

The European Union in 2013: a Review

I. Introduction

The year 2013 proved to be a turning point for the European Union (EU) and especially for the Euro Area. Whereas Cyprus' need for financial support dominated the first half of the year, good news on economic growth, reduced costs for public debt and a stabilising financial sector lightened the mood in the second half. The EU came out of recession in the second quarter of 2013, although average growth for the Euro Area still remained slightly negative. Unemployment remained high, and inflation stayed at low levels. Intense negotiations on the European Banking Union restored confidence in the decision-making capabilities of an EU now counting 28 Member States and its future economic development. In addition, structural reforms and the consolidation of public finances appeared to have the intended positive effects on competitiveness and growth. Although the European Commission, the European Parliament and the Member States achieved remarkable successes, numerous challenges still persist and the implementation of many initiatives as outlined in the Europe 2020 strategy lag behind. The need for an *ad hoc* crisis management has been substituted by the challenge to seriously address structural reforms and enhance Member States' economic competitiveness in times of decreasing political and economic pressure.

Based on the Commission's general report on the Activities of the European Union 2013, this documentation compiles the main developments in the EU in 2013. A special focus will first be given to the making of the Banking Union and, secondly, to economic growth and sustainable public finances, followed by summarising achievements and shortcomings in all other policy areas at the European level. The conclusion points to recent attempts to question European policy competencies with regard to the subsidiarity principle and gives an outlook on future challenges to the European Union's role for its Member States and in the world.

II. Banking Union and Financial Market Policy

1. The Making of the Banking Union

Negotiations to set up a European Banking Union dominated EU policy-making in 2013. In order to respond to the challenges the crisis revealed, Commission, Parliament and Member States intended to set up a European framework for coherent and structured banking supervision and resolution. Risks to the stability of the financial system as a whole as well as of individual financial institutions are supposed to be disclosed at an early stage and addressed according to their cross-border relevance. Thereby, the so-called vicious cycle between banks and their respective home country is intended to be broken.

Approved in 2013, the Single Supervisory Mechanism (SSM) is the first element of the Banking Union and is expected to be fully operational as of late 2014. The ECB will be charged with the supervision of about 130 large banks and the three largest banks of a country that together amount to roughly 85 % of all Euro Area bank assets. The ECB will be allowed to issue supervisory standards for the other banks in order to harmonise national procedures. Preparing its new tasks, the ECB is currently conducting a stress test, a risk and a balance sheet assessment for European banks. The SSM is obligatory for all Euro Area countries and, although other EU countries are welcome to join, until now no country chose to do so. A separate ECB department is headed by the Supervisory Board that consists of representatives of the ECB and the national supervisory agencies and is currently chaired by *Danièle Nouy*. The Board submits draft decisions to the ECB Governing Council that needs to give a final approval. In order to prevent potential conflicts of interest between monetary policy and bank supervision, members of the Governing Council and the Supervisory Board settle cases of conflict through a mediation panel process.

Complementing the SSM, the Commission adopted a proposal on setting up a Single Resolution Mechanism (SRM) that aims at ensuring adequate and targeted reaction to supervisory decisions at the European level. In December, the Council agreed on broad principles for an SSM and respective legislation is expected to be finalised in the first half of 2014. Besides the establishment of a Single Resolution Board that would prepare and take decisions according to the supervision's results, a Single Resolution Fund is to be set up in order to provide financial support to a bank if necessary. The banking sector is supposed to finance the Fund and that marks a turning point to the previous crisis resolution approach of providing public money for private banks. Nonetheless, the Member States

agreed to introduce an ultimate back-stop at European level provided as an ESM direct bank recapitalisation instrument once the SSM is fully operational.

The SRM will be based on the Bank Recovery and Resolution Directive's (BRRD) chain of accountability. Incrementally, owners, junior bonds, senior bonds, and unsecured deposits above 100,000 EUR contribute to the recovery of a bank with an amount of at least up to 8 % of the bank's liabilities. Above that, national resolution funds, financed by the banking sector, may provide further support. Furthermore, all banks are obliged to set-up general yearly updated recovery plans in order to be prepared for extraordinary situations.

