Future of EU – views by Finnish business

CONFEDERATION OF FINNISH INDUSTRIES EK

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Strong and open Europe is vital for Finnish prosperity

The European Union is recovering from a period of deep and drawn-out economic and political crises. The economy is growing and unemployment falling for the fifth year running, and the wave of populism and nationalism seems to be abating with the founding Member States reaffirming their commitment to the European Union. While problems continue to beset both the EU and its neighbouring areas, they no longer challenge the very existence of the Union in the same way as just a few years ago. Quite the contrary, external pressures are felt to be propelling the EU towards greater integration. The debate on the EU's future is gaining momentum also outside Brussels. After the French and German elections, the discussions are expected to materialise into tangible proposals for deeper cooperation in foreign, security, defence and economic policy.

The European Commission published a White Paper on the Future of Europe in spring 2017. It was followed by a series of reflection papers outlining conceivable trends and their implications for the various policy sectors. Subsequently, the Commission will draft proposals for further progress in response to the feedback received, and some Member States will most probably do the same, either in groups or separately.

Several optional scenarios are still conceivable. Reflections on the future may be overshadowed by the daily grind of legislative work or new sudden crises and slide momentarily into oblivion. This option is made all the more probable by the fact that no immediate pressures to implement major reform exist. Another possibility is that the determination of the leaders of the large Member States gets things moving, as the changes of recent years have created a need to reaffirm the EU's direction and reinforce its structures. If so, progress may be made within smaller groups or by focusing on protecting unity. In particular, the willingness of the large Member States to accept multi-speed integration is a new feature which may pose a challenge to the EU's internal cohesion. Another development contributing to this is the UK's exit from the EU.

For Finland, multi-speed integration would be challenging. The fate of the Finnish economy is tied to the EU's single market and its ability to negotiate favourable terms for trade with third countries. Before long, multi-speed integration will affect the functioning of the EU's single market and its capacity for action outside the Union. The single market will function most efficiently between countries involved in deepening integration in all its aspects.

For Finland, the best option is to remain in the vanguard of integration at the heart of the single market. The bigger the single market and the stronger the negotiating position vis-à-vis third countries, the better for the Finnish economy.

Finland should be prepared to participate in the efforts to shape the EU's future and achieve deeper integration. This may call for readiness to accept the expansion of the EU's responsibilities in some policy areas and reassignment of responsibility to the Member States in others, all within the framework of the founding Treaties. The Confederation of Finnish Industries (EK) has reviewed the five reflection papers issued by the Commission and the debate currently being conducted and arrived at the following views.

The social dimension of the EU

– strong economy and high employment as drivers of development

- The social dimension of Europe can only be strengthened hand in hand with economic development and the internal market. Isolated initiatives can be potentially contradictory and threaten to undermine the EU's unity.
- The main responsibility for social matters should remain with the national level.
- The way forward is to develop the social dimension by ensuring more efficient enforcement and utilisation of existing rules and structures – in other words, do less but better. Regulation should not be perceived as an end in itself but as a means to an end.
- In the field of working life and social protection, potential tools available to the EU include social indicators related to the European Semester or the social scoreboard.
- The EU needs to respect the autonomy of national and European social partners. Workable solutions can be achieved only when the labour market organisations are involved in decision-making.

Harnessing globalisation

– trade policy and the internal market are the key tools

- Finland is one of the countries that has benefitted most from globalisation. Although globalisation is being challenged and protectionist measures are on the rise, looking inwards is not an option. Along with trade liberalisation, the EU should have in place modern and efficient trade defence instruments.
- In the future, free trade agreements should be divided into two parts according to the division of competences between the EU and its Member States. Unanimous decision-making and national ratifications should not be required for the entry into force of a free-trade agreement, considering that trade policy is within the competences of the EU.
- Digitalisation has become a new driver of change and development in the global economy. It will fundamentally reshape economic structures, business models and the preconditions for value creation. In the future, free mobility of digital services and data will be central to agreeing terms of trade. In its efforts to develop the single market and trade policy, the EU should give due consideration to digitalisation.
- The EU's weakening position relative to emerging economies poses new challenges as the EU's ability to shape globalisation declines. Consequently, unity among the EU Member States is of growing importance in relations with other countries.
- The EU has a key role in improving the international competitiveness of European companies and harnessing the opportunities offered by globalisation. A more equal division of the benefits of globalisation is primarily a matter of national policy.

Future of the Economic and Monetary Union

– Finland to participate in the design

- The stability and smooth functioning of the Economic and Monetary Union are of great importance to Finland. While there is no urgency for major reforms, some will nevertheless be introduced, and Finland should contribute to their planning.
- In the short term, it is most important to implement reforms already agreed upon, such as the finalisation of the banking union. The question of a financial backstop for the Single Resolution Fund (SRF) can be solved by allowing the European Stability Mechanism (ESM) to extend a credit line to the SRF when necessary. However, this should not be done until the risks of the euro area banking sector have been further reduced and current problems addressed through national measures. Similarly, the common deposit guarantee scheme should not be adopted until the banking sectors of the individual countries are in the same condition and the funds required for the national deposit protection systems accumulated as provided in the DGS Directive. At the same time, it would be necessary to reduce the risks associated with the sovereign debt held by banks.
- Further development of the capital market union will improve access to financing by companies and increase the stability of the Economic and Monetary Union.
- The fiscal rule framework should be clarified and simplified. The role of market discipline on fiscal policy should be re-emphasised, including by strict compliance with the no-bail-out-rule and application of the bail-in-principle.
- In case a mechanism for assisting Member States in absorbing cyclical fluctuations is established, it should be as automatic as possible and limited in both scope and duration. No new permanent transfer mechanisms should be created. Use of tools based on a political discretion would be too slow and uncertain to react to cyclical fluctuations.
- While it is not necessary to create any new institutions, it could be advisable to establish the presidency of the Eurogroup on a permanent full-time basis. By contrast, no major changes should be made to the ESM's role, except for potential extension of credit to the Single Resolution Fund.

