

RECOMMENDATIONS

FROM MEMBERS OF THE TEP SA NETWORK

TO THE INCOMING

SPANISH PRESIDENCY

JULY-DECEMBER 2023



TEPSA

Trans European Policy Studies Association



Co-funded by
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ABBREVIATIONS

CELAC	Community of Latin American and Caribbean States
EPC	European Political Community
EP	European Parliament
EU	European Union
IRA	Inflation Reduction Act
NATO	North Atlantic Treaty Organization
MERCOSUR	Southern Common Market
US	United States

INTRODUCTION



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The Spanish Presidency of the EU Council: going South, pushing forward enlargement and reforms

As Spain takes over the Presidency of the Council of the European Union in July, the main dossiers opened by the Russian aggression on Ukraine – from economic sovereignty to energy security, from defence capabilities to enlargement – are gathering in importance and complexity. In addition, the Union will be busy with the reform of its economic and financial rules, the implementation of the Next Generation EU package, as well as the fraught operationalization of its strategic autonomy. As if all this were not enough, a new electoral cycle will soon start in preparation for European Parliament (EP) elections and renewal of the EU's top jobs next year.

If we look at the big European picture, the Spanish government will have to confront some of the deepest transformations in the EU's history triggered by the war in terms of *widening*, *deepening* and *internal rebalancing*. Led by one of the continent's most strongly pro-European governments, Spain is in many ways well positioned to take forward the complex agenda and build reform coalitions. Yet, **difficult questions remain over the relationship between its own policy preferences and the EU's most pressing imperatives.**

A first issue relates to **enlargement**. While the EU has reopened the box of promises to expand through accession to the countries of Eastern Neighbourhood, the path to enlargement looks long and strewn with obstacles. The Ukrainian government is pushing hard to start negotiations before the end of the year. As always, this widening agenda is facing resistance. As a country that faced delays on its own way into the EU, **Spain should sympathize with the candidates' plight and put its weight behind an acceleration the current accession timetable.**

Moreover, any decision related to Ukraine has major implications for the other front of enlargement, the Western Balkans, which needs a decisive boost in order to confirm the EU's full commitment to the region. **The reconstruction of wider Europe should be on every Presidency's agenda from now on** and the Spanish Presidency will need to make its own decisive contribution.

In addition to enlargement, the next meeting of the recently established European Political Community (EPC) will also be organized by Spain after Moldova. Even if the Spaniards are not so excited about the initiative, the EPC could be a useful platform for opening up discussion of policy coordination at the continental level. **Spain should demonstrate more proactive commitment to the EPC than it has done so far**, and do more to bring to the table constructive and innovative ideas to enliven the format. If it continues its relative hands-off stance to the EPC and enlargement, Spain will fail to contribute to European security to the degree that its size and assets require.

Secondly, a **deepening agenda** has gained prominence too. There are various internal reforms that the Union will have to put in place to function with more than 30 Member States. In its reaction to the war, the Union has shown that it is at least partially capable of mobilising its resources for a more timely and effective foreign policy action. But the future enlargement to New Member States with significantly diverse interests and domestic situations inevitably calls for a change in the decision-making process and the overall architecture of the EU, in particular toward an expansion of qualified majority voting to at least certain foreign policy matters, as Spain has indicated in a recent declaration with other 8 Member States, but also the strengthening of common institutions.

A broader rethinking of EU institutional structures is needed, and Spain's plans for the Presidency have not yet accorded high importance to this issue. The general expectation is that this Herculean task will be left to the next institutional cycle post-2024. **It will be tempting for Spain simply to kick the can of reform down the road. It should resist this temptation and attempt to keep the internal reform conversation going.** This is not only necessary for the internal functioning of the EU, but to make enlargement feasible. Spain has generally been supportive of ambitious internal EU reform and should not now take the easy option of avoiding difficult discussions about this issue during its Presidency. Most presidencies do indeed put off such debates and as a result internal EU reforms get endlessly delayed.