Complementing the BRRD, the revised Deposit Guarantee Schemes Directive (DGSD) will add to the guarantee of 100,000 EUR per depositor and bank a set of harmonised standards for guarantee schemes and the set-up of respective national funds. Those have to be funded by the banking sector and amount to a total of about 1.5 % of all guaranteed deposits. In December, Parliament and Council adopted a political agreement on the BRRD and the DGSD.

In addition, the Commission amended the state aid rules regarding public support for banks: first and foremost a bank's owners and creditors must be asked for a bail-in, the Commission needs to approve the bank's restructuring plan, and management pay must be capped.

With regard to the early years of the crisis where banks received high public funding, notably in Ireland, which consequently was forced to ask for financial support, the BRRD marks the turning point of crisis resolution attempts in the Euro Area and can be seen as the core of the Banking Union. Despite some exceptions, the BRRD's clearly defined chain of accountability offers a structured guidance and establishes private sector involvement in principle so that public support only serves as last resort. The SSM and the SRM build the respective European institutional framework. Dependent on concrete legislation, both are expected to raise political capacity to act as well as to increase financial sector resilience. The mutualisation of financial support at the European level through the SRF is expected to spread risks and thereby reduce individual risk exposure. However, decision-making procedures and authorities will need to effectively avoid potential attempts to exploit the system.

2. Financial Market Policy

In the field of financial market policy, a number of initiatives have been launched and put forward. Most importantly, the CRR and CRD IV directives

implemented the Basel III regulations on capital requirements for banks and will come into force over the course of 2014. The regulations prescribe higher capital reserves, introduce a liquidity coverage ratio ensuring sufficient liquidity in stress scenarios, a net stable funding ratio preventing long-term liquidity shortage, a leverage ratio limiting the increase in a bank's balance sheet in relation to own funds, set tighter corporate governance rules regarding gender diversity in upper management, and limit bonus payments. Tier 1 capital still amounts to 8 %, but its definition has been tightened. Additionally, a capital conservation buffer of 2.5 % and a counter-cyclical buffer of up to 2.5 % have been introduced. The leverage ratio points at limiting a bank's amount of loan issuance without accounting for risk profiles in order to provide an additional measure for bank supervision. However, a binding figure for that ratio is expected to be defined as late as 2017. Also, risks resulting from credit instruments with counterparties (derivatives) must now be backed by capital. Furthermore, the Commission adopted proposals on the regulation of benchmarks and shadow banking (especially money market funds).

In the field of tax policy, the Commission adopted a proposal to establish a financial transaction tax under enhanced co-operation for 11 Member States, proposed legislation on the automatic exchange of tax information, on preventing base erosion and profit shifting (BEPS), and launched negotiations on enhanced savings-tax agreements with third countries. The Council approved a quick-reaction mechanism to fight VAT fraud.

Regarding consumer protection, Parliament and Council approved legislation on mortgage loans and the Commission adopted proposals on investment funds and bank accounts.

III. Economic Growth and Sustainable Public Finances

1. European Union

The initiatives originally outlined in the Europe 2020 strategy turned out to be even more important for overcoming the crisis. However, Member States firstly had to consolidate public finances and that postponed some of the strategy's goals significantly. Even though, efforts focused on regaining economic growth and competitiveness. The strategy's goals have been integrated in a number of policies and measures, most importantly in the European Semester and the Multi-Annual Financial Framework. In March, based on the Commission's annual growth survey, the European Council set policy priorities for 2013: growth

friendly consolidation of public finances, restoring regular bank credit lending for the economy, promoting competitiveness, employment, social inclusion, and the modernisation of public administrations.

Regarding the monitoring of public finances in the framework of the Stability and Growth Pact (SGP), the Council decided to close Excessive Deficit Procedures (EDP) against Italy, Hungary, Latvia, Lithuania, and Romania. The Council opened an EDP against Malta and Croatia, gave notice to Belgium, and issued additional recommendations for France, The Netherlands, Slovenia, and Poland, thereby allowing the countries more time to reduce their deficit. Although the Pact has been tightened in 2012, the Commission's recommendations aimed at not jeopardising vague economic recovery but proposed to postpone the deadlines for the reduction of deficits. In the monitoring framework of the Macroeconomic Imbalances Procedure (MIP) the Commission identified excessive imbalances in Spain and Slovenia, and imbalances in France, Italy, and Hungary. The Commission will issue in-depth reviews for those countries in early 2014 to assess potential needs for action.