The future of the EU's defence

– security out of research and economic cooperation

- Security and defence policy should be examined in a wider context that also includes development policy and external relations. Advancing economic development in the EU neighbourhood countries may both contribute to stability and security and create business opportunities for European business and industry.
- A link should also be established between R&D and innovation programmes and the European defence industrial development programme launched by the EU in the efforts to improve the EU's defence capabilities.
- Finnish companies have expertise in command, control, communication, computers, mobility, maintenance, cyber and space technology as well as in the prevention of hybrid threats. As the solutions needed in security and defence systems are often based on civil applications, it is important to ensure that these topics are included in the areas prioritised by the EU research and innovation funds.
- To reinforce internal security, Member States need to commit to comply with common agreements. Adherence to agreements on internal transfers and relocation, compliance with the Schengen rules and an efficient exchange of information contribute to stability and improve security.
- Europe needs to remain open to immigration, and it needs to be duly controlled and managed. With the ageing population, a quick and efficient integration of immigrants is necessary also in terms of access to labour.

The future of EU finances

– from a historic relic to a tool for shaping the future

- The European added value does not primarily consist of EU funding but the establishment of a European framework, such as the single market and trade policy. However, EU funding is an important instrument in efforts to develop the Union and respond to shared challenges.
- Areas financed should be examined in terms of genuine European value added by identifying the public goods that should be produced and financed at the EU level. Such measures include the reinforcement of Europe's competitiveness by investing in research and innovation activities and trans-European transport, energy and data transmission networks. Additionally, further investments are required in the EU's internal and external security and external action designed to promote stability in the EU's neighbouring areas.
- Since the EU budget is more likely to be cut than expanded, it would be advisable to consider the option of assigning more responsibility for agriculture to the Member States. Responsibility for equalising regional differences within Member States should primarily rest with the States themselves. The share of national co-financing should be increased in cohesion policy.
- The share of financing earmarked for Member States in advance should be reduced. It would also be advisable to address the issue of whether the Union should in future only focus on public goods directly managed at the European level. The current rules related to co-financing and conditionality should be extended and reinforced in the context of the next Multiannual Financial Framework.
- The necessary latitude within the EU budget can be achieved by refraining from allocating most of the funding in advance, introducing a more flexible structure and, if necessary, cutting the duration of the financial frameworks from seven to five years.
- The complex and non-transparent revenue system should be simplified. With Brexit, all rebates on annual membership contributions should be abolished. Relinquishment of complex VAT-based own resources should also be considered. Finding new feasible own resources is difficult.

1 Views on the future of the EU's social dimension

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To be able to develop its social dimension, Europe needs a thriving economy and high employment rate. Competitive businesses, dynamic labour markets and sound public finances create the basis for new jobs and sustainable social security. Increasing the volume of legislation will not promote social convergence in Europe due to the socio-economic and cultural differences between the Member States. The EU can support the Member States particularly in implementing structural reforms and adopting best practices.

The Commission's Reflection Paper on the Social Dimension of Europe outlines three options for the future. According to the first, "limit the 'social dimension' to free movement". In the second option, "those who want to do more could do more in the social field", which would allow for multi-speed development of the social dimension. The third option foresees that the "EU-27 could deepen the social dimension together".

The White Paper on the Future of Europe outlines a fourth general future scenario: doing less more efficiently. This idea could also provide a sound basis for developing the social dimension.

The social dimension is not developed in a bubble

The Commission's objective to improve living and working conditions in the Member States is important in terms of the long-term functioning of the internal market and the cohesion of Europe. In the debate on the EU's future, the social dimension should be linked not only to the economic policy and the future of the monetary union but also to the efforts to deepen the internal market.

If the social dimension agenda is pushed too fast or in a way that deeply affects national structures, it may inadvertently contribute to disintegration rather than integration. Citizens should not be led to entertain expectations that cannot be fulfilled. Moreover, reforms dictated top-down may erode the stability of national labour markets and the sustainability of social security systems. In both cases, the EU's legitimacy would be compromised.

Competitive business creates jobs and prosperity

By global comparison, social justice and general welfare are of a high standard in the EU and the Member States. Although considerable differences exist between individual Member States, it is advisable to bear in mind the diverse economic and political realities of the countries. Progress towards convergence has been made even if the rate of progress varies. The Commission asks why convergence has slowed down in recent years, but it fails to give a convincing answer to the question. Perhaps one reason is that the competitiveness of European business and industry has declined across the board when compared globally.

Removing barriers to the internal market and eliminating labour market inflexibilities are one way of contributing to the viability of enterprises and ensuring a growthpromoting operating environment. This would provide the necessary framework for creating new jobs and advancing social convergence across Europe.

Structural reforms to accelerate convergence

Many of the problems afflicting the economy, labour markets and social security systems of EU Member States are due to belated or incomplete structural reforms.

Reforms to balance public finances must be continued. The adequacy of social security and sustainability of the systems depends on the stability of the financing base – i.e. the performance of the economy – which, in turn, is supported by sound public finances and efficient public administration.

All structural reforms affecting labour markets and social security should always be implemented under the direction of the labour market organisations or in cooperation with them, depending on the national context and traditions.

