

# The European Union in 2015: a Review

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## I. Introduction

For the European Union, the year 2015 was yet another year in *crisis mode*. Following the developments of the previous year, it stood in light of conflicts – and just a hint of peace. Finding agreements between member states was and still is a lengthy and difficult process for a number of issues, while facts were calling for united action. The sharp increase of asylum seekers and the terrorist attacks in Paris in January and November 2015 as well as recently in Brussels brought Syria's war and Da'esh' ambitions to the very core of the EU – even overshadowing the ongoing conflict in the Ukraine and, thus, in the EU's direct neighbourhood.

Within the EU, member states still struggled with economic growth and high levels of unemployment despite the European Central Bank's (ECB) unconventional monetary policies. Finally, Greece's exit from the European Monetary Union (EMU) could be circumvented. However, despite a new deal for the UK's membership in the EU, the British referendum's result still has to be awaited. The EU's five Presidents presented a road map towards a genuine EMU, in spite of rising public concerns about the purpose and nature of the EU at large. The Commission put a number of new unions at the top of the priority list, of which the digital single market union seems to have the most far-reaching consequences for EU citizens' daily life – again calling into question the EU's democratic grounds.

Based on the Commission's General Report on the Activities of the European Union, this review summarises the main developments in the EU in 2015. First, special attention will be paid to asylum seekers, the war in Syria, and terrorism. Second, developments in economic growth and fiscal sustainability will be reviewed, followed by the main developments in other policy areas. In conclusion, the EU's responses to this year's challenges will be evaluated under the lenses of European integration.

## II. Asylum Seekers, Syria and Terrorism

After an increasing number of asylum seekers<sup>1</sup> came to the EU over the Mediterranean Sea in 2014, the number sharply rose in the first half of 2015, peaking during late summer. It decreased towards winter but remained at a high level until the beginning of 2016. Eurostat recorded 1.26 m. first time asylum applicants in 2015, of which the majority came from Syria, Afghanistan and Iraq. After several EU member states declared Western Balkan countries safe countries of origin, the number of asylum seekers from those countries dropped. The main routes into the EU were through the Mediterranean Sea, notably via Greece and the Balkans, but also through Eastern Europe and Scandinavia.

In spring, the number of deaths of asylum seekers on the Mediterranean Sea increased rapidly and put the EU under pressure to react. As a result, the European Council decided to triple financial allocations and increase efforts within Frontex' Triton and Poseidon operations in the Mediterranean Sea with the clear aim of rescuing people; the Mare operation was targeted at combating related organised crime. In May, the Commission presented a European Agenda on Migration that focused on reducing uncontrolled migration, increasing EU external border control, rescuing people in the Mediterranean Sea, combating human trafficking and managing legal migration. Amongst other measures, the Commission proposed to set up an emergency relocation scheme under Art. 78 (3) TFEU to resettle people from Italy and Greece and about 22.000 people from outside the EU to member states until the end of 2017.

Over the summer, more people came especially over the Mediterranean Sea to Greece and passed through the Balkans towards western and northern Europe. Routes and the flow of people were disorganised and local management failed to register people, to facilitate the flow, and to provide basic aid. The Schengen as well as the Dublin agreements were *de facto* suspended. With the situation worsening particularly in Hungary, German chancellor *Merkel* agreed to host thousands of asylum seekers that were stuck in Budapest at the beginning of September. In the following, Balkan countries started to channel masses of people through their territories towards Austria to go further, while Hungary successively closed its borders by building fences. Likewise, neighbouring countries re-introduced border controls and built fences on the one hand and tried to manage the flow on the other.

1 Following the Geneva Convention, the author uses the term *asylum seeker* in the following. Against the background of the current situation, the term *migrant* seems rather euphemistic, whereas at times the term *refugee* seems imprecise with regard to the related legal status.

Following the Western Balkan Summit in October, the countries of that region increased co-operation to manage and channel the people northwards.

However, increasingly chaotic circumstances called on the EU institutions and member states to act but negotiations were difficult and agreements failed over and over again. Neither registration nor border control could be guaranteed sufficiently at the EU's external borders, even though support for the local authorities through the European Asylum Support Office, Frontex and Europol was increased successively. In September, the European Council decided to set up *hotspot* areas in Italy and Greece to organise registration, relocation and return, of which, however, only two in Italy and one in Greece were set up until the end of 2015.

Although the May agreement on relocation was hardly implemented, the Council decided with qualified majority against the votes of four Eastern European countries to relocate a further 120.000 people from Greece and Italy. In the following, Slovakia and Hungary announced to bring the case to the European Court of Justice. Despite the fact that these numbers seem marginable compared to the total number of people arriving at the southern member states' borders, the plan failed to date. Effective return also remains a challenge despite a number of readmission agreements with third-party countries. The Council endorsed the EU action plan on return in October and the European External Action Service was supposed to help increase return.

Over the course of the year, the EU strengthened border security, notably in the Mediterranean Sea. Funding and equipment were increased for a number of programmes and the Poseidon operation was transferred into the Rapid Border Intervention in December. The Commission worked on setting up an integrated management system for external borders, a European Border and Coast Guard within Frontex, a European travel document to manage return, a revision of the EUROSUR handbook and of the Schengen Borders Code, and a regulation for a common list of safe countries of origin. The operation Eunavfor Med was launched in June to combat human trafficking over the Mediterranean Sea. About 250.000 people were rescued at Sea with Triton and Poseidon.

However, the actions taken were not sufficient to effectively manage the large number of people and discussions emerged about limiting the number. In November, Slovenia, Croatia, Serbia and Macedonia started to only let people from Syria, Iraq and Afghanistan pass and restricted entry for other nationalities. At the beginning of 2016, Austria decided on a maximum number of 37.500 refugees for 2016 and restricted its borders further, thereby provoking a snowball effect with other

countries on the Western Balkan route following and closing their borders as well. At a Conference in Vienna in February 2016, these countries, without inviting Greece, decided to increase co-operation to significantly reduce the number of asylum seekers and to grant entry only to people from regions in armed conflicts, such as Syria and Iraq. In March, people were stuck at Greece's border to Macedonia and the EU continued to fail to secure its external borders, to provide appropriate humanitarian aid and asylum support.