In 2013, the two-pack regulations came into force for EMU Member States. In autumn, the countries needed to submit their draft budgetary plans for consideration by the Commission for the first time. The Commission assigned overall compliance with European monitoring procedures, especially with the SGP, although some of the budgetary plans are considered to leave too little scope for action. The Eurogroup approved the Commission's evaluation.

In December, Parliament and Council adopted a reform on the European cohesion policy targeting specifically at the Europe 2020 strategy goals promoting growth and jobs as well as climate protection, research and innovation, small and medium-sized enterprises (SMEs) and social inclusion. The reform also strengthened e-administration and the monitoring procedures for granting and verifying. The European Social Fund regulation for 2014 to 2020 specifically points to active labour market policies, social inclusion, education and the modernisation of public administration.

The Europe 2020's goal of raising the general employment rate up to 75 % could hardly be pursued in times of crisis. Especially the youth unemployment rate rose to an average of 24 % in the EU. Commission and Member States launched several measures including specific funding for young people that amounts to 6 bn. EUR, mobility programmes, knowledge transfer on education and training policies as well as on public employment services, and promoting free e-learning

instruments. Regarding the free movement of workers, the Commission pointed to the need to better implement existing rules. To that end Parliament and Council agreed on measures to foster administrative efficiency and the Commission proposed a regulation to facilitate the cross-border acceptance of public documents.

Based on studies, the Commission identified SMEs as a main source for economic growth. In order to facilitate their access to funding, the Commission launched several programmes and the Member States raised the European Investment Bank's capital stock by 10 bn. EUR of which a large part will be dedicated to SMEs. Additionally, the Commission aims at supporting larger businesses in order to encourage global exports that have fallen significantly due to the crisis. Therefore, the Commission launched measures for the steel, construction, and defence and security industry.

2. Euro Area

Specific attention has been paid to growth and sustainable public finances in the Euro Area as the common currency has been put under extreme pressure in the course of the crisis. While negotiations heated in early 2013 to grant Cyprus financial support, Ireland and Spain (official exit in January 2014) succeeded in completing their programmes through a "clean exit", meaning that no further funding had to be approved. In Mai, the European partners and the International Monetary Fund (IMF) approved the economic adjustment programme for Cyprus that prescribes detailed measures and reforms targeted to overcome Cyprus' economic downturn, to restore its banking sector and to regain debt sustainability and financial market access. It serves as basis for the funding of 10 bn. EUR (about 9 bn. EUR provided by the ESM and about 1 bn. EUR by the IMF) from 2013 to 2016. The Commission, the European Central Bank and the IMF (Troika) monitor its enforcement. As Member States simultaneously negotiated on the bank recovery and resolution directive, private sector involvement has been made obligatory for the signing of Cyprus' programme. For the first time, deposits above 100,000 EUR had to contribute to the restructuring of banks and one large bank, Laiki, has been restructured and closed. As negotiations went slowly and thereby gave rise to significant capital outflows, the government had to install capital controls. Portugal's and Greece's programmes are scheduled to end in 2014. In contrast to Portugal, Greece has still been subject to attentive media coverage although the government announced a primary surplus for 2013.

In December, the European Council agreed on details to set up a system of contractual arrangements and related solidarity instruments to support a Member State's reform endeavours for growth, competitiveness and employment. The system is supposed to follow up on crisis *ad hoc* co-ordination in order to set up a more structured and continuous approach. The Presidents of the Commission and the European Council will propose further details in late 2014. Furthermore, the Commission set up an expert group charged with exploring the potential of a debt redemption fund and Euro bills. In order to strengthen awareness for social matters in the Monetary Union, the Commission proposed to develop a score-board to be integrated in the European semester and to identify major social challenges with regard to unemployment, household disposable income and income inequalities, and poverty risk.

In 2013 Latvia got accepted as 18th member of the Euro Area and will introduce the Euro as of 1 January 2014.