Further, all major fluctuations in the economy are first felt in labour markets and social security systems. As part of the reflection on the development of the EMU and the euro area, options available to stabilise the economy are being discussed. The business community is opposed to the introduction of an actual Europe-wide unemployment security system. However, a reinsurance mechanism that could provide a member state hit by an asymmetric shock with temporary support to shore up its unemployment insurance system, could be considered. This should not lead to establishment of a permanent income redistribution mechanism. A reinsurance mechanism could require changes to national unemployment security schemes.

Little room for EU-wide action

In essence, the same tools can be used for developing the social dimension as other policy sectors. However, the EU's authority is highly limited in issues related to pay and the elements of social security. The Commission admits that the focus in social matters should remain at the national level.

The European Pillar of Social Rights, one of the current priority projects of the Commission, is closely linked to the debate on the social dimension. Hence, the social dimensions and the objectives and impact of the Social Pillar should be examined side by side.

The Social Pillar has already been used as justification for new social legislation that would be binding on all EU Member States. The actions taken suggest that, contrary to its statement, the Commission advocates the third option outlined in the reflection paper wishing to shift the focus on social issues to the EU level.

Efficient enforcement before new regulation

The social dimension or Social Pillar should not serve as a reason – or an excuse – for increased regulation that fails to respond to the needs of EU citizens and enterprises. From the point of view of equal treatment and the business environment, it would be more important to focus on efficient and uniform enforcement of the existing regulations, not a matter of course in all parts of Europe.

The business community sees no immediate need for new regulations on working life and social security.

The reflection paper hints at the possibility of EU-wide collective agreements and uniform retirement age. It is hard to see how these ideas could boost economic growth and support the labour markets in a situation where the starting points of the Member States differ substantially. In contrast, a European social security number could facilitate the movement of labour and cross-border cooperation between authorities.

All initiatives should respect the limits of the EU's competence, the subsidiarity principle and the autonomy of the labour market organisations. Any new initiatives and revisions of existing regulations should be based on thorough impact assessments, and implemented step by step.

One workable way of promoting social convergence between Member States and deepening the social dimension is comprehensive use of benchmarks.

Social indicators offer flexibility, which is a prerequisite for efficient implementation of social policy at the national level. In the long term, the pursuit of common benchmarks would probably do more to promote convergence than detailed regulations whose enforcement and monitoring always involves a number of challenges.

Labour market organisations play an important role in social affairs

According to the Commission, full participation by social partners in labour market reforms leads to positive outcomes. The reason is simple. The social partners know the needs and challenges of the labour markets and are in a position to respond to them together. Additionally, the stakeholders are committed to the reforms as they have been involved in making them. It is a premise worth preserving.

Any legislation that interferes with the autonomy of the labour market organisations may create inflexibilities in the labour markets and complicate cooperation. However, the EU plays an important role in setting benchmarks, promoting the adoption of best practices and monitoring reforms together with the Member States and social partners.

2 Harnessing globalisation

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It appears as if globalisation has reached a critical juncture and it is uncertain how it will move forwards. Countries are turning inwards, international cooperation is facing challenges and protectionism is gaining ground. Forces are at work that want to wreck the existing regulatory framework and institutions. Citizens too are more keen on local and regional solutions. The WTO and UN are losing support.

Aside from many benefits, globalisation has meant growing uncertainty among citizens as to their own future as well as clearly increased security risks. Globalisation will continue to be called into question if concerns related to welfare and security are not addressed.

Anti-globalisation has not made much headway in Finland because of its advanced education and social security system and dependency on exports. Finland has also benefitted considerably from globalisation. However, the trend is more clearly visible in a number of other EU Member States, which has put globalisation management as one of the key themes in the debate on the future of the EU.

However, the EU's weakening position in relation to emerging economies poses new challenges as its ability to shape globalisation is declining. Consequently, unity among the EU Member States will be of growing importance in dealings with other countries.

The EU plays a key role in improving the international competitiveness of European companies and harnessing the opportunities offered by globalisation. A more equal division of the benefits of globalisation is primarily a matter of national policy.

The EU has assumed a leading role in international climate policy, which aims at mitigating climate change. At the same time, however, the EU is called upon in its energy and climate policy to look after the competitiveness of European companies until other big economies are on par with the EU in their climate action.

Trade policy will gain in importance as the size of the EU's internal market will not grow over the next few years. This therefore means that active efforts to look for growth in markets outside the EU are required.

Free trade agreements as tools for managing globalisation

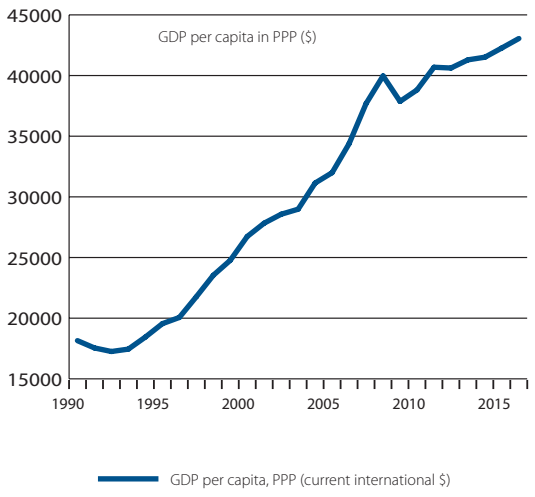
Since trade liberalisation and development of international trade rules are making slow progress in the WTO, the only way to pursue these objectives is by bilateral trade and investment agreements. These agreements help combat protectionism and define the terms in which international trade is conducted.

Digital trade is a prime example of a field of activity for which the WTO fails to provide an adequate regulatory framework and progress will, therefore, take place though trade agreements. Hence, the EU needs to identify solutions to remove new digital barriers to trade and prevent the Balkanisation of the Internet. To ensure the free flow of data across borders, the EU needs to have a sufficiently high level of ambition in the trade negotiations to prevent the erection of new barriers.