Decisions during this Presidency will have an effect on the **European Parliament elections in 2024**. After a slew of new EU crisis-mode commitments related to COVID-19, climate change and Russia's invasion of Ukraine, the democratic legitimacy of European integration will once again be under scrutiny and could open up the way for populist Eurosceptic parties to monopolize the issue. **This accentuates the importance of Spain's Presidency setting the ground and grasping the nettle of EU reform, before the electoral campaigning begins in earnest.**

Thirdly, in addition to the historic widening versus deepening debate, there is a **fair rebalancing debate**. The EU is experiencing an internal rebalancing in favour of the Baltic states and Central and Eastern European countries that have been at the forefront of the European response to the Russian aggression. They have raised their voices in Brussels to assert their vision for the EU's future. The Franco-German engine is currently hampered by domestic political difficulties of the two governments and a lack of chemistry. The rebalancing discussion comes down to competing visions for the future of European integration.

Spain could play a pivotal role in managing this difficult divide. Spain will ally with other Southern States in its focus on a new migration pact and on the Mediterranean – and will of course pursue its agenda with Latin America. But it should not impede the shift of influence towards the EU's East – however difficult this might be a Southern state like Spain. Indeed, if Spain is to **fulfil its ambition of being a major player in the EU**, it could be well positioned to close the widening gap between Franco-German and Eastern European positions. **This could be the kind of strategic imprint that would tie Spain's Presidency well to the unfolding geopolitical shifts on the European continent.**



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The Spanish Presidency should maintain momentum in EU enlargement

The EU pursues the long-term goal of integrating all European countries sharing its fundamental values. For all the suffering and destruction that it has brought, the Russian war on Ukraine has demonstrated the significance of the EU's historical mission and revived the EU's enlargement process. In 2022, the EU granted Bosnia-Herzegovina, Moldova, and Ukraine candidate status, offered Georgia a Membership perspective, and opened accession negotiations with Albania and North Macedonia. It is important that that this momentum is not lost.

Open accession negotiations with Ukraine and other candidates to strengthen the credibility of enlargement.

The accession process is the strongest instrument that the EU possesses to help neighbouring countries wishing to join the EU transform their institutions and economies. The conditional prospect of Membership gives the governments and citizens of candidate countries, and potential candidates, a high incentive to protect and strengthen their democracies and the rule of law. The accession process also comes with additional EU technical and financial assistance in supporting reforms and building state capacity.

For the process to be successful, it is necessary that the prospect of Membership be credible. The candidate countries need to perceive that their efforts will pay off eventually. Before the Russian invasion of Ukraine, this credibility had weakened. Because some Member States faced domestic opposition or had bilateral issues with the candidates, the process was held up for reasons unrelated to the EU's accession conditions. In addition, the EU had tightened its conditions for granting candidate status and opening accession negotiations over time.

Under the impact of the war, the EU sent a clear signal of its commitment to the integration of its Western Balkan and Eastern European neighbours. This commitment needs to be renewed and invigorated. If the European Commission, in October 2023, reports positively on the progress that Ukraine and other candidate countries have made, **the Spanish Presidency should therefore work towards a decision of the European Council to open accession negotiations.**

The start of accession negotiations would be the best way to strengthen the credibility of the enlargement process. It sends not only a strong signal of support and commitment – also to those countries that might not be ready now for opening negotiations. It also sets a clear and concrete agenda for the institutional and regulatory adaptation that accession countries need to engage in.

In the case of Ukraine, it further establishes a framework for the reconstruction of the country and the allocation of international aid. And given the danger that the commitment to enlargement will again slow down, it creates an institutional process that generates its own momentum.