IV. Developments in Other Policy Areas

1. The Multi-Annual Financial Framework 2014-2020

Following more than two years of intense discussions, the Council finally adopted the Multi-Annual Financial Framework (MFF) in November 2013. For the first time, the Member States cut expenditures to a total amount of 908.4 bn. EUR (payment appropriations, and 959.99 bn. EUR commitment appropriations respectively) alongside general fiscal consolidation attempts in the Member States. However, Parliament and Commission stressed the need for sufficient financial scope for investments against recessionary trends. To that end Parliament, Council and Commission agreed in June to allow more flexibility for shifting available resources between years and to accelerate expenditures to support youth employment and SMEs already in 2014 and 2015. Also, the commission announced to evaluate the MFF by 2016. In order to review the system of the EU's own resources a high-level group comprising representatives of the Commission, the Parliament and the Council, has been established and will present proposals in 2014.

The MFF is targeted to promote sustainable growth, employment, competitiveness and convergence. To that end expenditures to support growth and employment, especially innovation and research, rose, while agricultural subsidies and transfers for candidate countries have been reduced. Whereas the MFF defines the EU budget's expenditures, the decision on the EU's own resources determin-

ing expected income has been postponed to 2014 as no agreement could be found regarding national rebates.

2. Internal Market, Infrastructure, Transport and Energy

In the framework of the single market acts I and II, the Commission launched a number of legislatives measures, i.a. on technical standards, financial market products, energy taxation, alternative dispute resolution, accounting, free movement of workers, and public procurement. The Commission launched a number of proposals aiming at reducing the administrative burden for businesses related to the Regulatory Fitness and Performance Programme (REFIT) and a revision of the standard VAT return.

In the field of intellectual and industrial property rights, the Commission launched proposals to foster the efficient protection of those rights, for example on harmonised standards for trade secrets, and reducing the administrative burden for the registration of trademarks and patents. Parliament and Council adopted a new regulation enforcing customs controls with regard to property rights violations, especially for smaller consignments. In the framework of enhanced co-operation 25 Member States adopted an agreement to establish a unified patent court in February. The Commission proposed respective amendments to regulations in July and the Council approved a political agreement in December, the Parliament is expected to follow up on that in 2014. Then, a European patent only needs to be registered in one of the countries.

As regards antitrust monitoring in 2013, the Commission fined Telefónica and Portugal Telecom, Microsoft, several pharmaceutical companies, and Johnson & Johnson and Novartis, several automotive suppliers and four European North Sea shrimp traders. The highest, although cumulated, fine of 1.7 bn. EUR has been imposed on eight international financial institutions for participating in illegal cartels in financial derivatives markets. Furthermore, the Commission decided four legally binding commitments that all have been implemented by the respective companies, issued statements of objections for four new cases, conducted four market tests of commitments, opened three formal antitrust proceedings against the Lithuanian rail company AB Lietuvos gelež inkeliai, Mastercard and Bulgarian Energy Holding and one cartel investigation against several container-shipping companies.

The Commission adopted a proposal in order to allow for individuals and companies that are victims of EU antitrust policies infringements to also claim dam-

ages, and several measures to facilitate review procedures on mergers. In December, the Commission adopted a revision of the *de minimis* Regulation mainly reducing administrative burden for Member States and companies. Only two out of 257 registered company mergers have been stopped by the Commission: UPS/TNT and Ryanair/Aer Lingus.

In October, Parliament and Council adopted the Union Customs Code in order to strengthen administrative efficiency i.a. by the introduction of an encompassing digitalisation of processes and accelerated customs procedures for reliable traders. In June, the Commission adopted a package of enhanced measures to fight against the illicit traffic of tobacco products.

In the framework of the Europe 2020 strategy, the Connecting Europe Facility, adopted in November, aims at promoting investments in transport, energy and telecommunications infrastructure by providing co-financing of a total amount of 33.3 bn. EUR up to 2020. The largest part of the funding, 26 bn. EUR, is dedicated to the establishment of a trans-European transport network (TEN-V) connecting national routes that is expected to be finalized in 2030. Furthermore, the Commission adopted the fourth railway package. The European Railway Agency should become the only agency in the EU for vehicle authorisations and the market for domestic passenger transport services by rail should be freely accessible to competitors as from December 2019 on. In July, the Commission issued proposals to reduce customs formalities for ships in order to adapt the duration of custom processes to those for other vehicles. The Commission adopted several action programmes on inland waterway transportation (NAIADES II), urban mobility, air transport (single European sky 2+), clean transport (clean power for transport package), passenger rights, and road safety (roadworthiness package). From 2015 on, new cars will dispose of the eCall system that automatically issues a call in case of severe emergencies.