A race is in progress between the countries of the world to build the most extensive and ambitious network of trade agreements. Trade agreements offer a competitive advantage over other foreign actors. The EU is in a good position in this race, thanks to its active efforts. The latest proof is the political agreements achieved on the free trade agreement between the EU and Japan.
Trade agreements are a fine example of the added value that the EU can offer by leveraging its bargaining position as a big player and thereby closing better deals than any individual EU Member State could achieve on its own.

Aside from combating protectionism, free trade agreements provide business with new opportunities and reduce costs for companies. As the agreements increase exports, they have a positive impact on the economy and employment. A lack of a broad-based understanding of the benefits of the agreements is an important element underlying the criticism levelled against them.

Finland's economic growth has been one of the fastest in the world



The EU needs to resist the temptations of protectionism

In the worst case, harnessing globalisation means the desire to restrict foreign competition. In a world of global value chains, protectionism is becoming increasingly damaging to business.

The WTO has played an important role in fighting protectionism as its member countries have been able to resolve their disagreements on neutral soil without the risk of trade wars triggered by unilateral action. Even though progress at the WTO in developing the rules and promoting trade is slow, the EU should continue to support its work, reforms and efforts to resist protectionism. The eagerness of the new US administration to question the country's commitment to the WTO is harmful. The EU needs to step in to fill the vacuum left by the USA.

As the largest free-trade area in the world, the EU should take the lead in efforts to fight protectionism and develop international trade rules. With time, emerging economies like China will assume a greater role, which will weaken the EU's position. At present, the EU is unable to fully leverage its bargaining position as a major player because Member States, instead of presenting a united front in relation to third nations, seek to pursue their own interests.

With Brexit, the EU's own trade policy line will shift a few degrees towards protectionism as the Union loses its most vocal advocate of free trade. In the future, the EU will put greater emphasis on reciprocity.

For EU companies, it is highly frustrating that export markets outside the EU, such as China, are not as open as the EU. Much effort is required to achieve a level playing field. An open trade policy should not mean that the EU ignores unfair competition.

Along with the trade liberalisation, the EU should have in place modern and efficient trade policy instruments. Additionally, the EU should find a compromise regarding China's claim for a market economy status and the need of EU manufacturers to have protection against unfair competition.

The EU's trade policy capabilities should be reinforced

EThe EU should be able to improve its performance and agility in the context of trade policy. EU processes are too slow and uncertain to respond to the challenges posed by a fast changing operating environment. Trade talks take years. After they are completed, the EU internal processes take a couple of years. To improve performance, the EU needs to streamline its processes as well as the contents of the trade agreements.

Another concern is the EU's ability to present a united front and adopt the negotiated agreements unanimously. Anti-globalisation has also eroded the EU's capacity to approve trade agreements, as opposition to them has become a popular election issue in many EU Member States.

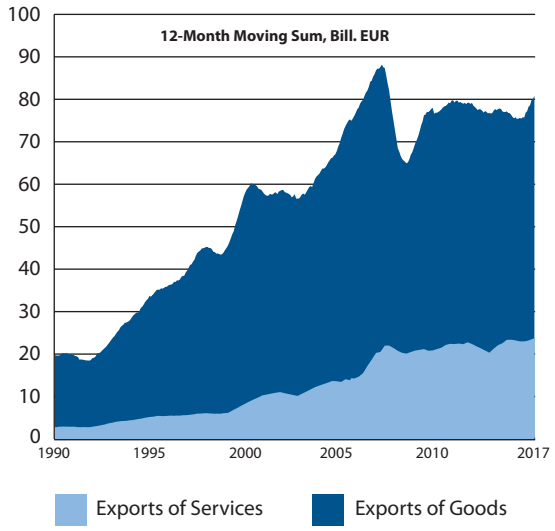
Although trade policy falls within the EU's competences, the new trade agreements are 'mixed agreements' in that they also include matters subject to national decision-making. This has led to a situation in which all EU trade agreements need to be adopted in the Council unanimously, followed by ratification by all the national parliaments.

As a result, any EU country can hold the EU trade policy hostage. In the current atmosphere, this situation is not sustainable. Improving the reliability of the EU trade policy should be a key priority for the Union.

In the future, free trade agreements should be divided into two parts according to the division of competences between the EU and its Member States. Unanimous decision-making and national ratifications should not be required for the entry into force of a free-trade agreement, considering that trade policy is within the competences of the EU.

The requirements presented by the EU to the negotiating partners should remain reasonable to ensure that the EU is also able to conclude negotiations successfully. The EU is constantly asking for more from other countries while at the same time declaring that it will not make any amendments to its own legislation as a result of trade agreements. It would be important not to overload the negotiations and turn trade agreements into a tool for promoting the EU's other policy objectives.

Finnish Exports of Goods and Services



Source: Bank of Finland and Statistics Finland

Digitisation will affect everything

The rise of the platform economy is currently revolutionising entire industries and business models. The biggest investments in artificial intelligence are being made by the USA and China. The EU is falling behind the USA and China in developing digital platforms and artificial intelligence. Although the EU seeks to develop the digital internal market, progress is slow. The legislative process should be accelerated and the sights set high. The digital internal market and free flow of data should be implemented quickly in order to be able to focus on developing the platform economy and artificial intelligence.

Digitisation and free flow of data should be central to all new free trade agreements. At the same time, the EU should look for a global solution to the tax challenges posed by digitisation. One example of regulation that promotes digitisation is the adoption of the new Payment Services Directive, which has accelerated the digital transformation of banks and the development of the FinTech industry.