At the same time, the opening of accessions negotiations does not pre-empt future accession. The EU remains free to decide on enlargement in light of the progress that individual candidate countries make. The open-ended duration and outcome of accession negotiations helps maintain pressure on the candidates to stick to their part of the commitment as well, i.e., to respect human rights and democratic rules, strengthen the rule of law and align their policies with those of the EU. **We do not advocate a fast track to Membership but a fast track to accession negotiations, and on this fast track, the EU needs to treat all candidates according to the same criteria.** The revival of enlargement in the face of the Russian aggression should be a window of opportunity for all candidate countries committed to the values and norms of European integration.

Start a serious reform of the process of accession negotiations and enlargement – offering candidates intermediate rewards or differentiated accession.

At the same time as it invites additional candidates to start accession negotiations, **the EU needs to get serious about a reform of the negotiation and enlargement process.** Currently, candidate countries face rigid conditionality and need to close all negotiation “chapters” before accession. The duration of accession negotiations has become ever longer, while a positive outcome has become ever more uncertain and beyond the political horizon of current governments. This is prone to cause frustration even among EU-friendly elites and citizens and reduces their willingness to engage in costly and difficult change.

There are two different venues for remedying this situation without undermining the conditions that candidates need to meet before acquiring full Membership. For one, **the EU should offer intermediate rewards before Membership – such as internal market access.** The EU has already accorded Ukraine zero-tariff trade as a wartime support. Such privileges could be turned into regular intermediate rewards. Alternatively, it may offer differentiated Membership. This is standard practice already because new Members do not automatically join the Eurozone or the Schengen area. **It could be extended to EU policies that generate particularly high costs or resistance in the EU.** For instance, Ukrainian EU Membership could provisionally exclude full participation in the Common Agricultural Policy.

Develop the European Political Community into a coordination forum for the defense of the European order

The enlarging EU is the major actor and forum for the protection of the European post-Cold War order embodying peaceful change and democratic self-determination. There are countries, however, that have no desire or lack the prerequisites for EU Membership but share the EU’s principled interest in defending the European security order against Russian revisionism. In October 2022, when the European Political Community convened, this interest proved to be the common denominator of the participating countries.

Whereas the role that the EPC could play in relation to enlargement has remained unclear and contested, this common denominator could serve as the starting point for the further development of this novel format when the EPC reconvenes in October 2023 during the Spanish Presidency.

In addition to demonstrating the continuing unity of its participants in the face of Russian aggression, **the EPC could serve as a platform of coordination.** For one, the EPC should coordinate the sanctions against Belarus and Russia between the EU and non-Members, at best by taking non-Members on board, at least by closing loopholes and avoiding the evasion of EU sanctions.

In addition, **the EPC could become a forum of coordination for military and economic support to Ukraine.** If the EPC is to become more than a photo opportunity – these are the functions it would be uniquely suitable to serve.



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Reacting to economic challenges, striving for low-carbon industry

The EU has offered bold proposals to deal with the economic challenges presented by the US Inflation Reduction Act, the energy transition, climate change, and securing its supply chain. These must be supported by adequate financial resources. Notwithstanding the development of a Sovereignty Fund later this year, the EU should foster the capacity to fund such ambitious programmes.

The Spanish Presidency should prioritise further work on Banking and Capital Markets Union, which is needed to create longer-term funding possibilities that the EU could not achieve otherwise. Both Banking Union and Capital Markets Union were created with the intention of increasing financial stability and financial opportunities for European business. Since their launches in 2014 and 2015, respectively, their progress has stalled. For Banking Union, the European Deposit Insurance Scheme proposed in 2015 has languished with little sign of being taken up. Moreover, the existing pillars of supervision and resolution have not performed optimally. The less significant banks continue to be regulated by national competent authorities despite the possibility that the failure of small banks can still have systemic consequences. The so-called ‘doom loop’ between weak banks and their sovereigns continues as banks sovereign debt holdings exhibit strong home bias. Finally, most bank failures continue to be handled by national authorities.

