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# European Integration at a Crossroads – Which Direction to Take?

1. The past, the present and the future of European integration may be discussed from many different aspects. There is a broad historical perspective, there are geographic and geopolitical determinations; there are cultural foundations; and there are decisive economic and legal interrelationships. In this paper, I shall limit myself to focusing on potential or already existing challenges without elaborating on the major achievements like the unprecedented eighty year period of peace in Europe, the significant convergence of European countries, the creation of a Single Market and common currency and the complex system of community policies. It is also clear, however, that our joint project has entered a difficult period and significant and difficult decisions need to be taken. In this situation, Hungary, as a shareholder in the joint enterprise must assume its responsibility in contributing to finding solutions. The situation must be carefully assessed, and proposals must be made. To face these difficulties, there are three possible options to react. The first is to silently join the mainstream without making any specific remarks. The risk of this option is that our national interests shall not be reflected and incorporated in the common decisions. The second option is to be scared, even offended and consider leaving the European Union. When considering that option, one can talk irresponsibly about exit, but it should be considered that the geographical, historical, cultural and economic gravity and interdependence is so strong that these links cannot be replaced by any other link. Around 80% of our exports – which play a key role in our economy and in our prosperity – go to the European Union. Although public opinion reacts sensitively to recent conflicts, and sympathy for the European Union has fallen below the EU average of 45% to 37% in Hungary, this does not mean that the general public would seriously consider leaving the Union. Polls show that no more than 10% of the Hungarian population would be ready to consider a Huxit. There is no serious political party in Hungary that would even consider the option of exit. All this leaves us with the third possible option that is to form a position on the most important European issues and try to argue for our proposals.

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2. It may be useful to go back to basics and recall the objective that led Member States of the European Union to join forces. What is the ultimate objective? Countries with common history and cultural backgrounds and with similar social and economic features believed that together they are better able to achieve their national goals. That is why common policies have been developed, and these common policies are translated into legislation at Union level. The aim was never to sacrifice national goals, nor is to guide Member States to the right path against their free will, but to integrate the interests of countries. The common EU rules, the *acquis communautaire* and the common budget are all created to serve that purpose.

3. Since the beginning of European integration, the world has changed significantly, but the ultimate objectives that is to ensure peace and security and prosperity for European citizens have not changed.

In a changing external environment, the share of the European Union in the world economy has been substantially declining for decades, and the competitive advantage has been eroded. That trend is accompanied by a policy change. While the EU has always been at the forefront of liberalising world trade and has been for free competition worldwide, one can now see the regionalisation of the world economy and the fragmentation of world trade as a protectionist wave emerged. The European Union, as many of its partners, is applying more and more restrictions on both trade and investments.

As the external world changed, new frontiers and dividing lines re-emerged within the European Union in at least four areas, namely in respect of common policies; common budget; decision-making and the appearance of rule of law related accusations.

A dangerous trend may be observed in common policies. New policy areas, such as social policy, energy and climate policy and some others emerged, and no matter how justified they can be themselves, they led to significant additional costs on enterprises. Without taking into account the competitiveness aspect, the declining EU share in the world economy shall be difficult to be stopped. For example, energy prices in Europe, even after the peak are still three to five times higher than in the United States representing a competitive disadvantage for the whole economy. Disregard of the competitiveness implications of sectoral policies and the simple mechanical extension of uniformisation would certainly have consequences.

There has always been a conflict of interests between net contributors and net beneficiaries of the common budget. A new conflict zone was created beginning with the 2014–2020 budget with a significant shift of allocations from East to South, while the overall size of the budget expressed as a share of GDP has not increased but rather decreased in the recent two decades. The original rules of allocation were modified to increase the relative share of the South which is still in average more prosperous than the East in per capita GDP terms. Reverse incentives were introduced, which reward poor performance rather than positive achievements, for example, higher school dropout rate or higher illiteracy rate, or poor performance of CO<sub>2</sub> emission reductions.



The Lisbon Treaty significantly increased the influence of the European Parliament, and as a consequence, the weight of political considerations increasingly appear in the decision-making process. The European Commission as guardian of the Treaties must not pursue national interests or party politics, still it defines itself as a political body pursuing political objectives ever since the Juncker Commission. The drive to eliminate unanimity even in the few remaining areas of foreign and security policy and taxation and some others may be a threat to the unity and solidarity and mutual trust among Member States. Let us go back to square zero. No Member State should feel too often that decisions taken by qualified majority are taken against its national interests.

The emergence of rule of law accusations and procedures and even sanctions led to new tensions not known in earlier history of European integration. Without going into details, I would limit myself to two remarks. The first is that sanctions started to be applied under circumstances when there is no objective yardstick to use in judging specific cases impartially guaranteeing to avoid double standard. The second is, that in order to address that situation, the Hungarian side repeatedly suggested that if a given practice in one Member State raises rule of law concerns, there should be an examination of the practice of the other 26 Member States to avoid double standard. It would be important to avoid a situation in which a given legal solution or practice is considered to be unacceptable in one Member State which is not even on the radar in another one. Unfortunately, there are examples for that. The attorney general in Hungary, for instance, is appointed by the Parliament, while in some other Member States, it is within the competence of the government or even of a minister. Many other examples can be cited. It does not contribute to the trust in a non-discriminatory and objective and non-partisan and evidence-based approach, when calls to avoid double standards are disregarded by the responsible commissioner saying that “it is not the text but the context that is important”. There is no defence against such an approach, and no guarantee to avoid double standard and suspicion that rule of law is used for political purposes are not easy to dissolve.