3 Views on the deepening of the Economic and Monetary Union

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During this decade, the Economic and Monetary Union of the EU has been strengthened substantially. Fiscal policy rules have been amended and economic policy coordination strengthened; mechanisms were created to ensure financial stability; regulation and supervision of financial markets were brought to European level; and European Capital Markets are being established. Over the past few years, the EU economy has performed overall well and unemployment rates are coming down as a consequence.. However, uncertainties are still there and growth is hampered in many Member States by high levels of public and private debt as well as the legacy problem of large amounts of non-performing loans in some countries.

The general assumption is is that EMU and euro area reforms should be continued. Some Member States argue that compliance with fiscal policy rules should be enforced more rigorously, while others regard the rules as impediment to a more sensible economic policy. Some underline the Member States' responsibility for their own public finances and the no-bail-out provision of the founding Treaties, while others, given the common currency, advocate common measures to equalise cyclical fluctuations and call for greater solidarity when individual Member States encounter economic difficulties. Many Member States want the Commission or some other independent body to oversee compliance with the rules, while some would prefer a euro-area 'finance minister' to exercise discretion and judgement rather than enforce rules in guiding the economic policies of euro countries.

As part of the debate on the future of the EU, the Commission released a reflection paper on the deepening of the EMU in June 2017. It seeks to strike a balance between diverging expectations. For the short term, it recommends the finalisation of earlier initiatives and their efficient implementation. In this context the most difficult questions concern the Single Resolution Fund, the proposal for a European Deposit Insurance Scheme as well as the risk-reduction measures concerning the banking system.

For the longer term, 2020–25, the reflection paper proposes more far-reaching reforms. These include suggestions for a common fiscal stabilisation function, a European safe asset and a euro-area finance minister and ministry.

Why are reforms to the Economic and Monetary Union needed?

Ideas for EMU reform are mostly not new: they have been tried and considered on several occasions over the past few years. So far they have not found sufficient support among member states. However, the situation may be changing. In addition to the Commission, there is growing support for various reform ideas in the European Central Bank, the European Parliament and even some large Member States. The IMF and OECD have been recommending the deepening of the EMU for some time now, as have several G7/20 finance ministers and central bank governors. Until now, divergences in views between France and Germany have held back progress, but this seems likely to change over the coming months. Expectation is that joint initiatives by the two governments will be put forward to intensify economic and fiscal policy cooperation and to deepen EMU integration.

At the moment, options for reforms can be explored in conditions of relative stability and without urgency. Possible solutions can be considered carefully. It is likely

that some of the ideas proposed in the Commission's reflection paper will become reality over time. However, it is not excluded that some integration initiatives will only be adopted by a group of euro-area countries. Multispeed integration within the eurogroup is a possibility. Germany, France, Spain and Italy have already declared their willingness to strengthen the EMU together.

For Finnish business and industry, it is of great importance that the EMU thrives and works smoothly. It is therefore imperative that Finland contributes actively to designing and shaping its future. In a well-functioning Economic and Monetary Union, fiscal rules are clear and complied with. Emergence of excessive macroeconomic imbalances is prevented. Good economic times are used to build up buffers to absorb and counter downturns and shocks. Ultimately, financial stability is guaranteed by the European Stability Mechanism. Risks will be reduced and their emergence limited. These principles are among those that should guide design of future EMU reforms.

How to make the Economic and Monetary Union work better?

In the short term, there is no urgent need to amend the fiscal policy rules or put in place new structures for the coordination of economic policy or establish new institutions. The reforms carried out so far have been successful, even if they have resulted in a fairly complex regulatory framework and heavy governance mechanisms. Even so, it makes sense to allow them to operate. However, consistency and predictability should be improved. Recently, the application of the rule framework has been raising a number of consistency issues.

With regard to the Banking Union, the most difficult remaining issues are related to the reduction and distribution of risks. When the Single Resolution Fund was established in 2013 to provide tools for addressing bank crises, an agreement was made on a common fiscal backstop to ensure adequate financing for the Fund under all circumstances. It is necessary for the credibility of the Fund. A solution should be found as soon as possible, for example by authorising the European Stability Mechanism to extend credit to the Fund when necessary. But, in order to be able to move to this step from an even ground, banking sector risks need to be reduced further and remaining problems of banks in some countries remedied through national measures.

When the Banking Union was established, introduction of a European Deposit Insurance Scheme was considered to be an important element of it. In 2015, the Commission made a legislative proposal to establish the deposit insurance scheme in three phases. The first phase would see the creation of a reinsurance system for national deposit guarantee schemes, followed by a transition through a coinsurance system to a Union-wide deposit insurance system with joint and several liability by 2024. Progress on this project has been slow in the Council and Parliament. Member States are reluctant –for good reason – to push the European Deposit Insurance Scheme before the preceding DGS Directive is duly implemented in all countries and remaining problems in the banking sector reduced. Currently there are large differences in the preparedness of national deposit guarantee schemes as well as in the financial condition of banks in the various Member States. Therefore, preconditions for a common deposit insurance system are not yet met. Additionally, risks associated with concentrated sovereign bond holdings in banks need to be reduced before EDIS can become a reality.

In the long term, efforts should be made to simplify the EMU's governance framework, strengthen credibility of the no-bail-out-rule and role of market discipline, reinforce resilience and limit risks. The fiscal rule framework should be streamlined, including by reducing numerous currently used exemptions and flexibilities to its application.

While introduction of a common fiscal stabiliser for the euro-area is not absolutely necessary from an economic point of view, its consideration may be needed as an element of a compromise agreement on an overall reform of the EMU. In such a case, any new mechanism should preferably be based on the existing financial instruments, such as the EU budget. Emergence of permanent transfer mechanisms must be avoided.