Following a political agreement in the trilogue, the Council adopted new legislation to reduce CO₂-emissions for cars and vans in November. Although strict limits prescribe reduction from 130 g/km in 2015 to 95 g/km in 2021 for new cars and from 175 g/km in 2017 to 147 g/km in 2020 for new vans, the limits are calculated as an average across the entire new vehicle fleet of an automotive company. Furthermore, vehicles with less than 50 g/km and E-vehicles serve as a bonus for calculating the average. Following the Euro-VI-Norm that came into force at the beginning of 2013 limiting emissions for new trucks and busses, the Parliament adopted a directive on emission reduction for recreational crafts. The Commission launched proposals to set-up a monitoring system on CO₂-

emissions by the shipping industry. In order to promote E-vehicles, the first of two US-EU centres on common standards in electric mobility and smart grids has been established in Chicago.

In the area of energy policy, the Commission currently works on facilitating a proper single energy market, the diversification of energy supply, the development of European energy resources, energy prices and consumer protection, ecodesign and energy labelling. Following the stress test of nuclear plants in reaction to the nuclear catastrophe in Fukushima in 2011, the Commission adopted a revised nuclear safety directive in June. The core of the directive sets up a European system of peer reviews of nuclear installations and safety reviews for older nuclear plants, and prescribes provisions for the management of emergencies inside a plant. In June, the Parliament and the Council adopted the directive on the safety of offshore oil and gas operations that sets common European standards for the entire chain of resource exploitations and for emergency provisions on offshore plants.

In the field of consumer protection, a directive and a regulation on alternative dispute settlement for EU-wide electronic and shop based purchases have been passed. The Commission proposed measures to enhance the security and respective monitoring of non-food products and reduced price ceilings for roaming for mobile communications by about 80 %. Parliament and Council politically agreed on clinical trials and on the revised tobacco directive that added pictures to health warnings on tobacco products, prohibits additional flavours such as menthol, and sets out basic regulations for e-cigarettes.

3. Agriculture and Fisheries, Environment, and Climate Protection

After three years of negotiations, the trilogue finally reached a political agreement on reforming the common agricultural policy (CAP) expected to come fully into force in 2015. The reform specifically aims at promoting sustainable agriculture and biodiversity and at supporting small and medium-sized farms and young farmers. Despite still numerous exceptions, the core of the reform is the reduction and redistribution of direct payments according to the above mentioned goals over the coming years. Financial support for large companies decreases in favour of smaller farms. However, Member States are free to grant additional support so as to reduce the losses for large farms. By defining shares of grants to be used for several ecological purposes, the different measures to implement the above mentioned goals are linked so as to extend their scope and impact.

The reform introduces the term “active farmers” and a corresponding negative list of business areas in order to prevent that companies, whose main business is not related to agriculture, receive funding. Except for small farms, Member States must issue information on beneficiaries. The reform includes the expiring of sugar quotas in 2017 (in parallel to milk quotas in 2015), although Member States are free to support sugar stocking, the easing of vine-planting rights from 2015 onwards, regulations to strengthen producers and producer associations, the establishment of a fund for crisis management, and a raise in funding for the fruit school programme. Furthermore, the EU endorsed measures on the labelling of food products, regional food production, cloning and novel foods.

Parliament and Council approved a reform of the common fisheries policy aiming at paving the way for sustainable fisheries and gathering a number of measures on fish stocks, decentralized decision making, small scale fisheries, labelling of products, aquaculture. The European Market Observatory for Fisheries and Aquaculture Products (Eumofa) was launched in 2013 as a platform for information on prices and market developments.

The seventh environment action programme “Living well, within the limits of our planet” outlines key challenges and measures to pave the way for an ecological sustainable economy until 2020. The main goals are the protection and redevelopment of natural capital, encouraging the efficient use of resources, reducing CO₂-emissions and health risks. To that end the Commission adopted proposals on reducing the distribution and use of plastic bags, on measures against invasive alien species, on a strategy for clean air, respective amendments to the national emissions ceilings directive, a directive to control and reduce emissions of medium-sized combust plants, and worked on water supply and water diplomacy.