As a result, hopes were high for a co-operation with Turkey on border security and combatting human trafficking. In November, the European Council's Summit with Turkey decided on an action plan to reduce human trafficking from the Turkish borders to the EU on the one hand. On the other, it decided to establish a EU Refugee Facility for Turkey amounting to €3 bn. to support refugee camps and to enhance Turkey's accession process to the EU. However, the number of people coming from Turkey did not decrease as hoped. Therefore, in March 2016, the European Council decided to grant Turkey another €3 bn. to work on visa liberalisation, to further enhance the accession process and to relocate refugees from Turkey to the EU in exchange for Turkey increasing its border security and readmitting irregular migrants arriving at Greek borders. Complementary, the NATO supports Frontex', Turkish and Greek authorities' patrols between both countries' coasts.

Hopes also rose for Turkey to increase efforts to resolve the war in Syria and to combat Da'esh (*Islamic State of Iraq and the Levant* (ISIL), ISIS or IS) in its direct neighbourhood. In Syria, the conflict between the Syrian opposition groups, the government and Da'esh got worse over the course of 2015. Da'esh occupies parts of the territory of Syria and Iraq and also expanded in further countries in Northern Africa and the Middle East, including Afghanistan. Together with the US and other international partners, the EU and its member states supported regional efforts to counter Da'esh terrorism with training and technical assistance.

In spring, the European Council adopted the EU Regional Strategy for Syria and Iraq as well as the ISIL/Da'esh threat based on related UN Security Council resolutions. The strategy focuses on combating Da'esh' terrorism, financing, armed equipment, illicit trade of cultural goods, oil and people. As a response to the increased threat of terrorism in the EU, the Commission set up the European Agenda on Security in April. The agenda gathers a number of endeavours for the fight against terrorism, organised crime and cyber crime and is part of the EU's larger Internal Security Strategy, which the Council adopted in June. The European Counter Terrorist Centre (ECTC) was launched in January 2016 within Europol

with a focus on information sharing and enhanced action against terrorist fighters, financing, online propaganda and trafficking of firearms. The Parliament endorsed the anti-money laundering directive and the Commission presented a proposal for a combating terrorism directive in November.

Since 2014, on a US-initiative, major bombing campaigns were run in Iraq and Syria with Russia joining on the Syrian government's side in late 2015. This further contributed to the complexity of the conflict in the region and worsened Russia's conflict with Turkey. Following the Da'esh terrorist attacks in Paris in November, France called on the EU *case of alliance* and several member states stepped up to support France's military efforts in Syria.

In addition, diplomatic efforts were increased to establish a cease-fire and to find a political solution to the war in Syria. However, the talks in Geneva have failed to date. The EU provided enhanced humanitarian aid to Syria and its neighbouring countries with the EU Trust Fund for Syria, increased funding for the World Food Programme and refugee camps in Lebanon, Jordan and Turkey, and supported the moderate Syrian opposition while maintaining sanctions against *Assad's* regime.

With this, the EU tried to tackle *root causes* of migration into the EU. Besides armed conflicts and underfunded refugee camps, the Commission also named poverty as a potential cause. This led to intense debates about that aspect being an appropriate reason for asylum. Moreover, member states engaged in countering media and social media reports that encouraged the journey to Europe and rose in some countries in the Western Balkans, Northern Africa and the Middle East, Afghanistan, and Pakistan.

At the EU-Africa Summit in November, the European Council set up an Emergency Trust Fund for Africa to increase aid in exchange for African countries reducing human trafficking and implementing existing readmission agreements. Moreover, the Commission stepped up its efforts to reduce migration, enhance border management and combat human trafficking within the framework of the common security and defence policy missions in Mali and Niger (EUCAP SAHEL) and in dialogues with countries of the Sahel region. Libya also being one of the countries where asylum seekers depart from, the EU supported the UN-led peace talks and continued the border assistance mission (EUBAM Libya). After two rival governments were formed in Libya in 2014, the country experienced serious fragmentation and a worsening armed conflict, with Da'esh gaining influence.

At the beginning of the year, efforts were made to secure the EU's external borders and to reduce the number of deaths on the Mediterranean Sea. But soon, calls rose to effectively manage the large number of asylum seekers along with humanitarian and asylum support. Even so, to date, the EU lacks a solid programme for both ensuring security within the EU and responding to concerns by growing parts of the member states' population.

### **III. Economic Growth, Public Finances and the Banking Union**

#### **1. Economic Growth**

In 2015, according to the European Economic Forecast Winter 2016, real growth rates increased significantly for the Euro area to 1.6% (compared with 0.8% in 2014 and -0.5% in 2013) and the EU at large to 1.9% (compared with 1.3% in 2014 and 0.0% in 2013). No member state faces negative growth any longer. However, growth rates vary substantially across them. Whereas many of the former programme countries and small member states grew significantly, many of the larger countries seem to stagnate around 1%. Greece and Finland (both 0.0%), Austria (0.7%), Italy (0.8%) and Estonia (0.9%) still face difficulties.

Inflation rates increased slightly before they dropped again to 0.0%, both in the EU and Euro area, partly due to the steady fall in oil prices. Yet, they are estimated to increase again to 0.5% both in the EU and Euro area in 2016. Also, unemployment is estimated to have dropped further to 9.5% (EU) and 11.0% (Euro area) in 2015 and to decrease even further in 2016. Nevertheless, here again the picture is mixed across the Union. Unemployment remains at high levels in Greece (25.1%), Spain (22.3%), Croatia (16.2%) and Cyprus (15.5%).

As noted in the Report on Public Finances, deficit levels decreased from 3.0% (EU) and 2.6% (Euro area) in 2014 to an expected level of 2.5% (EU) and 2.0% (Euro area) in 2015. Though, again, levels differ largely across member states. Whereas, for example, Estonia (0.2%) and Germany (0.9%) ran surpluses, Croatia (4.9%), Spain (4.7%), Greece (4.6%) and the UK (4.4%) still face high deficit levels. Similarly, debt levels are expected to have decreased slightly from 88.6% (EU) and 94.5% (Euro area) in 2014 to 87.2% and 93.5% in 2015.