Clear and credible fiscal policy rules are essential to the functioning of the Economic and Monetary Union. While the rules laid down in the Treaties are, as such, straightforward and clear, the regulatory framework has been considerably extended over the past 25 years. On the one hand, the of the additions were meant to increase flexibility and to allow rules to better cater for specificities of national circumstances and cyclical fluctuations. On the other hand, they were designed to improve compliance and enforcement. These amendments have however created a rule framework of such complexity that it permits a wide range of interpretations in all possible situations.

It is therefore important to try and simplify the rules to make them comprehensible, ensure predictability in interpretation and credible surveillance. Efforts should be made to eliminate exemptions and flexibilities permitting several interpretations.

In addition to political and economic considerations and the implementation of fiscal policy rules, the fiscal policy decisions of Member States are constrained by access to and conditions of market financing. However, during the past few years, the effect exerted by markets on decision-making has markedly declined. Underlying this trend is the monetary policy pursued by central banks and the removal of the risk associated with sovereign bonds as a result of the ESM.

A gradual reintroduction of a risk-element to sovereign debt could strengthen influence of market discipline on fiscal policies and thereby contribute to their sustainability. A requirement for sovereign debt restructuring as a condition for financial support by the ESM could be a step to this direction. In addition, quantitative limits or risk weighting could be used to limit incentives for banks to invest disproportionately in domestic sovereign bonds.

At the same time, financial markets need safe assets to invest in. To this end, the Commission proposes the creation of new securities backed by government bonds without joint liability. But, the benefits offered by such a bundled security consisting of government bonds remain unclear. It would hardly achieve a risk rating exceeding its weighted average. If there was demand for a security backed by government bonds, it could be assumed that corresponding financial instruments would have been already created by the financial industry.

When room for manoeuvre in fiscal policy is limited, even the most responsible economic and fiscal policy will not necessarily be enough to absorb large economic shocks due to external causes. During the past few decades, the debt burden of most Member States has reached such a high level that they have little room to pursue strongly expansionary fiscal policies. The Commission proposes that a Member State facing economic difficulties could be supported through common instruments in its efforts to adjust its economic and fiscal policy. The Commission outlines three operational models for a common stabilisation function. It could be a rainy day fund that would make disbursements to identified investment projects or government budgets or an unemployment reinsurance scheme for national unemployment insurance systems. The estimates of the size of such a stabilisation function vary from 0.5 to 2.0% of GDP.

If, as part of the fundamental reform of the Economic and Monetary Union, a decision were made to establish a stabilisation function, it should be automatic, rapid, limited and temporary. A mechanism operating on a discretionary basis would easily fall victim to political disputes, be slow and involve the risk that aid originally intended as a temporary measure evolves into a quasipermanent fiscal transfer mechanism. Any stabilisation function should support Member States in their efforts to implement reforms, not to avoid them.

Although neither the Eurogroup consisting of the euroarea finance ministers nor the euro working group consisting of the state secretaries of finance ministries exercises any legally based decision-making powers, they still make most of the decisions affecting the euro area. The euro working group has a permanent president assisted by a secretariat in the Commission. By contrast, the presidency of the Eurogroup is held by a minister for two and half years at a time. Arguably, the ministerial level Eurogroup should also have a full-time permanent president. However, the Eurogroup does not need a separate legal basis because it is expected, over time, to align with the ECOFIN Council once all Member States have adopted the common currency.

The debate on the future of the Economic and Monetary Union raises the question of the future of the European Stability Mechanism (ESM). Suggestions have been made to transform it to a European Monetary Fund in emulation of the IMF. Some would like to assign it new duties, such as surveillance of member states' fiscal policies. These suggestions are based on a claim that an increasingly political Commission is no longer credible in objective and independent surveillance. More than previous commissions, the current Commission is indeed more closely linked to the European Parliament and political developments in member states. Its ability to engage in enforcement and surveillance independently of political overtones has been called into question. However, transfer of surveillance duties to the ESM would not make it any less political. After all, the ESM is led by its Board of Governors consisting of finance ministers of countries that would be subject to its surveillance. Simplifying the rule framework and limiting the room for discretion would be a more sustainable solution. As a result, there would be less political pressures on the Commission and its independence could strengthen.

4 Views on the future of the EU's defence and security policy

4 Views on the future of the EU's defence and security policy

Instability in the EU neighbourhood, the growing number of refugees and immigrants across the EU's external and internal borders, extensive data security threats, recurring terrorist strikes and the uncertainty surrounding the relations between the USA and the EU have put defence and security issues on the agenda. It makes sense to work together as much as possible on aiming to ensure both internal and external security. For industry, a stable and predictable operating environment is of utmost importance, and therefore all measures that enhance stability within the EU are in its best interest.

EU funding should be directed to competitive industries that contribute to security and defence, and ensure that the role of SMEs in generating innovations is recognised. Long-term support should be provided for key security and defence industries, such as space technology, command, control, communication, computers, mobility, maintenance and other digital solutions also in the context of the EU's research and innovation programmes. Any joint projects should take into account the needs and conditions of all participating Member States.

Security and defence policy should be assessed as part of a bigger picture. Focus should be on measures designed to protect against various threats. In addition, new preventive actions that help, for example, in stabilising the EU neighbourhood need to be developed. The stability and development of the EU neighbourhood create business opportunities for companies. Well planned and systematic management of the immigration issue may offer a solution to the shortage of labour in Europe caused by an ageing population, which will increase stability in the long term.

Towards closer defence cooperation

The Commission's reflection paper on the future of European defence presents three scenarios for improving its defence capabilities:

- In the first scenario, security and defence cooperation would be intensified on a case-by-case basis according to the Member States' decisions.
- The second scenario, shared security and defence, foresees a higher level of ambition. The EU would have a greater role and the Member States would share some operative capabilities.
- The third scenario is the most ambitious of all: a security and defence union.