The Commission presented the Green Book on a 2030 framework for climate and energy policies and a strategy on how to adapt to climate change. A joint report by the Commission and the European Environment Agency reveals that greenhouse gas emissions in the EU have been reduced by 17 % between 1990 and 2011.

In 2013, the EU Emissions Trading System, operating in all EU and the three EEA-EFTA states Iceland, Liechtenstein and Norway, entered into the third phase. As from 2013 on, the Commission issues all allowances. These amount to 2.04 bn. tons CO₂ in 2013 and decrease by 1.74 % yearly until 2020. The share of auctioned allowances rose from up to 10 % to 20 % and will rise to 70 % in 2020 and to 100 % in 2027. The remaining free allowances are allocated accord-

ing to an average level of emissions of modern plants (best available technology, BAT) substituting the former grandfathering principle. However, exceptions guarantee free allowances for industries with high emissions. The Commission is currently working on including international civil aviation into the emissions trading system after having stopped first attempts in early 2013 due to objections by the USA and China. As certificate prices fell considerably within the last years, Parliament and Council decided to postpone the auctioning of up to 900 million allowances to 2019 and 2020. However, that also postpones the increase in the number of auctioned allowances and thereby preserves a larger share for free allowances.

4. Justice and Home Affairs, Migration

In light of the NSA's spy activities negotiations on a data protection framework agreement between the EU and the USA and on a European data protection reform package accelerated. The major purpose of the package is to adapt the existing legislation of 1995 to the challenges that the internet causes for data protection. In light of the Commission's ongoing supervision of alleged rule of law violations in Hungary, the Commission launched the EU justice scoreboard in order to compare the independence and efficiency of the Member States' judicial systems.

The Commission adopted a proposal on the establishment of a European Public Prosecutor's Office on fraud that affects EU tax payers. The proposals aim at harmonising standards and facilitating Union wide prosecution. Remarkably, 14 parliamentary chambers issued reasoned opinions stating that this proposal contradicts the subsidiarity principle as prescribed in the EU Treaties, but the Commission reaffirmed the proposal. In March, the European Commission adopted a proposal to strengthen Europol's competencies with regard to information collection and combination in order to develop into a criminal prosecution agency. In turn, national parliaments and the European parliament gain hearing rights for Europol's strategic multi-annual work programme. The Commission also adopted a proposal to amend the small claims regulation to increase the current threshold of 2,000 to 10,000 EUR, several proposals on achieving harmonised standards for procedural rights in criminal proceedings, a package against illegal drugs and their traffic, and measures against the traffic and use of illegal guns.

As several hundreds of refugees found death near the Italian island Lampedusa in October, the Commission launched a debate on asylum policy. However, several

measures have already been taken. Already in June Council and Parliament adopted an encompassing asylum policy package establishing the common European asylum system (CEAS). It sets common standards on detaining refugees and living conditions for asylum candidates, judicial processes and repatriation. The European border surveillance system (Eurosur) has been established for 18 EU Member States and Norway aiming at a closer and more comprehensive co-ordination to avoid illegal drug and human trafficking and increase effective maritime salvage. The EU increased dialogues on migration and human trafficking with third countries. To that end the Silk Routes Partnership for Migration has been founded to manage mixed migration flows from Afghanistan, Iran, Iraq and Pakistan. Readmission agreements have been signed with Turkey, Armenia and Cape Verde and visa facilitation agreements with Armenia, Cape Verde, and Azerbaijan. Enhanced visa facilitation agreements with Moldova and Ukraine entered into force in summer followed up by dialogues on visa liberalisation agreements.

New rules for the Schengen area coming into force in 2014 allow the set-up of border controls on a strictly exceptional basis (if that displays the interest of the EU and all its Member States). In April, the second Schengen Information System (SIS II) has been launched. It extends the kind of available data for exchange such as biometric information and the type of alerts as for example on stolen airplanes, boats, containers, and means of payment. The Commission presented a cybersecurity strategy outlining measures to prevent and respond to cyber-attacks and proposed a directive on network and information security targeted at strengthening the information systems' resilience and fostering cyber defence also internationally.

As Croatia continuously violated the European Arrest Warrant framework decision, the Commission opened the Article 39 procedure and Croatia announced to take measures so as to meet the respective requirements in early 2014. The first 22 European citizens' initiatives collection periods have come to a close in late 2013. Three of them (on water as a public good, on the killing of human embryos and on animal experimentation) stated that they have achieved the required amount of signatories and the respective national authorities currently verify that.