Since the memorable failures to amend the Treaty, the practice of creeping modification of the Treaty has become the preferred option extending EU competence into areas which are classically Member State competences under the present Treaty. An example and an instrument for that is the so-called European Semester, where the European Commission regularly initiates recommendations for policy areas which belong to national competences, such as taxation or social policy or the composition of the energy mix. That practice is extended to the use of the Recovery and Resilience Facility (RRF) and the related so-called milestones which might cover actions falling under national competence.

4. A critically important issue of the future is the relationship between enlargement and deepening of integration. In recent decades, the undisputable pattern was that major enlargements were preceded by a substantial deepening of integration. The reason for that is understandable. To prevent centrifugal forces that may emerge as a consequence of increased diversity by Member States and regions, guarantees were needed to keep the community together stronger that



earlier. That was the reason at the time of the accession of Spain and Portugal in the mid 80's when the Single Market was created. Similarly, the common currency was created before the so-called great eastern enlargement in 2004. During the last decade, the momentum for further enlargement of the Western Balkans weakened as a consequence of the so-called "enlargement fatigue". With Russia's aggression on Ukraine and with Ukraine's desire and commitment for euro-Atlantic integration, a completely new situation and new momentum emerged. The decision to open accession negotiations with Ukraine, however, raises a number of unanswered questions. It is Europe's second largest country by area and the seventh in terms of number of population with half of the per capita GDP of the poorest Member State, Bulgaria. Among the questions to be answered, one is how to react to the Treaty obligation that Member States should ensure "by all means" the territorial unity and sovereignty of members. The interrelationship between EU and NATO membership needs to be carefully considered as well.

A further question particularly in respect of Ukraine will be the extent to which the EU will insist on full compliance with the Copenhagen criteria, and whether the previously applied principle that the process should be merit-based, remains valid. Or alternatively, larger room will be left for geopolitical considerations. It seems appropriate that the EU continued to insist that the speed of the accession process shall be determined by individual performance of the accession countries to meet each and every Copenhagen criterion. This would be even more important that the diversity and the distance from the present Member States' legal and economic characteristics are far more important in the case of Ukraine than in the case of Western Balkan countries. The Ukrainian accession might have a much bigger impact on the EU's existing policies and may affect the entire architecture of the future of European integration.

Bearing in mind the challenges of enlargement, it may be reasonable to consider a kind of "standstill" of deepening integration on new policy areas. An enlargement including Ukraine will increase diversity to an extent which questions the feasibility of parallel or preceding increase of uniformity. It would be reasonable to consider instead of uniformisation, the increase of flexibility. In any case, the quality of membership cannot be differentiated to create first- and second- and third-class membership. The existing instruments of flexibility, like enhanced cooperation as defined by the present Treaties can be more frequently used with a strong respect of the criteria that it cannot be applied in the Single Market related policies, and must remain open for all Member States at any later time.

In terms of internal reforms, it would be important not to start the process with institutional reforms. One has to avoid even the perception that reforms of the decision-making process refer to future enlargement only as a pretext to eliminate unanimity in the decision-making process.

In terms of cohesion policy, the reaction to enlargement should not be the weakening of the policy. To the opposite, it must be taken into account that with the appearance of new demands and the modification of statistical figures, don't give an answer to the still justified needs of existing beneficiaries of cohesion policy.



Cross-border cooperation involving acceding countries and existing Member States shall have to be given increased attention.

The integration of new members into the agricultural policy shall be particularly sensitive as the current situation on cereal markets already shows. Other sectors of the economy, such as steel may lead to similar adjustment challenges. The starting point of negotiations should be the EU-Ukraine Free Trade Agreement concluded before the Russian aggression and not the autonomous measures offered by the EU after the beginning of the war. The fairness of competition in the Single Market will be crucial for Hungary and for Europe as a whole. The diversity of market players will increase, but state aid rules; veterinary and phytosanitary and other technical rules and standards but also public procurement rules must be fully respected by all Member States. The proper functioning of the Internal Market is the most important pillar of European integration, and its integrity should not be endangered.

Enlargement with a country with the dimensions of Ukraine will have an impact on the entire architecture. That is not the case with the Western Balkan countries. There is an old debate, whether membership in the European Union should remain undifferentiated or a move towards a Europe of concentric circles is feasible. There may be a temptation to consider the latter option. The experience of Brexit among others shows, however, how difficult it is to strike a fair balance between the full rights and obligations of membership at any level lower than full membership. Such a move would mean a substantive change in the architecture of the European Union therefore it should have the agreement of all Member States. That is at least questionable to represent a realistic avenue.

I tried to collect only some flashes to provoke thoughts. One thing is for sure: we are entering an interesting but challenging period.