In order to fight risks of deflation, the ECB took a number of measures to increase money supply and, thereby, to promote banks' lending to the economy. In January, ECB-President *Draghi* announced the Expanded Asset Purchase Programme. It extends the existing purchase of asset-backed securities (ABS) to sovereign bonds and is supposed to trigger about €1,14 bn. of quantitative easing. Since March, the

ECB purchases €60 bn. worth bonds per month weighed according to the ECB's capital key. Announced in September 2012 and not launched so far, the Outright Monetary Transactions (OMT) programme was approved by the European Court of Justice in June. The Targeted Longer-Term Refinancing Operations (TLTROs) programme started in 2014 and is still on-going. Building on already record low rates, the deposit facility was further decreased in December to -0.30 and, for the first time, the ECB lowered the interest rate to 0.00 in March 2016 and the deposit facility to -0.40. The ECB's efforts continued to be discussed controversially, feeding serious concerns about monetary financing, the effectiveness of quantitative easing and the actual independence of the ECB's monetary policies. In light of a prolonged economic bust, many observers consider structural reforms to be needed instead of ever more public money in order to create a stimulating environment for private investments. Further to that, concerns are raised that the increased money supply will just feed new bubbles in real estate, stock and sovereign bond markets as the banks' lending to the economy did not yet increased as expected. Savers already *lose* money as current account interest rates and returns on triple-A financial products dropped. This might risk feeding bubbles in consumption credit. Finally, the combined impact of the ECB's monetary policy on the financial markets' stability has yet to be evaluated.

In order to increase private investment, the European Fund for Strategic Investments (EFSI) was launched in summer. The Fund consists of a guarantee of €16 bn. from the EU budget and €5 bn. from the European Investment Bank (EIB), leveraged by an estimated factor of 15 to yield €315 bn. worth of investment. Nine member states as well as the Chinese government already committed to contributing to the fund. As the fund will be managed by the EIB, it can be seen as a solid capital increase for the bank. The Fund is limited to close in 2019. Funding is provided through guarantees and loans, and projects can seek technical and promotional assistance by the European Investment Advisory Hub and through the European Investment Project Portal. The focus of operations lies on infrastructure, research, energy, environment, social issues and health, and on promoting small and medium-sized enterprises (SMEs). Until March 2016, about 200 projects in 22 countries were funded, yet none in the two programme countries Greece and Cyprus. The basic purpose is to respond to market failure by providing additio-nality to existing investments in an economic environment where the ECB's cheap money does not translate into higher private investments. Still, risks remain that state follows market failure in the search for investments. Complementary, the Commission promoted to address administrative and regulatory barriers, structural

reforms and sustainable finances to create a favourable investment environment. At the European level, the Commission worked on minimum-income schemes and on reducing long-term unemployment.

## 2. Surveillance Mechanisms and the Euro Area

Within the framework of the Stability and Growth Pact (SGP), the Council decided to close Excessive Deficit Procedures (EDP) for Malta and Poland. The Council granted France another two years to reduce its excessive deficit until 2017, and also extended the deadline for the UK by two years until 2016/2017. Thereby, the recently tightened timetable for the EDP still does not come to life. The Commission investigated debt levels in Belgium and Italy but did not detect a breach of the rules, despite persisting high debt levels. Procedures were ongoing for Croatia, Slovenia, and the (post) programme member states Ireland, Portugal, Cyprus, Greece and Spain. With discussions on increasing public investments to boost economic growth ongoing, the Commission issued a communication on making the best use of the flexibility within the existing rules of the Stability and Growth Pact. Especially France and Italy have argued in favour of excluding expenditures for investments from the calculation of the deficit. Member states currently examine the proposal, also with respect to grant more leeway for exceptional circumstances in light of the recent refugee crisis. In autumn, the Commission evaluated the Euro area member states' draft budgetary plans for 2016 and identified risks of non-compliance with the SGP in Italy, Lithuania, Austria, Spain and Portugal without asking any of them to present a revised draft budgetary plan. Belgium, Latvia, Malta, Slovenia, Finland, France and Ireland were considered broadly compliant.

As regards the Macroeconomic Imbalances Procedure, the Commission's Alert Mechanism Report identified 18 member states to be analysed in further in-depth reviews. These reviews, in spring 2016, detected excessive imbalances in Bulgaria, Croatia, France, Italy and Portugal, yet without triggering an Excessive Imbalances Procedure. Imbalances showed up in seven other member states.

Cyprus announced that it would exit the economic adjustment programme in time in spring 2016. While still one prior action is to be implemented, the total disbursements amounted to €6.3 bn. from the European Stability Mechanism (ESM) and €0.8 bn. from the International Monetary Fund (IMF) in 2015. The programme funding was agreed to a total of €10 bn. and started in 2013. Upon completion of the programme, the Commission, the ECB and the IMF will continue to monitor Cyprus under the post-programme surveillance (PPS) together with Portugal,

Spain and Ireland. Romania entered into a PPS after completion of its precautionary balance-of-payments programme in autumn 2015. Latvia and Hungary exited the PPS in early 2015 when they paid back 75 % of the EU loan.

The last programme is ongoing in Greece (until 2018). After intense debates during the first half of 2015, Greece entered a third programme worth up to €86 bn. from the ESM. After elections in January 2015, the Syriza-led government started renegotiating the reforms under the second programme. It was extended until June. Further negotiations failed and the programme expired at the end of June without conclusion of the last review. In an unprecedented referendum on 05 July, the Greek citizens voted against the measures proposed by the EU institutions. Due to the long delays of an agreement, the economic and financial situation deteriorated heavily and capital controls had to be introduced. The government stopped debt payments to the IMF and the ECB, while Greek banks received extended Emergency Liquidity Assistance (ELA) from the ECB. At the edge of exiting the Monetary Union, the Greek government applied for a third programme to the ESM in mid July. Quickly, an emergency short-term financial assistance of €7.16 bn. under the European Financial Stabilisation Mechanism (EFSM) was agreed to bridge the time period until the negotiations on the Memorandum of Understanding were concluded. The three months loan was supposed to allow Greece to pay its debt with the IMF, the Bank of Greece and the ECB. The third programme was approved in August with a first tranche of €23 bn. disbursed immediately. €10 bn. of this sum are dedicated to bank recapitalisation and resolution measures and reserved in a segregated ESM account; roughly half of it was released until the end of 2015.