The Capital Markets Union programme is modest in light of what it actually requires in terms of bankruptcy, taxation, and supervision. Nevertheless, a Capital Markets Union will take time to build and must begin sooner rather than later. In September 2020 the Commission launched a new Capital Markets Union action plan of 16 legislative and non-legislative measures, followed by legislative proposals in September 2021 and December 2022. **The Spanish Presidency should put progress on these proposals on top of its agenda.**

It should also persuade Member States to back these measures. Only vague support for advancing Banking Union and Capital Markets Union has been offered by the European Council. The problems that their absence engenders and the opportunities that they present mean that Member States should pursue progress more aggressively. Indeed, the European financial system is not in crisis but it remains vulnerable. Developing European financial markets will not happen quickly, but it would alleviate some endemic weaknesses in the economy and help it face (and finance) the upcoming challenges. As shown by the example of the United States (US), economic success stems not only from having a large single market, but also from the leveraging effects of deep and liquid capital markets.

In addition, the green transition and the development of a European industrial policy will require more capital than could be offered by the EU. In February 2023 the Commission presented its Green Deal Industrial Plan for the Net-Zero Age. The Plan intends to make the EU a leading player in the net-zero industries of the future by underpinning industrial manufacturing of key technologies in the Union. The Plan is partly a response to state-funded competition from outside the EU. It argues that third actors' subsidies are "unlevelling the playing field", a reference to Chinese state aid and to the fiscal incentives foreseen by the Inflation Reduction Act (IRA) in the United States.

The Spanish Presidency should support the policy and legislative initiatives that are critical to the implementation of the Industrial Plan. These include first and foremost the adoption of two draft legal acts presented by the Commission in March 2023, the Critical Raw Materials Act and the Net-Zero Industry Act. The EU is strongly dependent on imports of both critical raw materials and low-carbon technologies from abroad. While global supply chains remain essential for a low-carbon transition, **the EU needs to reduce exposure to potential disruptions by increasing domestic capacity and developing international partnerships.**

The Spanish Presidency should also monitor and facilitate the implementation of the Temporary Crisis and Transition Framework, which was adopted by the Commission in March. Based on the Framework, state aid can be granted to schemes for accelerating the rollout of renewable energy and energy storage and to schemes for the decarbonisation of industrial production processes until 31 December 2025.

Furthermore, **the Spanish Presidency should support the use of trade defence instruments and of the Regulation on Foreign Subsidies**, introduced in January 2023, to investigate subsidies granted by third countries. It should also encourage the application of the EU framework for screening foreign direct investments and of the International Procurement Instrument to support EU companies in accessing procurement markets in third countries.

While supporting a more assertive low-carbon economic agenda, **the Spanish Presidency should ensure that the EU's policy towards third countries preserves a cooperative multilateral framework** to pursue decarbonisation on a global scale, keeps a focus on high environmental standards and pays more attention to social justice.



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New approaches and narratives to the relations between the EU and CELAC

As Spain assumes the EU Presidency on July 1, 2023, the world is going through multiple simultaneous crises on a scale not seen in decades. The upcoming summit between the European Union and the Community of Latin American and Caribbean States (CELAC) in July 2023 will be the first high-level interaction between the two regions in seven years and a rare opportunity to reconfirm the long-standing strategic partnership signed in 1999, as well as addressing divergences on how these global crises should be addressed.

As close friends, honesty and openness in dialogue is more important than ever. This must be done in full awareness of that the European model may have lost some of its appeal in the region and that relations have been strained during the pandemic. The effects of the different crises and the way in which Europe has managed them, specially the COVID-19 crisis, seem to be the explanation. There is a seemingly growing perception in Latin America that Europe is not willing to devote efforts to addressing relations with the region.

Even so, **the Spanish Presidency should initiate a discussion that describes what is currently at stake for the global order.** In particular, the costs of inaction and of supporting narratives conveyed by non-democratic regimes must be addressed. Since Russia launched its large-scale illegal invasion of Ukraine, its behaviour has included war crimes and military operations that have led to massive loss of life, worldwide economic hardship, massive flows of refugees and energy and food shortages. Russia has flouted the norms and practices for the peaceful resolution of conflicts enshrined in the United Nations and other legal acts and treaties. Its own population has been made to believe that the murderous conquest of a peaceful neighbouring country is legitimate, and that Ukraine and the North Atlantic Treaty Organization (NATO) are waging war against Russia.

