit, and in the age of the unpaid internship, training and employment initiatives will likely be launched to complement action on European competitiveness. President Juncker made it clear at the 2017 Gothenburg Social Summit for Fair Jobs and Growth that the EU is proud of its offering for Europe's youth. A packed house at that event saw the Commission President call strongly for continued support for Erasmus and other training and employment schemes.

## 5. Climate action

Efforts to galvanise progress on climate change, such as the proposal for treaty change for climate taxation, are now being pushed back to the next legislature. However, the climate debate remains active through the 2050 long-term strategy and sustainable finance agenda. Increasing public demand and protests, along with recognition of the need for action from policymakers and the investor community, mark climate action up as a likely candidate for concrete action. Outstanding to-dos from the Sustainable Finance Action Plan and the 2025 strategy proposal will resurface with the twofold objectives of a creating a good news story and putting pressure on the next Commission to drive this forward. As with all these points, the next Commission President will decide exactly what to do, but the need is accepted across the board by aspiring new Commission Presidents.

## ... what's out...?

### 6. Carrying on or doing much more together

The Commission's initial white paper outlined 5 possible scenarios for how member states will work together going forward. These ranged from continuing with the status quo to doing much more together.

#### The Future of Europe initiative: Five scenarios for the EU:

1. Carrying on
2. Nothing but the single market
3. Those who want more do more
4. Doing less more efficiently and
5. Doing much more together

Considering the myriad of factors complicating relations between Member States, the only possible option is 'Those who want more do more'. Everything else is probably out at this stage.

The recent spat between France and Italy is an example of how sensitive things are at the moment. It's not just about Brexit. While Member State governments are running campaigns against the EU, and the Commission is undertaking infringement processes on the rule of law with Hungary and Poland, who potentially face an Article 7 censure, no other outcomes can be guaranteed. In addition, the first indications from the enhanced cooperation system, the formalised way for willing Member States to do more together, have not been successful.

### **7. A digital ally**

Europe will not give unconditional allegiance to any one of its global partners in terms of technology and future infrastructure. Secure and reliable 5G infrastructure is essential for a competitive industry, but Europe doesn't have the capacity to roll it out cost-effectively. Third parties are being leveraged, for example Huawei Italy's controversial 5G deal. The EU was divided between China's low-cost offering and the US's security concerns. Although recent legislation on screening foreign direct investment was pointedly targeted (at Italy's increasing closeness with China), given Europe's place between the two, future action could well be reactionary. This adds two levels of unpredictability to the next legislature particularly for the tech sector; prolonged geopolitical uncertainty will sit alongside changes to the Commission in terms of responsibility for digitisation as outlined above.

### **8. A solution on migration**

Now that the summit falls before the European elections any outcome would need to be palatable to a broad range of constituents, and agreement on that is highly unlikely in the current circumstances. Therefore, no concrete action on the migration crisis is expected from Sibiu other than strengthening external border protection.

### **9. Treaty change**

There have been repeated calls from the European Parliament to make the institutions more agile. For example, calling for the abolition of the need for unanimity in Council on taxation and foreign policy. In a similarly ambitious fashion, President Macron of France and EU Commission President Juncker have been calling for deeper integration and Dutch Prime Minister Rutte for a more efficient Union. However institutional reform can be ruled out, at least where it would involve treaty change. Changes to the treaties can only be achieved through unanimity and the Visegrad Group (Poland, Hungary, Czech Republic and Slovakia) have made it clear that they will not back it.

### **10. Brexit**

Although it has not happened yet, Brexit is expected to be down-played as an outcome of the summit. Originally intended as the first official EU27 council meeting, Sibiu is set to be a turning point. The pending departure of the UK (nominally the 28<sup>th</sup> Member State) will change the playing field across a large number of policy areas and processes of negotiation, but for now, the Council will want to display a forward-looking approach and as much unity as they can muster.

## **... and what's next?**

Any declaration or road map published after the Sibiu summit will be, to some degree, speculation. The next Commission and Parliament will be key to determining what is taken forward to shape the future of Europe. However, this summit will be hugely significant. It will provide a clear indication to those currently facing election, on what the Council considers important issues, providing a clear steer as to what Member States consider the Union should be prioritising in the years ahead.

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