To address high concerns about the deterioration of the socio-economic situation, the Commission presented, in July, a plan to increase jobs and growth in Greece. Within the usual programmes of the European Structural and Investment Funds and the Agricultural Funds, the Commission suggested to facilitate funding worth up to €35 bn. for the country. Moreover, the Commission made financing from structural funds of the period 2007-2013 available for Greece with a 100 % co-financing rate (around €500 m.) and increased the co-financing rate for the structural funds period 2014-2020 by 7 percentage points (around €1 bn.). Thereby, the already beneficial treatment of Greece for co-financing within the structural funds increased further. Additionally, the Commission enhanced the implementation of the Youth Employment Initiative in Greece. Greece has received financial support from the EU and the IMF since 2010. The first programme (2010 to 2011) amounted to €73 bn. from the Euro area member states, the EU and the IMF. The

second programme (2012 to 2015) from the EFSF and the IMF was worth €173.3 bn., of which €142.7 bn. were disbursed.

In light of the economic and sovereign debt crisis in the EMU, the five presidents of the Commission, the Parliament, the Eurogroup, the European Council and the ECB presented their report on the deepening of the European Monetary Union in summer. They suggested to proceed in two stages to achieve a genuine monetary union by 2025. In stage 1, the existing institutions and instruments would be implemented thoroughly. In stage 2, a macroeconomic stabilisation function and a treasury would be established. The Commission presented a package on stage 1 in autumn, including a revision of the European Semester, proposals to establish national competitiveness boards, and an advisory European fiscal board. Lithuania joined the Euro area as 19th member state on 01 January 2015.

### **3. Banking Union, Financial Market and Tax Policy**

During the last years, the Banking Union took shape with the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM), the Single Resolution Fund (SRF), the Bank Recovery and Resolution Directive (BRRD) and the revised Deposit Guarantee Schemes Directive (DGSD). The Intergovernmental Agreement on the Single Resolution Mechanism (SRM) was ratified by a sufficient number of member states in December. Thereby, the Single Resolution Board (SRB) was fully established in January 2016 and the SRF started. The SRF will be funded progressively within eight years by bank contributions and will integrate national resolution funds stepwise. Adding to that, the Commission presented a proposal for a European Deposit Insurance Scheme (EDIS). It would progressively integrate national deposit guarantee schemes into one common guarantee fund and be built up similarly to the SRF. The fund would be mandatory for banks in the SSM and open for other banks. The proposal has been debated controversially in the Council with regard to concerns about moral hazard.

In order to integrate financial market policy projects, the Commission proposed a capital markets union and issued a Green Paper and a follow-up action plan counting 33 measures. The purpose is to reduce fragmentation and increase integration of financial markets, actors and products. Following up on G20 commitments, the Council adopted the Securities Financing Transactions Regulation (SFTR) to increase transparency in shadow banking, and the Commission endorsed a delegated regulation on central clearing for interest rate derivatives in the framework of the European Market Infrastructure Regulation (EMIR). Parliament and Council reached an agreement on the revised payment services directive to facilitate i. a.

online payments. Political agreement was also reached on the insurance distribution directive that focuses on increased information and transparency for consumers. The multilateral interchange fees regulation came into force in 2015 and sets limits on these fees in order to facilitate the cross-border use of payment cards.

In the spirit of combating tax evasion and tax fraud put forward within the G20 and the OECD, the Commission took up the year-long efforts on common corporate taxation and presented the tax transparency package in spring. Following up to the mechanism for an automatic exchange of tax information established in 2014, in December 2015, the Council endorsed a directive to build up a mandatory automatic exchange of information for cross-border tax rulings and advance pricing arrangements. Under the framework of enhanced co-operation, ten member states agreed on core principles to establish a Financial Transaction Tax (FTT). Still, the UK keeps up its concerns and might bring a case to the Court of Justice depending on the further drafting of the text.

## IV. Developments in Other Policy Areas

### 1. Internal Market, Infrastructure, Transport and Energy

Following up on political commitments, the Commission presented a Single Market Strategy, which focuses in specific on the market for services, the retail sector, product standards, accountability of public procurement and intellectual property. The Commission's report on the single market integration and competitiveness highlighted that a thorough implementation of existing EU rules might already increase the level of integration to a large extent. The Parliament and the Council endorsed the trade mark reform package, worked on trade secret misappropriation, adopted an amendment to the insolvency proceedings regulation tackling cross-border cases, a regulation to revise the small claims procedure and a framework for setting up the Business Registers Interconnection System (BRIS) by mid 2017. Italy joined the Unitary Patent in 2015, which, however, will only come into force after ratification by member states. The Commission issued guidelines on public procurement and worked on facilitating cross-border recognition of qualifications (e.g. through the new European Professional Card) and job search to enhance labour mobility.

The Commission adopted the Better Regulation package in spring. It promotes impact assessments and will affect all stages of policy-making in the EU. The newly set up Regulatory Scrutiny Board succeeds the former Impact Assessment

Board with greater independence and scope of action. The update to the 2003 Inter-Institutional Agreement on Better Law-Making sets out prescriptions for the EU policy-making institutions. All this is to allow external expertise, interest groups and stakeholders to deliver their insights on the draft legislation. In the framework of the Regulatory Fitness and Performance Programme, the REFIT platform, which also consists of experts and stakeholders, evaluates the regulatory burden of legislations ex-post.

In the field of antitrust monitoring, the Commission adopted legally binding commitments on the Bulgarian Energy Holding and the Sky Team members Air France/KLM, Alitalia and Delta. It issued a statement of objections to Gazprom, Google, MasterCard, Qualcomm, Sky UK and six US film studios. The Commission opened formal investigations in the biofuels sector, the International Skating Union, Amazon's e-book branch and Google's Android mobile operating system.

Fines for cartels were imposed on eight optical disc drive suppliers (€116 m.), eight producers and two distributors for retail food packaging (€115.8 m.), the parking heaters producer Eberspächer (€68.1 m.), Express Interfracht and Schenker for cargo blocktrain services (€49 m.), as well as on the broker ICAP (€14.9 m.) for participating in several Yen interest rate derivative cartels. In some of the cases, firms co-operated with the Commission and benefited from fee reductions. The Commission issued statements of objections to five companies in the car battery recycling sector, ten firms in the electrolytic capacitors production and to Riberebro for canned mushrooms production. In total, the Commission imposed €364.5 m. of fines on cartels.

