



WHAT'S NEXT FOR THE EU? – THE 60TH ANNIVERSARY OF THE TREATY OF ROME

24 March 2017

The European Union celebrates the 60th anniversary of the Treaty of Rome on 25 March 2017. The Treaty of Rome is the bedrock of the longest period of peace the continent has ever experienced. Yet as leaders of the EU celebrate this achievement, multiple challenges lie ahead.

In this snapshot, FTI Consulting looks at the urgent and serious challenges facing the EU, considers how the EU is addressing these issues, and finally looks at what all this means for business.

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On the occasion of its 60th anniversary, the EU faces existential challenges from both within and outside Europe. The ceremonial event taking place in Rome, Italy, and the resulting *Rome Declaration* aim to send an important signal of reinvigorating belief in the Union and demonstrate to the outside world that the unity of the 27 remaining Member States remains intact regardless of the external pressures and shocks that it is encountering.

Rome again

Sixty years on, Rome is once again where the European Union will plot its future path. In 1957, the Treaties of Rome (the first Treaty established the European Economic Community and the second the European Atomic Energy Community, better known as EURATOM) proposed the progressive reduction of customs duties, the establishment of a customs union and the creation of a market for nuclear power in Europe. The two Treaties entered into force in January 1958.



When thou art at Rome, do as they do at Rome

Miguel de Cervantes



The European Coal and Steel Community (ECSC - established in 1951 by the Treaty of Paris) was an attempt by certain part of continental Europe to unify after the dreadful years of the Second World War. The ECSC was subsumed by the Treaties of Rome, and cooperation on economic issues, became the focus of consensus in the field of supranational cooperation. The establishment of the European Economic Community (EEC) and the creation of the Common Market had two objectives. The first was to transform the conditions for trade and manufacturing in the bloc. The second, more political, objective saw the EEC as contributing towards the functional construction of a political Union.

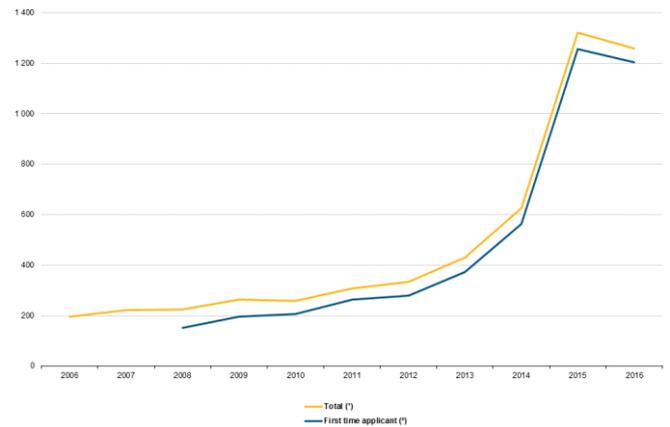
This was the foundation of the current Single Market, where people, goods, services and capital can move freely across Member States.

Populism and the refugee crisis

The EU is experiencing tough times, as nationalist and anti-European sentiments attempt to dismantle the core values of the EU. Elections in three of the EU's founding members, the Netherlands, France and Germany – and perhaps Italy, are creating uncertainty about the future of the Union and fuelling the fear of another Brexit. Furthermore, the ongoing refugee crisis is adding to the feeling of polarisation and fragmentation.

The rise of populist and far-right political movements, the current migration crisis and economic disenchantment go hand in hand. The EU's inability to develop an effective system to deal with migration flows has strongly affected the Union's social cohesion and political stability, while creating a fertile environment for populist movements. Furthermore, recent terrorist attacks in France, Belgium, Germany and the UK have been linked to the refugee flows by far-right populists and contributed to the rise and success of such extremist movements. The result is that even if they don't win the elections, these parties shape the public debate.

Asylum applications (non-EU) in the EU-28 Member States, 2006–2016



(*) 2006 and 2007: EU-27 and extra-EU-27.
(*) 2006 and 2007: not available.
Source: Eurostat (online data codes: migr_asyczt and migr_asypctca)

Source: Eurostat

The outcome of the recent Dutch national election, with Mark Rutte from the center-right People's Party for Freedom and Democracy (VVD) as likely Prime Minister, gives the EU some breathing space, but highlights Europe's fragmentation as well. The far-right PVV party is now the second largest party in the country with 20 seats up from 15, and the complexity of the migration issue still remains one of the main concerns of the Netherlands.

The upcoming elections in France, with top candidates including far-right leader Marine Le Pen, former Economic and Finance Minister Emmanuel Macron and the conservative François Fillon, pose further questions for the Union's future. Le Pen's presidential campaign has focused on reducing migration and putting France first by "freeing" it from the EU.

The German national election in September 2017 is also a reason for concern; pro-EU Chancellor Angela Merkel, of the Christian Democratic Union (CDU), will run for a fourth term against the far-right Alternative for Germany (AfD), which last September beat Merkel's party in a State election. For the time being, the AfD's rise seems to have stopped thanks to the candidacy of the former President of the European Parliament, Martin Schulz; the Social Democratic Party (SPD) leader is now leading the polls. However, the predicted rise in refugees this summer in Germany and continued tensions with Turkey could again push voters towards the AfD.