Although most Latin American countries spoke out against the Russian aggression against Ukraine at the United Nations, none have joined the sanctions and several leaders of important countries have referred to the conflict in terms that portray NATO as a destabilizing factor. While the reality is that the Russian regime uses a combination of internal repression of its own population with external aggression from its neighbour for this war of choice, some states seem willing to look away from these realities in the name of supposed neutrality.

The growing influence of China in the region is not unrelated to this position. It is used to support and promote Russia's false justification for illegally annexing Ukraine. For this, references are made to historical and contemporary examples in which, for example, the United States has been responsible for, or not prevented, violations of international law.

The justification for not opposing Russian aggression because violations have occurred in the past is illogical and dangerous. A new precedent is set for how larger countries can act militarily with impunity.

This is neither in the interest of CELAC nor of the EU. It will mean that the rules-based global order with all its imperfections will fall into irrelevance. While it is natural to engage in an exchange where all points of view are respected, **the Spanish Presidency must clearly promote the rules and norms that have been the cornerstone of peace and prosperity in our regions.** The EU-CELAC Summit should serve to reconfirm the essential principles for the future of the international order.

In addition to these existential questions, the Spanish Presidency of the EU should consolidate the map of association agreements with the region. **The renewal of the agreements with Mexico and Chile and the definitive closing of the agreement with the Southern Common Market (MERCOSUR) is a central axis to promote economic relations.** The association agreements of the EU with the region are more than trade agreements, they are the instrument through which relations are channelled, an institutional and regulatory framework and a forum for political dialogue to develop joint policies and strategies to deal with the tensions in the international context.

The Spanish Presidency should convince its EU partners that they can afford the deal with Mercosur. During the past two decades, China has displaced the EU as the main partner in most of the region. Instead of adopting protectionist positions, the Spanish Presidency should bet on more diversified relations. With the signing of the treaty with Mercosur, the EU would be the first major trading partner to have an agreement with the bloc, ahead of the United States and China.

The Spanish Presidency must emphasize progress in regulatory aspects linked to the development of association agreements and promote standards that incorporate sustainability and transition, thus overcoming block competition. The negotiation of these frameworks also helps to overcome the impression of the EU as a regulatory stronghold, and will contribute to general agreements that strengthen international regimes, especially in areas still poorly regulated.

The Spanish Presidency must also bring positions closer to the great transformations that the world is facing, such as the technological and energy transition or the fight against climate change. In these areas there is a battle for markets and new spaces for geopolitical competition have emerged. For a long time, the EU pursued a defensive strategy and CELAC was also trying to escape tension between blocs. It is necessary to promote the new Digital Alliance, accompanied by public and private investments of strategic scope.

A decade of overlapping crises has led to a setback in social indicators in the region. After COVID-19 and the inflation spurred by the war, a greater commitment to advance the 2030 Agenda is required. **The Spanish Presidency should promote alliances between various actors in a multilevel governance structure to fight poverty and inequality in the region.** Faced with a world in competition and full of uncertainty, clear-eyed awareness of threats and false narratives from authoritarian countries and promotion of democratic values and social justice should be the centre of gravity of the strategic association.

All the opinions expressed in this publication are the sole view of the contributors, and do not represent the position of their Institutes nor of the Trans European Policy Studies Association (TEPSA).

TEPSA would like to thank all researchers who contributed to this publication.

Co-funded by the European Union. Views and opinions expressed are however those of the author(s) only and do not necessarily reflect those of the European Union or the European Education and Culture Executive Agency (EACEA). Neither the European Union nor the granting authority can be held responsible for them.



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