Further, the Commission received notifications of 337 mergers and initiated eleven in-depth investigations. It cleared a number of mergers, some of which conditioned on divestments, divestitures, a fine or other measures to restore competition.

In the field of state aid, the Commission issued new guidelines for the treatment of investments along with the establishment of the European Fund for Strategic Investment. Following up on investigations started in 2014, the Commission decided that Fiat in Luxembourg and Starbucks in the Netherlands enjoyed illegal tax advantages resulting in the call on both member states to demand the tax back. For both cases, this was valued around €20 to €30 m. Furthermore, the Commission launched or extended investigations on infringements in five tax related cases (Apple/Ireland, McDonald's/Luxembourg, Amazon/Luxembourg, several firms under the excess profit system in Belgium, the corporate tax regime in Gibraltar).

In 22 cases, it decided to open a formal investigation procedure. In total, the Commission detected around €6.1 bn. of incorrect state aid.

The Commission elevated digital issues as one of its top policy priorities and gathered measures under the goal to create a European digital single market. The related strategy focuses on the harmonisation of national regulations on e-commerce, online services and internet access. The Commission worked on harmonising contract rules, especially in the area of digital content and e-commerce, a reform of VAT for e-commerce, audio-visual media services, updating the EU telecoms rulebook, regulating online platforms and setting up an online dispute resolution platform. It started consultations on VAT simplification and parcel delivery of cross-border e-commerce, geo-blocking, an update on the satellite and cable directive, and on introducing standards for a number of digital products ranging from cloud computing to health and cyber security. Together with South Korea, Japan and China, the Commission worked on developing standards for a 5G network. The Commission proposed legislation on cross-border portability of digital content, e.g. access to purchased digital content during travelling, as a first part of an update of EU copyright rules. Altogether, the Commission's hopes for the digital sector's stimulation of economic growth are high. However, this might just substitute regular offline consumption and, thus, risk economic decline in the retail sector.

In autumn, the Parliament and the Council adopted a regulation, which for the first time established EU-wide net neutrality rules. It will enter into force in spring 2016. Even so, critics see a number of loopholes, which may effectively undermine the purpose of neutrality and non-discrimination in the access and use of the Internet. The Body of European Regulators for Electronic Communications (BEREC) started work on guidelines for the implementation of the regulation. The Commission worked on providing high-speed Internet especially to rural areas and increased access to Internet technologies with the European Regional Development Fund, the Connecting Europe Facility and the European Investment Bank. Council and Parliament agreed to further reduce mobile roaming charges and abolish them altogether by 2017.

The Council and the Parliament endorsed the Commission's ISA2 programme on fostering e-government and the Commission provided funding for e-procurement and e-invoicing for public administrations. The Commission worked together with member states on promoting education on computer and digital skills and launched a consultation on the use and practices of *big data*, created through online actions. The Commission started to develop IT services for their institutions based on

clouds. Nonetheless, while cloud computing seems to offer huge potential, public administration might become more dependent on Internet networks for services, processing and storage. Furthermore, although the respective cloud providers for the EU's administration have to be based in the EU, data protection concerns still persist with respect to the flow of data through the wires of an internet, which effectively has no location.

In December, Parliament, Council and Commission found a political agreement in the trilogue on the general data protection regulation and the data protection directive. After two years of transition, the package is supposed to provide a single EU-wide rulebook on data protection. National data protection authorities will gain more competencies, exchange of information between police and judiciary authorities will be enhanced and common standards on protection of related data of citizens will apply, also outside of the EU. In business matters, only one supervisory authority will need to be contacted. Companies will have to simplify their terms and conditions so that users better understand them, and data collection will need explicit consent. The package also enhances ways to provide, access information on and ask to delete personal data (including the right to be forgotten). However, users might still give consent if they want to use a service or product as there is simply no alternative if they would not do so. This is in particular questionable with regard to potential monopolies and the lack of price transparency if users do not know the exact *value* of their data as a price that they pay for free of charge services. This calls for effective antitrust monitoring and increased education.

At the end of the year, the trilogue reached political agreement on the network and information security directive, which promotes measures to increase cyber security and prescribes obligations for providers of essential services. The Parliament and the Council agreed on a compromise text for the EU passenger name record directive according to which, once formally adopted, data will be stored under real names for six months and pseudonymised for another four and a half years. The Commission concluded negotiations on the EU-US umbrella agreement on the transfer of personal data for law enforcement purposes – the agreement remains yet to be signed. With *Max Schrems'* case on data transmission to the US by Facebook before the European Court of Justice, the Court ruled the safe-harbour agreement between the US and the EU on the general transfer of personal data invalid as it violates privacy rights.

In the field of transport, the Commission adopted the EU Aviation Strategy in December consisting of a revised proposal of the aviation safety rules regulation, a

communication and suggestions for negotiating aviation agreements with third-party countries. The focus lies on reducing the market fragmentation within the EU, accessing international markets, working on safety rules and investigating in research and technologies. The Parliament and the Council adopted the package travel directive that is intended to increase passenger rights for all forms of combined travel. The Commission issued guidelines on rail passenger rights.

The Commission launched the Energy Union Strategy, supposed to foster the EU's climate and energy goals for 2020 and 2030 and to implement respective measures. The strategy focuses on five areas: market integration, energy efficiency, energy security, decarbonising and research.

The EU promoted the goal to increase electricity interconnection between member states so that at least 10% of national electricity infrastructure is connected internationally. Together with member states, the Commission worked on integrating the Iberian Peninsula (Spain, Portugal and France) and the Baltic region (Sweden, Poland and Lithuania) as well as connecting Malta to the European energy grid (Italy and Malta). The Connecting Europe Facility financially supports a further 20 cross-border infrastructure projects.

Following up on the European Council decisions, the Commission presented proposals to amend the EU emissions trading system for the time after 2020. Furthermore, the Commission worked on strengthening consumer rights and information in the energy market, on the collection of consumer data (smart meters), on energy efficiency labelling, supported research with the strategic energy technology plan and launched a consultation on the further construction of the European electricity market.