Another large country that could pose serious problems for the EU's integrity is Italy. The birthplace of the Treaty of Rome is facing its own period of political uncertainty; the Five Star Movement is rising in the polls, Matteo Renzi, who stepped down as Prime Minister last December, is now competing for the leadership of the Democratic Party (PD) against Minister of Justice Andrea Orlando and the President of Apulia region, Michele Emiliano, while the centre-right party is riven by internal divisions. An early election seems unlikely, but Italy must certainly continue to be carefully monitored.

Poland and Hungary should not be forgotten. Poland's potential opposition to the Rome declaration if it does not reflect its own domestic priorities, and Viktor Orbán's continuous conflicts with Brussels show that unity is in short supply.

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If these nationalist movements manage to win elections, the EU could suffer great damage and explains why the EU is focused on a recalibration and re-launch. It believes this could stop the threats from nationalist movements, and the anniversary of the Treaty of Rome could be the right occasion for it to remind people of the core values of the Union, such as freedom, democracy, equality, the rule of law and respect for human rights; values that guaranteed peace for sixty years.

Brexit

In 1955 Herbert Morrison (British Labour politician and Deputy Prime Minister under Clement Atlee) stated at the time of the Messina Conference that if the UK had joined the Common Market it would have meant: "The End of Britain as an independent European State...the end of a thousand years of history."

In the late 1950s the Conservative government of Harold Macmillan submitted the UK's application to enter the Common Market. However, in January 1963, French President Charles de Gaulle famously rebuffed and vetoed the request. Despite the veto, Britain restarted talks in 1967.



'Angleterre, ce n'est plus grand chose

Charles De Gaulle



Under Edward Heath, UK Prime Minister between 1970 and 1974, the UK successfully negotiated its accession which culminated in Britain's entry into the European Communities and the Common Market on 1 January 1973.

Despite the economic benefits of the UK's EU membership for both sides, 29 March 2017 will be the date when UK Prime Minister Theresa May formally starts the country's exit by trigger Article 50 of the EU Treaty. The impact is likely to be widespread and drawn-out; the potential implications are complex and many sectors will face substantial uncertainty. Companies wishing to stay and operate in the bloc will have to take crucial decisions. Workers could be redeployed, jobs could be lost, and economic uncertainty could prevail. The fear is it will create a domino effect, encouraging others to leave. Even within the UK's borders, Scotland is willing to pursue a different path; it wishes to stay in the Single Market and might split off the UK. However, for the time being the remaining 27 Member are looking to keep up a united front during the Brexit negotiations. The Rome meeting will be an important signal of that unity.

The Economic Crisis

The world financial crisis in 2008 revealed the structural weaknesses of the Euro, the lack of competitiveness and unsustainable debts of many Member States. For several years and numerous summits, EU leaders were occupied with firefighting to prevent the break-up of the Euro and to re-

establish stability. The EU, together with the IMF, bailed out several EU Member States including Ireland, Portugal, Cyprus and Greece. Thanks to concerted action by those leaders, the pledge by Mario Draghi, the President of the European Central Bank, to do whatever necessary to save the Euro, as well as material sacrifices by large parts of the EU population, the worst of the crisis is over and the EU economy is back on a slow but stable growth path. However, Greece still relies heavily on EU bailouts and the IMF considers its debts unsustainable. Negotiations for the next bailout are ongoing and the issue will again dominate the headlines this summer when Greece faces its next debt repayments.

Italy is also not yet out of the woods. Some of its most important banks are still in a critical situation and might also need a bailout. In addition, Italy's debts remain at an unsustainable level and growth is sluggish. The absence of a democratically elected Prime Minister – with a mandate to pursue the necessary reforms – adds to the uncertainty.

Even if the EU overcomes the economic crisis, it has undermined trust in the EU institutions and the belief in the concept of European solidarity. Unemployment rates of over 25% in some EU Member States during the crisis and the loss of hope for the younger generation has put into question the economic model of the EU and its capability to effectively support its Members. Moreover, Germany dominated decision making during the crisis, partly due to the political weakness of France, and is now perceived by many as a 'bully' that puts its own economic interests before the suffering of the citizens of its EU partners. The perceived reluctance of some Member States to do their fair share during the refugee crisis might also be connected to this perception.

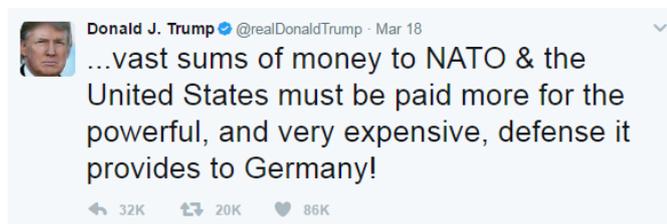
Geopolitics

The success of the EU in the past 60 years is to a large part due to its close relationship with its Western partners, in particular the US. For a long time the western liberal economic and political model seemed almost a historic necessity, in particular after the fall of the Soviet Union, and appealed to many countries in the EU's neighbourhood. As a driving force within international institutions such as the UN, the WTO, the OECD and the G20, the EU shaped global politics, most recently the climate agreement in Paris and the Sustainable Development Goals. Meanwhile, the EU did not have to worry about its own security, relying fully on NATO and the certainty that the US will be there to protect the EU militarily if necessary.