The most realistic development is probably the second, in which cooperation between the EU and NATO would progressively increase. The objective is to create as efficient joint practices and capabilities as possible. Their importance is highlighted particularly in the efforts against hybrid and cyber threats.

Long-term research and development efforts are needed, joint procurement offers opportunities

The Commission has proposed a common European defence fund for financing research and development to develop and deploy defence technologies. Research is the first step towards improved capability and closer cooperation.

The proposals for the European defence fund and European defence industrial development programme are welcome even if the funding allocated for this purpose is fairly modest. Significant progress calls for long-term and planned research and development efforts that can also be financed under the EU's research and innovation programmes.

Steps have to be taken in the preparation and selection of projects to ensure that cross-border participation is guaranteed and that SMEs are also allowed to participate and that due consideration is given to small countries and their needs.

The proposal also underlines the benefits of potential joint procurement, such as economies of scale and the potential for cooperation with other users. Ideally, joint procurement would benefit from the expertise of individual countries allowing it to be shared with others, thus advancing their capabilities. Due consideration in all joint procurement should be given to security of supply and reliability under all conditions. Finland possesses leading expertise in command, control, communication, computers, mobility, certain weapon systems, maintenance, cyber and space technology as well as in the prevention of hybrid threats.

Long-term development policy contributes to stability

According to some estimates, the migration wave seen so far is just the beginning. The population of Africa is expected even to double by 2050 and growing youth unemployment creates pressure towards Europe. To manage refugee and immigration issues, proper planning and management are required.

At its best, development aid is a long-term activity that prevents conflicts and creates stability and prosperity. Involvement of the private sector is fundamental in order to be able to reach these goals.

Sustainable business operations require a stable business environment. The EU External Investment Plan (EIP) seeks to create a sound and secure investment environment in the target countries. National development finance companies together with the European Investment Bank can participate in developing projects.

Complying with joint agreements improves internal security

Problems on the EU's external borders, the refugee crisis and terrorism have challenged the Schengen Agreement. Proposals have been made to revise Schengen and re-introduce border checks in order to solve the refugee crisis. Permanent border checks would have significant negative economic implications and interfere with the operation of the internal market and companies in general throughout the EU. The Commission estimates that the loss of the Schengen arrangement would result in annual losses of EUR 5 to 18 billion.

It is essential to the security of Europe that Member States are fully committed to the agreements. To be able to manage immigration properly, it is extremely important for the Member States to fulfil their obligations regarding internal transfers and relocation.

Aside from border checks and internal transfers, it would be important to introduce integration practices in which employment plays a key role. Integration into society is the best way to improve internal security. Employment plays a key role in this. Many Member States foresee a need for labour as the population ages and leaves the labour market. Many Member States have sought to develop ways of integrating immigrants into the labour market and make this process more efficient.

The skills and competences of the asylum seekers should be screened as quickly as possible in order to find suitable paths for joining the workforce. This screening

should be carried out as early as possible, for example in connection with the processing of the asylum applications, to ensure smooth integration.

The employment of immigrants can be facilitated in many ways. Steps should be taken to make it easier to find matches for open jobs and new job-seekers. The permit procedures for hiring trainees and using apprenticeship agreements may make it easier for immigrants to find work.

5 Views on the future of EU finances

5 Views on the future of EU finances

The EU's multiannual financial framework should match the EU's new priorities and the objective to create more jobs and growth and boost investments. Areas financed should be examined in terms of creating genuine European added value and the effectiveness and efficiency of the measures taken. Public goods that meet these criteria include investments in R&D activities and innovation as well as projects which develop trans-European networks in the fields of transport, energy and digital services. Additionally, further investments are required in the EU's internal and external security and external action designed to promote stability in the EU's neighbouring areas. It is advisable to impose further conditions for EU funding.

The EU's multiannual financial framework sets the limits for EU funding by areas of activity for several years to come while the annual budget procedure defines the spending and its allocation of funding in greater detail for each year.

In late June, the Commission published a reflection paper on the future of EU finances. The Commission will issue its proposal for the EU's next multiannual financial framework sometime in mid-2018. The EU financial framework needs to be adopted unanimously by the Member States, after obtaining consent from the European Parliament.

Pressures – and an opportunity – to reform the EU budget

The debate on the EU budget is an integral part of the reflections on the future of the Union. Multiannual financial frameworks are one way of pursuing the EU's priorities.

The major challenges facing the EU, such as the refugee crisis and security issues, have caused pressures to increase expenditure at the same time as the budget procedure is ill-prepared for unforeseen events. According to the Eurobarometer survey, EU citizens also perceive immigration and terrorism as the biggest challenges. Additionally, the forthcoming exit of the UK, one of the largest net contributors, is reason enough to reconsider the EU's budget and its priorities.

More realism required in expectations from the EU budget

Ideally, the debate on the EU's financial framework should start by first identifying the matters to be addressed at the Union level with the required level of funding being determined after that. However, the fact is that several Member States, primarily net contributors, want to fix the size of the EU budget at the current level or do not want to fill in the budget shortage induced by Brexit.

The EU's annual budget represents approximately 1% of the combined GDP of the Member States and the 2017 commitments total a little less than EUR 143 billion. The Member States' public spending exceeds the EU budget by a factor of almost 50. It is extremely important to give serious thought to how to maximise the impact of EU funding. At the same time, more realism is needed in the expectations of what can be achieved with the Union's budget.

EU funding should add value

The Union's activities are based on the principles of subsidiarity and proportionality. Additionally, the European added value is a key guideline in the allocation of public funds in the EU.