## **2. Agriculture and Fisheries, Environment, and Climate Protection**

Following up to its review on authorisation processes of Genetically Modified Organisms (GMOs), the Commission presented an amendment to the recently adopted directive. The purpose is to allow member states to restrict or prohibit GMOs to a greater extent and with less requirements of justification. While the Council still deliberates on the proposal, the Parliament already rejected it in October. Due to sunk prices for dairy and pork, considered to be caused by Russia's import restrictions on agricultural products from the EU, the Commission increased the extraordinary financial support for affected EU farmers. Within a number of financial programmes, the Commission supports the agricultural sector, fisheries and rural development. Furthermore, the EU worked on increasing the

purchase of agricultural products produced in the EU and school food programmes. The Expo 2015 in Milan (Italy) was devoted to *Feeding the planet, energy for life*.

In December, at the UN Climate Conference in Paris, 195 countries endorsed an agreement to counter climate change to succeed the Kyoto agreement. It prescribes necessary steps to be taken to prevent the earth from warming more than 2°C with respect to 'pre-industrial levels'. To that end, greenhouse gas emissions shall be reduced and participating countries are asked to present emissions-reduction pledges and plans on how to approach them, which will be discussed every five years. The EU renewed its commitment to financially support developing countries to achieve the climate goals. Regarding the EU's current climate protection targets for 2020, data for 2013 indicates a good track: greenhouse gas emissions decreased to 80.2% (target: 80.0%), renewable energy consumption increased to 15.0% (target: 20.0%), and energy efficiency measured as a reduction in primary and final energy consumption, compared with a scenario based on 2005 data, increased to 11.8% and 12.8% respectively (target: 20.0%). The Commission presented a circular-economy package to promote re-use and recycling; respective funding will be provided through the European Fund for Strategic Investments, Horizon 2020 and structural funds. Together with the EIB, the Commission launched the Natural Capital Financing Facility.

### **3. Justice and Home Affairs, Migration**

In 2014, the Rule of Law Framework had been established. It offers the Commission a structured mechanism to resolve Rule of Law violations before formally entering into an Art. 7 procedure. Under this framework, the Commission started a structured dialogue with Poland in early January 2016. By the end of 2015, the newly elected government in Poland adopted laws on the Constitutional Tribunal and the Public Service Broadcasters, which caused public protests and were highly debated internationally. In December, the Commission demanded information on how these laws take the EU's rule of law principles and fundamental rights into account. This is the first time the new framework is being used.

This questioned again the Commission's continued reluctance to call the framework for Hungary as well. Since the current Hungarian government gained power in 2010, several measures passed that were considered to threaten democracy in Hungary. The Commission put several EU law infringement cases to the European Court of Justice. Though, responding to the European Parliament's resolution in

June to activate the Rule of Law Framework, the Commission stated that no systemic threat could be detected.

Upon discussion of the progress reports, the Council and the Parliament decided to keep up with the Cooperation and Verification Mechanism for Romania and Bulgaria as goals have not yet been fully achieved. The mechanism was established in 2007 to complement the countries' accession to the EU. The Parliament and the Council reached a political agreement on facilitating the free movement of persons within the EU through enhanced exchange of public documents.

In a referendum in December, Danish voters decided to maintain the full opt-out from Justice and Home affairs. The Commission continued the work on setting up the European Public Prosecutor's Office being supposed to investigate crimes that impact the EU budget. Moreover, it proposed a reform of Eurojust to increase co-operation between member states' judicial authorities. The victims' rights directive came into force and prescribes rules for victim's participation in criminal proceedings. In the trilogue, the EU institutions put forward a package on procedural rights for suspects in criminal proceedings. The consular protection directive adopted by the Council aims at facilitating for EU citizens to seek consular protection from any EU member state in a non-EU country. Furthermore, the Commission worked on de-radicalisation programmes. The Commission held 53 European citizens' dialogues across the EU. In 2015, Mons (Belgium) and Plzeň (Czech Republic) were European Capitals of Culture.

The Commission's European Agenda on Migration also covers legal migration. In order to better attract non-EU citizens who are educated in specific areas, the Commission launched a consultation on the review of the currently underperforming Blue Card scheme. Also, the Commission proposed a new visa sticker for short-stay Schengen visa intended to reduce fraud. The Visa Information System roll-out finished and now provides a centralised and automated database of all visa applications to the Schengen area. These also include fingerprints and facial data. The Commission started a consultation on the smart borders package. Visa waiver agreements were signed with Colombia, island countries in the Caribbean and Pacific and the United Arab Emirates, but need yet to be ratified.

#### 4. Research and Education

Expenditures in research and development increased marginally to 2.03 % of GDP in the EU in 2014 (Europe 2020 target: 3.0 %) but the Innovation Union Scoreboard detects persisting differences between member states. The Horizon 2020

work programme for 2016-2017 was adopted, channelling about €16 bn. to projects ranging from manufacturing industry, digitalisation in industry and daily life issues, urban networks, recycling and environment.

Evaluating the Europe 2020 targets still shows a mixed picture, reflecting also the long shadows of the economic crisis in many member states. The share of tertiary education continued rising to 38.5% (target: 40%) and the share of early school leavers further decreased to 10.9% (target: 10%). However, the indicators vary largely between member states. The level of unemployment for young people decreased slightly but remains at record high levels in some countries (Greece 48.3%, Spain 46.8%, Croatia 44.1%, Italy 39.4%, Portugal 32.0%, Cyprus 31.5% in October 2015). Therefore, the Commission frontloaded financial support within the Youth Employment Initiative of around €1 bn. and expects to reach in total about 650.000 young people. The Erasmus+ programme facilitated studying, volunteering or training abroad for about 520.000 young people and 165.000 staff members in educational institutions or organisations.

As for the EU's space sector, further Galileo satellites were launched to build up a satellite navigation system. A second satellite was launched in the framework of the Copernicus satellite programme, which aims at collecting earth and mapping data that can be used for coping with natural catastrophes, maritime security incidents, monitoring climate changes and supporting agriculture and forestry. The ESA will provide data for free.

## **5. External Affairs: Enlargement, Neighbourhood, Trade, Development, CSDP**

On 01 June 2015, the Stabilisation and Association Agreement with Bosnia and Herzegovina entered into force. The EU's neighbourhood policies were dominated by developments in Ukraine and in the southern Mediterranean region, especially in Syria and neighbouring countries. The Commission started negotiating a free trade agreement with Tunisia and a Mobility Partnership with Belarus.