The election of Donald Trump as US President has cast strong doubts onto that system. He directly challenges the WTO, the foundation of the global rule-based trading system; has put the Paris climate agreement into question and withdrawn from commitments meant to tackle corruption in developing countries. More worryingly for the EU, parts of the Trump administration seem to oppose the EU as a whole and might

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aim to undermine the unity of the bloc, for example by supporting Eurosceptic parties or putting pressure on Member States to negotiate directly with the US. While Trump confirmed his support for NATO, the certainty that the US will step in when an EU Member State is attacked is not as unshakeable as before.



Trump's withdrawal from its western partners is particularly worrying in view of the growing assertiveness of Europe's neighbours. Russia is seemingly challenging the EU, aiming to influence democratic elections and destabilise politics in Member States. The Ukraine crisis has shown the limits of the EU in relation to Russia and concerns are real that Russia could try something similar with the Baltic countries. Turkey, for a long time a country that was growing closer to the EU and on a path towards a democratic and liberal political and economic model has gone into reverse, moving towards an autocratic State and openly insulting European leaders at the same time.

These developments expose the EU as vulnerable. While the EU is still the strongest trading bloc and an economic power, it will be less able to shape politics if the US does not follow the same interests. As the EU's share of the world population and global GDP is steadily declining, the EU's influence will decrease as well. It seems obvious that only by sticking together can the EU keep its position in the world that allows it to shape it to its benefit and according to its values.

What the EU is doing

The EU is tackling each of the challenges outlined above and many more. The EU has woken up to the security threats and is strengthening its defence capacity, its external borders as well as the cooperation amongst its security services. It is accelerating trade talks with partners around the globe to open other export markets should the US pursue a protectionist course. Of course, it continues to work on the economy, with initiatives such as the Digital Single Market, the Circular Economy and the Energy Union to make the EU fit for the future. Finally, the Juncker Commission has made serious attempts to change the way it is working, focusing on priorities in which the EU can make a real difference, rather than involving itself in areas where Member States are better placed to act. However, for EU citizens, these activities go unnoticed and will hardly reverse the trend of the loss of public trust.

However, ahead of the 60th anniversary, the Commission has also attempted to address one of the most serious challenges: the loss of a narrative for the EU. It is asking what the EU's future vision is.

The White Paper's five scenarios for the future of the EU

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

With its recently published White Paper on the Future of Europe, the Commission made a critical assessment of the current situation and the opportunities and threats the EU is facing. Above all, it sets out five scenarios on how the EU could evolve over the coming decades. The aim of the five scenarios is not to propose a specific way forward but to "provoke thinking". The intention is to launch a broad debate involving all citizens in all Member States. To that end the Commission wants the White Paper to be part of national election campaigns to ensure that the general public is engaged. Until now this debate has not taken place and politicians have too often ignored public opinion on issues concerning the EU. The referendums on the Lisbon Treaty illustrated the EU's elitist approach of not taking public opinion seriously.

The five scenarios attempt to be grounded in reality and are accompanied by illustrative snapshots outlining some of the consequences of each scenario.

In the months ahead the European Commission will publish a series of reflection papers on some of the key issues such as the social dimension, harnessing globalisation, Europe's defence and EU finances in order to inform the debate.

While the European Commission certainly favours the fifth scenario, it does not matter so much which options Europeans will finally choose, but that the debate is carried to European citizens. Much will depend on whether national leaders take this opportunity seriously. It will also be very interesting to see what role social media will play – it could be a great tool to involve citizens all over Europe in the debate but it could also make the discussions more hysterical and vulnerable to sensationalist fake news.

What does it mean for business?

With its four freedoms the EU is inherently business friendly and its Single Market is an asset to the benefit of business. As a driving force of global trade, the EU acts in the interest of business resisting the temptations of protectionist policies. Therefore a threat to the EU is also a threat for business.

The growing nationalism in several Member States has extended to economic measures favouring local companies, undermining the Single Market, hampering mergers and using multinational companies as scapegoats.

Internationally, business will need to get used to a new environment. Until now business could rely on Western governments that supported free trade and shared the same

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values. Consequently, business did not have to choose sides, as long as it remained true to these values. If the division between the EU and the US continues this might change. Business would have to navigate between contradicting political priorities in an increasingly emotional environment, where a single tweet can impact the reputation of a company.

Business should not ignore the debate on the future EU. First private sector initiatives are emerging such as a series of events

on the prospects for Europe. This should however, not stop at engagement in Brussels but also contributing towards wide ranging and inclusive discussions in Member States. By helping this debate take off across Europe, businesses can make a positive contribution to the future of Europe.

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