5. Research and Education

As part of the Europe 2020 strategy's seven main initiatives the Innovation Union serves as a framework for the EU's research and innovation policies targeted

at increasing economic competitiveness. A new indicator presented by the Commission in September monitors the development. Despite a general increase in innovations, the difference between the Member States became larger as the economic downturn affected investments. Already about 25 % of the EU structural funds' financing are targeted at investments related to research and innovation. The reformed cohesion policy now also prescribes minimum shares of the funds' financing for innovation purposes. Complementary, regions are required to develop strategies on their economic specification. This supports the Union's approach of diversification as a source of economic growth.

The seventh Framework Programme for Research and Technological Development has come to a close in 2013. As of 2014 on, the Horizon 2020 programme gathers the Union's initiatives for research and innovation and disposes of up to 80 bn. EUR. One of Union's core fields of support will be future technologies, especially information technologies. A new scientific advisory board to the Commission's President examine the role of natural sciences and technology for society and politics supposed to detect main trends in the upcoming years.

6. External Affairs: Enlargement, Neighbourhood, Trade, Development, CSDP

On 1 July, the European Union welcomed Croatia as its 28th Member State. Accession negotiations with Turkey advanced with the opening of chapter 22 on regional policy. Turkey and the Commission signed a readmission agreement that has been discussed already since 2002 and in turn, the Commission agreed to open a dialogue on visa liberalisation with Turkey. The Icelandic government suspended accession negotiations after the parliamentary election in April until a referendum in 2014 confirms their continuation. In June, the European Council decided to open accession negotiations with Serbia. In October, the Commission and Kosovo started negotiations on a stabilisation and association agreement.

In the area of the European Neighbourhood Policy, special support has been provided to Egypt and Libya in light of the countries' political and economic transformation as well as to Tunisia and Morocco. Negotiations on a free trade agreement with Morocco started in March, a mobility partnership with the south Mediterranean neighbourhood region and an agreement on establishing a strategic partnership for energy with Algeria has been signed.

In the framework of the Eastern Partnership, negotiations on association agreements have been completed with Georgia and Moldova, suspended with Armenia

due to the country's aspirations to join the customs union with Belarus, Kazakhstan and Russia. In what has been considered as a major step backwards, the Ukrainian government decided not to sign the association agreement.

In June, the Commission and the US administration launched negotiations on a free trade agreement (the Transatlantic Trade and Investment Partnership, TTIP). Besides, an *ad hoc* working group on data protection is supposed to examine the judicial basis, data protection requirements and the supervision of the recently revealed spying activities by US government agencies. However, the group has not presented any results. In October, Canada and the EU achieved a political agreement on the negotiations on the Comprehensive Economic and Trade Agreement (CETA), an encompassing free trade agreement. The EU and its Member States investigated in a diplomatic solution to Iran's nuclear programme resulting in an interim agreement in November. Iran agreed to stop some of its nuclear activities and the EU eased sanction measures.

The EU provided special financial and technical support and the perspective of a comprehensive co-operation programme with the EU to Myanmar/Burma and supported Afghanistan, Pakistan, Somalia, Ivory Coast, Mali and Syrian refugees – the latter mostly in countries neighbouring Syria. The EU relieved some of its sanctions against Syria to the benefit of civilians and provided technical assistance for the United Nations' mission for the destruction of Syria's chemical weapons. Furthermore, the EU provided humanitarian aid with about 1.3 bn. EUR, provisions against malnutrition with about 1 bn. EUR and technical assistance for elections worldwide.

In the framework of the Common Security and Defence Policy (CSDP), the EU launched two new missions in Mali and Libya. Overall, the EU dispatched more than 7,000 experts and soldiers to twelve civil and four armed missions. In December, the European Council discussed a further strengthening of the CSDP's efficiency and the European defence industry.