After heavy arm strikes in Ukraine at the beginning of the year, in February, the Minsk II agreement between Ukraine, Russia, France and Germany, as its predecessor from September 2014, aimed at establishing a cease-fire and to withdraw heavy weapons from the conflict region. However, despite continuous talks between the four countries, facilitated by the Organisation for Security and Co-operation in Europe (OSCE), these efforts failed to date. As a result, the EU continued its financial, economic, technical and humanitarian support for Ukraine and

upheld sanctions against Russia. Member states refrained from considering a military intervention at the direct border to Russia and were committed to resolve the conflict through diplomacy. The trade part of the Association Agreement with Ukraine entered provisionally into force on 01 January 2016 accompanied by talks with Russia on the compatibility with Ukraine's participation in the free trade agreement between Ukraine, Russia and the Commonwealth of Independent States. Ukraine already enjoyed preferential access to the EU market since November 2014. Ukraine became part of the Commission's Horizon 2020 programme. The EU managed to facilitate an agreement between Ukraine and Russia on gas deliveries in autumn. Sanctions against Russia and continuously decreasing oil prices have worsened the country's financial and economic situation. In spite of that, Russia remained an essential partner at the international level to work on resolving conflicts, such as with Iran and in Syria.

In the area of trade, the Comprehensive Economic and Trade Agreement (CETA) with Canada is still under discussion in the Parliament and the Council as well as national Parliaments before final ratification. Negotiations on the EU-US Transatlantic Trade and Investment Partnership (TTIP) are ongoing. TTIP is supposed to significantly reduce trade barriers through the elimination of tariffs and the harmonisation of technical and product standards and regulations. Yet, as negotiations are conducted confidentially to a large extent, public concerns focussed on transparency, the potential impact of dispute settlement courts and consumer protection. Despite increased efforts by the Commission to respond to public concerns, the negotiations are still causing intense public debates. At the 40th anniversary of EU-China relations, China announced plans to increase investments in Europe along the European Fund for Strategic Investment. The EU deepened its economic relations with Vietnam (free trade agreement), Mexico (amendment to the free trade agreement) and the Philippines (free trade agreement), and agreed to an amendment of the Information Technology Agreement (ITA) to remove customs duties for 201 high-tech products in the framework of the WTO. The Commission issued a new trade and investment strategy.

Iran and the group of permanent members in the UN (US, Russia, China, France, UK) plus Germany and the EU achieved an international agreement on Iran's nuclear programme. Given the full implementation of the action plan, in exchange for Iran's commitment to a final stop of reaching for nuclear weapons, nuclear-related sanctions against the country will be lifted. This is expected to stimulate trade with Iran and hopes are high for a more constructive contribution of Iran to solving conflicts in the region. Still, concerns on human rights persist.

The year 2015 was declared European Year for Development. Following up on the Millennium Goals, the United Nations General Assembly adopted new guidelines to support sustainable development and the reduction of poverty in the world until 2030. The EU supported security and peace efforts in the Sahel region, the Horn of Africa, the Gulf of Guinea, South Sudan, Sudan, Burundi, Guinea-Bissau, and Mali. State- and economy-building was supported in Nepal, Myanmar/Burma, and Afghanistan. The EU conducted election observation missions in Burkina-Faso, Burundi, Guinea, Nigeria, Sri Lanka and Tanzania and continued its efforts against Ebola in West Africa. The EU provided humanitarian aid worldwide, education and psychosocial support for children in conflict regions, and worked on conflict prevention in about 30 countries. The EU Civil Protection Mechanism was called to support in 25 emergencies worldwide, e. g. after the earthquake in Nepal.

Within the Common Security and Defence Policy (CSDP), the EU started a military advisory mission in the Central African Republic (EUMAM RCA) as a follow-up to the former military mission EUFOR RCA. Overall, the EU undertook eleven civilian and six military missions in 2015 in Africa, the Middle East, Afghanistan, Georgia, Ukraine and the Balkans. Moreover, the EU worked on cyber security and on an international code of conduct for outer space activities. But the 2015 Review Conference on the Nuclear Non-Proliferation Treaty failed. In the light of reduced defence budgets but increased security challenges within and around EU borders, the European Council mandated High Representative *Federica Mogherini* to work on a EU strategy on foreign and security policy.

## **V. Institutions, Personnel, Finances**

In the Council, Latvia held the Presidency in the first half of 2015; Luxembourg took over in the second half. *Koen Lenaerts* (Belgium) was elected President of the Court of Justice in October. *Markku Markkula* (Finland) was elected President of the Committee of the Regions and *Georges Dassis* (Greece) President of the Economic and Social Committee.

The European Commission opened 594 infringement procedures against member states by issuing a letter of formal notice according to Art. 258 TFEU. The number dropped compared to the year before as the Commission tried to increasingly resolve issues at an early stage in a structured dialogue with the member state in question. Members of the European Parliament submitted about 15.300 written questions. National Parliaments sent around 260 opinions to European Institutions. The European Ombudsman, *Emily O'Reilly*, opened 39 cases for written inquiries and 20 own-initiative inquiries in 2015.

In March 2015, the EU budget for 2015 was adopted. Eight amending budgets followed over the course of the year; and, as in the previous year, the Multiannual Financial Framework's (MFF) Flexibility Instrument was used. Commitment appropriations rose significantly as some of the amending budgets' payments will only be made in 2016.

*Table 1: Distribution of the EU Budget in 2015 (Amending Budget 8)*

Policy Area	Payment Appropriations (in bn. EUR)	Budget Share (in %)
<b>1. Smart and Inclusive Growth</b>	<b>66.8</b>	<b>47.3</b>
1a. Competitiveness for growth and jobs	15.7	11.1
1b. Economic, social and territorial cohesion	51.1	36.1
<b>2. Sustainable Growth: Natural Resources</b>	<b>55.9</b>	<b>39.5</b>
<b>3. Security and Citizenship</b>	<b>1.9</b>	<b>1.3</b>
<b>4. Global Europe</b>	<b>7.4</b>	<b>5.2</b>
<b>5. Administration</b>	<b>8.6</b>	<b>6.0</b>
<b>6. Compensations</b>	<b>0.0</b>	<b>0.0</b>
<b>7. Other Special Instruments</b>	<b>0.3</b>	<b>0.0</b>
<b>Total</b>	<b>141.2</b>	<b>100</b>

*Source:* European Commission, Annual Budget 2015 On-Line, 2016.