The EU's actions or the money allocated to this end should be assessed in terms of whether EU action is necessary or more efficient than what the Member States could achieve or what could be accomplished in their respective territories. By pooling resources at the Union level, the Member States must be able to achieve better results than when acting on their own without coordination. The EU budget should not be used for plugging gaps in national policies.

Current budget focuses on agriculture and cohesion policy

The current system of allocating EU funds is very much based on historical developments. Of the current financial frameworks, some 39% is spent on agriculture and rural development and 34% on cohesion policy, which is designed to alleviate differences in the level of development between Member States.

Of the financial framework, 13% is used to finance measures that directly contribute to competitiveness, such as research and innovation or trans-European infrastructure projects. Some 6% is used for the EU's external operations designed to alleviate poverty and promote stability and prosperity. Administrative costs account for a little over 6% of the total. Less than 2% of the financial frameworks is allocated to security and citizenship, such as measures related to asylum and immigration issues or initiatives addressing external borders and internal security.

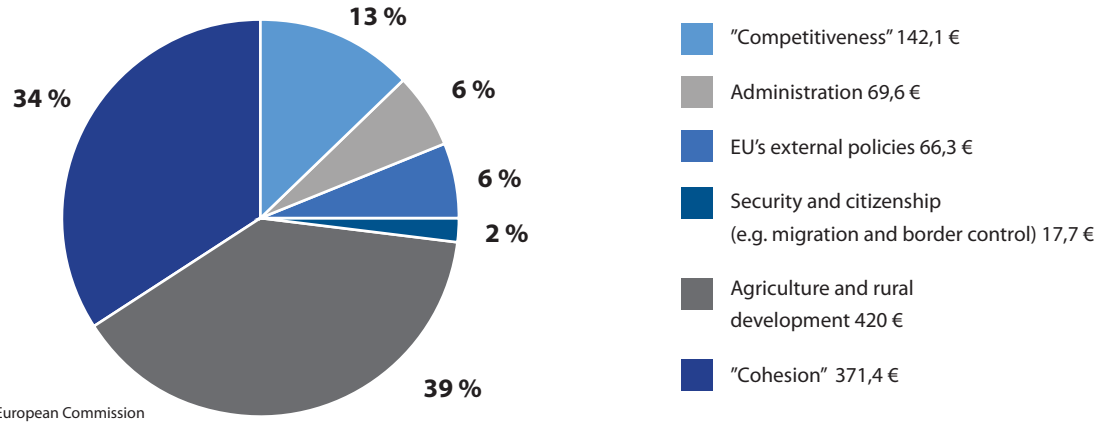
At present, national players manage most of the EU budget, agriculture and cohesion funding. At the same time, these are the policy sectors for which funding is allocated to the Member States in advance and there has been no cuts in this spending when additional flexibilities have been needed in the budget.

Less secure are the expenditure items that are not pre-allocated to the Member States but are allocated on a competitive basis, such as investments in the EU's Research and Innovation Programme. This state of affairs persists despite the fact that the outcomes of the programme have generally been very good and that it is already under-funded. A high level group appointed by the Commission proposes that the funding for the next Research and Innovation Programme be doubled.

If the EU budget is to be used to respond to new trends and future challenges, major changes are required in the allocation of funds in the next multiannual financial framework. To do so, it is necessary to radically reassess the contents and relative shares of the existing policy sectors. In real terms, this will require changes to the traditional policy sectors that account for over 70% of the multiannual financial framework, namely agriculture and cohesion. The EU's common agricultural policy

Areas financed by the EU budget

Multiannual Financial Framework 2014–2020 in billion euro



Source: European Commission

is the only policy area (apart from rural development measures) that is managed together with Member States without any national co-funding.

Imposition of conditions for disbursements from the EU budget

Conditioning of EU funding is applied in, among others, cohesion policy in which the recipient needs to convince the Commission of its objectives. In macroeconomic conditionality, EU funding is tied to completed structural reforms. Additionally, there is more and more talk about imposing conditions on EU funding in connection with compliance with the principle of the rule of law and joint decisions, such as the resettlement of refugees.

Current approach to financing complex and non-transparent

The current way in which the EU budget is financed is complex and non-transparent. The EU's revenues consist of its own funds, customs duties, the Union's 0.3% share of the harmonised VAT base of each Member State and the contributions made by Members States based on their GNI, clearly the biggest source of income (approx. 70%). The share of own funds based on value added tax has shrunk to 12 %, but the system is still very complicated.

As a major net contributor, the UK managed to secure a rebate that other Member States have covered. Subsequently, the other largest net contributors were, in turn, granted rebates on the bill footed by the other Member States because of the UK rebate.

The formula is further complicated by the environmental and climate obligations imposed on the Member States based on GNI instead of the polluter-pays principle or elements of cohesion policy in research and innovation programmes. This may be of great significance in terms of costs. The current practice should be streamlined instead of including a range of financial support mechanisms in various legislative initiatives (e.g. distribution of auctioning revenues from emission trading, burden sharing). The effect of financial support is multiplied and the big picture remains blurred.

Hard to find feasible new sources of revenue

In the negotiations on the multiannual financial frameworks, Member States seek to ensure that a maximum percentage of their contributions are returned to their own country, which does not serve the common interest. A debate has been going on for some time on reducing the contributions paid by Member States by using EU's 'new' own resources.

The proposal concerning own funds foresee parafiscal levies such as a carbon or environmental tax, financial transaction tax or common corporate income tax. However, the Members States are unwilling to introduce an EU-level tax because the taxing right very much falls within the purview of nation states. It would most probably be very difficult to win support for an EU tax among citizens or businesses.

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