V. Institutions, Personnel, Finances

As Croatia became the EU's 28th Member State, the Council appointed *Neven Mimica* as the Croatian member of the College of Commissioners, who has since been responsible for consumer policy. The European Council approved the Parliament's proposal to redistribute parliamentary seats without increasing the total number of seats. The Council nominated *Neven Mates* as the new Croatian member of the European Court of Auditors despite the Parliament's initial disap-

proval. In December, five new members have been nominated for the European Court of Auditors: *Nikolaos Milionis* (Greece), *Danièle Lamarque* (France), *Henri Grethen* (Luxembourg), *Alex Brenninkmeijer* (Netherlands), *Phil Wynn Owen* (United Kingdom). The Parliament elected *Emily O'Reilly* as new European Ombudsman as of 1 October.

In the first half of 2013 Ireland and in the second half Lithuania held the presidency of the Council. Over the course of 2013, the European Commission opened 1,300 infringement procedures against Member States. The number of parliamentary questions to the Commission rose by 21.34 % up to 13,448 – the highest amount so far. The European Parliament approved the Council's proposal on defining 22 to 25 May 2014 as the period for the upcoming European Parliament's election. Furthermore the European Parliament endorsed a report proposing several measures on fostering the citizens' attention for the election.

Table 1: Distribution of the EU Budget in 2013

Policy Area	Payment Appropriations (bn. EUR)	Budget Share (in %)
1. Sustainable Growth	59.1	44.5
1a. Competitiveness for growth and employment	11.9	8.9
1b. Cohesion for growth and employment	47.2	35.5
2. Preservation and Management of Natural Resources	57.5	43.3
2b. Market related expenditure & direct aids	44.0	33.1
2d. Rural development, environment & fisheries	13.5	10.2
3. Citizenship, Freedom, Security and Justice	1.5	1.2
3a. Freedom, security and justice	0.9	0.7
3b. Citizenship	0.6	0.5
4. EU as a Global Player	6.3	4.8
5. Administration	8.4	6.3
Total	132.8	100

Source: European Commission, EUR Lex Budget On-Line, 2014.

VI. European Union Competencies

Although Commission, Parliament and Member States launched co-ordinated and EU-wide measures to restart economic growth, to stabilise the financial sector and to promote competitiveness and employment, the crisis' effects gave rise to protectionist sentiments and a number of nationalist movements in several

Member States. Especially in the Euro Area, the need for consolidating public finances and resulting social policy cuts, economic downturn, and unemployment were assigned to decisions made in Brussels. That led to questioning the overall benefit of Union membership. Not only in the United Kingdom, but also in the Netherlands, some northern Member States, the recipient countries and also in Germany discussions erupted on European competencies and a possible re-organisation so as to shift decisions back to the national level.

This debate might arise in part from the often criticised lack of democratic legitimacy of the European institutions. Although the Commission launched large-scale dialogues on the future of the European Union and the European Monetary Union, public awareness of individual citizens' means to influence European decision-making remains low. That is expected to shift in the course of the European Parliament's election campaigns in 2014, as for the first time European party families nominate candidates for the post of Commission president. Nonetheless, the Member States and their governments are still considered to be the main driver of European decision-making. Hence, any attempt to lobby for individual concerns still appears to be most effective through national elections.

VII. Summary

Despite all criticism, the European institutions and the Member States succeeded in advancing numerous institutional and policy changes in order to cope with the crisis' effects. The establishment of a Banking Union and financial market policies have made significant advances. However, the struggle between consolidation of public finances and financial support for economic growth dominated debates between Member States and the Commission, especially with regard to the adequate level of rigour in implementing the new monitoring procedures within the European Semester. In view of a calming crisis, a more straight forward application is expected for 2014.

Although key policy goals had to take a back seat in favour of the efforts made to achieve economic recovery and financial market stabilisation, the EU reformed the Common Agriculture Policy and the cohesion policies, adopted legislation on the Internal Market and consumer protection, and set up the MFF and the Horizon 2020 programme. Despite an unfavourable economic environment, the EU successfully welcomed Croatia as a new member, and Latvia joined the Euro Area. The year 2014 will still be dominated by negotiations on the Banking Union and financial market policies. Adding to that, the duality of goals in promot-

ing both economic growth and sustainable public finances might challenge the EU in the course of the upcoming European Parliament election season. In that regard, questions on the EU's democratic legitimacy and its future course as well as purpose are expected to gain prominence. Then, attempts to simply speak up for the EU might not be sufficient but concrete concepts will be needed to respond to concerns of an overwhelming Union.

compiled by Sarah Ciaglia