## VI. European Integration

With the year 2015 coming to a close, the EU continued to face a number of challenges. Negotiations on several crucial issues were intense and lengthy, so that observers often saw the EU close to tearing apart. Faith in the EU's problem-solving abilities declined. As guardian of the Treaties, the Commission failed to enforce pieces of EU law, such as the Schengen and Dublin agreements or the SGP, and to prevent increasing attempts for exceptions from EU rules. Furthermore, member states showed difficulties in finding a common approach to the large number of people fleeing to EU borders and in developing a sustainable long-term perspective on promoting economic growth and prosperity across the EU. In light of the results of several elections, for instance in Greece, Finland, the UK, Denmark, Portugal, Spain, Poland, France and Germany, the referenda in Greece, Denmark and the UK, the *European idea* seems to become ever *less attractive*. The long history and the achievements for peace, freedom and wealth tend to be forgotten in the attempts to cope with the multiple crises. As a result, temptations to return to an EU *à la carte* seem to gain momentum as regulatory exceptions risk to be granted to those who bark the loudest.

At the end of 2015, challenges remain not only to develop and implement specific problem-solving policies but also to secure effective and efficient decision-making

procedures. Therefore, it might make sense to take a step back and to recall some basic elements of European policy-making: (1) to clearly define the given problem(s) (*definition*), (2) to carefully identify the extent of (national and European) responsibility for solving this problem (*responsibility*), (3) in case responsibility can be assigned, to detect options to solve (parts of) the problem (*options*), (4) taking into account the available competencies and capacities (*capacities*), and (5) building on an inclusive style of political debate (*style*).

According to current public debates, the EU seems to have failed in all of the five aspects for a number of policy areas. With regard to the management of the large number of asylum seekers fleeing to the EU's borders, governments from Eastern European countries, for instance, called for a precise definition of the problem and related responsibilities. While for the last couple of years crucial EU-member states seem to have disregarded the increasing need to secure the common external borders, now countries with those borders do not see sufficient support to accommodate or relocate asylum seekers. Hence, current negotiations might help in agreeing on the actual problems and the given responsibilities as well as capacities in order to integrate all sides' arguments and concerns.

As regards the long awaited or better hoped for economic growth in all EU member states, the ECB's unconventional monetary policies and the European Fund for Strategic Investment seem to have adopted a rather simple *throwing money at problems*-strategy. However, as many critics highlight, the problems of economic recovery might not be solved without the member states' own engagement in tackling administrative inefficiencies, overcoming barriers to the ease of doing business, improving the access to and quality of infrastructure, and fostering education as well as youth employment. Here as well, it seems to lack a common definition of the problems at hand together with a clear assignment of responsibilities, competencies and capacities, and a serious account of potentially differing perceptions on the means-end relations of economic and fiscal policies in the member states. The Five President's Report showed a fatal misunderstanding of these differences when suggesting a number of more binding benchmarks in the spirit of one-size-fits-all policies. At the same time, the Commission misses to remind EMU member states to follow common fiscal rules for the purpose of a sustainable common currency. Here again, it lacks a solid definition of the problem together with an account of the range of options, given the EU and the national level's capacities.

Similarly, the Commission was reluctant to a thorough enforcement of EU law regarding concerns about rule of law infringements in Hungary and Poland, low values of perceived judicial independence, persisting corruption in some member

states and securing competition in monopoly-like structures in the digital sector. While the Commission neglected to fully deliver according to its existing competencies, it seemed to overstretch the interpretation of its political role, for instance with regard to the digital single market. Whereas the proposed measures will affect citizens' daily life to a large extent, the ordinary citizen might only recall reductions in roaming fees as a policy to assign to the EU level. Despite the fact that the Commission runs public consultations on these issues, important policies, as those on data protection, call for a deeper involvement of member states' sovereigns. The UK's re-negotiation of its status as EU member state also pointed to the level of competencies reserved to the national level and a redefinition of the subsidiarity principle. However, with the purpose of united action, member states missed out on a substantial evaluation of the EU level's tasks. According to some observers, the current development of the Banking Union could also benefit from a more solid foundation in the EU treaties. All in all, this targets not only to evaluate and redefine competencies and capacities in the EU but first of all to recognise the existing set-up and to follow on the tasks, agreements, responsibilities and also duties – instead of picking the most convenient pieces *à la carte*.

Finally, the above-mentioned aspect of *style* seems to be essential in the current debates – even in a crisis mode of operation. Instead of raising moralised imperatives, aims and abilities ought to be formulated precisely. Arguments rather than opinions shall guide according debates in order to integrate both concerns and expected achievements. Most importantly, the notion of *unity* shall not be confounded with the notion of *equality*. Based on varying experiences and circumstances, differences in perspectives might remain. A compromise on a common policy should accommodate that, instead of imposing the idea of there being only one right option.

All in all, whereas one cannot detect a lack of visionary ideas, solid long-term perspective oriented policies are missing. Citizens in a number of member states call for that increasingly. The apparent tendency to revert to populism might less express citizens political apathy but rather the politicians apathy for citizens concerns. The years-long conjured EU's lack of democratic legitimacy is now fed by very concrete examples and the threat of fragmentation seems ever more present. As guardian of the Treaties, the Commission might be well advised to take a step back from all too visionary concepts and to concentrate on solidifying the related fundaments. Instead of pressing ahead with opinions, EU and national level politicians could raise arguments and, thereby, deliver according to the responsibility

of the political office they are fighting for. Otherwise, the continued call for solidarity gets an ever more bitter taste as the public understands less and less what this term is supposed to refer to. Hence, it is now the time to start (re-)defining the problems, responsibilities, capacities and options and to acknowledge and integrate differing arguments to achieve proper compromises.

## **VII. Summary**

Despite the mentioned difficulties to find agreements on how to deal with the given challenges, some important projects progressed: among others the Banking Union, further financial market and tax regulations, work on the Single Market, energy and climate protection policies. Lithuania joined the Euro area as 19th member state. However, in 2016, international as well as EU-internal developments continue to call for enhanced common action. Most importantly, both the Commission and member states are urged by the public to find the way back to the existing EU law and to feed meaning and purpose to the term solidarity. While Greece's exit from the EMU could be circumvented, the UK's membership still remains in question.