
Ten issues to watch in 2018



IN-DEPTH ANALYSIS

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This EPRS publication aims to offer insights and context on ten key issues and policy areas that are likely to feature prominently on the political agenda of the European Union in 2018. It was compiled and edited by Desislava Boyadjieva of the Members' Research Service, based on contributions from fellow policy analysts: Piotr Bakowski, Naja Bentzen, Denise Chircop, Carmen-Cristina Cirlig, Enrico D'Ambrogio, Nora Milotay, Matthew Parry, Eva-Maria Poptcheva, Anita Orav, Christian Scheinert and Sofija Voronova. The cover image was produced by Samy Chahri.

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EXECUTIVE SUMMARY

This is the second edition of an annual EPRS publication that seeks to highlight some of the issues and policy areas that are likely to occupy a particularly important place on the political agenda of the European Union in the coming year. The selected topics concern areas that are either internal to the EU or, because of the intricately interconnected ways in which events evolve, are of more global scope. A number of them are at the core of the commitments contained in the joint declaration on legislative priorities agreed by the European Parliament, European Commission and Council of the EU for 2018. They are also reflected in the Commission's 'agenda for a more united, stronger and democratic Europe', as set out in its work programme for the coming year.

In the face of persistent security threats, questions ranging from how to effectively counter radicalisation to how best to improve the architecture of EU information systems will undoubtedly feature high on the agenda for debate. With the challenge of terrorism in particular unlikely to diminish in the near future, the EU will continue consolidating its counter-terrorism capabilities by improving the implementation of existing instruments and applying new approaches to this evolving phenomenon. When it comes to cyber-threats, sophisticated influence campaigns, including disinformation and 'fake news', as well as cyber-attacks and cybercrime, will be addressed by a host of measures, some yet to be launched, and others due to come to fruition in 2018. At the international level, as the North Korean crisis risks developing at any time into a larger-scale geopolitical conflict, the EU will continue to work for a peaceful solution through the United Nations, in addition to contemplating the expansion of its existing sanctions against North Korea.

The EU will also continue to seek ways to better manage migration flows and potential crises. Important steps in this direction involve reforming the common European asylum system and strengthening the EU's external borders. The focus will be on developing cooperation on migration and asylum with third countries, including for return and readmission purposes. Efforts will also be made to increase legal pathways to Europe through resettlement, labour mobility or private sponsorship.

The complex issue of growing inequalities is another major challenge, which the EU will be tackling from several policy angles. The resulting actions will include implementation of the European Pillar of Social Rights and related initiatives to renew labour markets and current welfare systems, as well as measures to further deepen economic and monetary union and redesign the EU budget.

As part of a sustained effort to reduce youth unemployment and low participation in civic affairs, the EU aims to roll out its Youth Strategy for 2019-2027, establish the legal framework for the European Solidarity Corps, agree the budget for Erasmus+ under the next Multiannual Financial Framework (MFF), and contribute to the ministerial conference of the European Higher Education Area, which seeks recognition of qualifications across the EU as a way to remove barriers to mobility.

The way in which the EU aligns its financial priorities, as reflected in the annual EU Budget and the MFF, while at the same time ensuring stability through euro-area governance reform and closer Banking Union, will be crucial. The post-2020 MFF is due to be proposed in May 2018, by which time the impact of Brexit on the EU's finances should be clearer. It will present an opportunity for reform on both the revenue and the expenditure side of the EU budget, possibly including new own resources, together with greater use of innovative financial

instruments to leverage private-sector investment for EU priorities. As for the euro area, discussions about its future governance in the wake of the financial crisis and the European sovereign debt crisis have yielded specific proposals to strengthen the Community method, with the aim of reducing the intergovernmental side of some EU policy instruments. These include replacing the European Stability Mechanism with a European monetary fund under EU law, as a step forward in underpinning the monetary union.

In 2018, the EU will continue the Brexit talks with a view to settling the complex issues surrounding the UK's departure and preparing a transitional arrangement towards a future EU-UK relationship. Determined to make further strides towards unity, strength and democracy, the Union of 27 will also develop the key debate launched in 2017 aimed at charting the way forward and clarifying and shaping the future identity of the EU through open dialogue with its institutions and citizens. The preparation for the European elections in 2019 will show whether the gains in 'Europeanising' the campaign in 2014 through the nomination of lead candidates (or *Spitzenkandidaten*) for the post of Commission President will be consolidated, and whether the reforms to the election system sought by the European Parliament can be put in place in time. More broadly, the elections will provide an early opportunity for the EU to demonstrate its commitment to such an open dialogue and to moving closer to its citizens, renewing efforts to reassure and encourage them to embrace their shared identity and the fundamental values on which the EU is based.

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Introduction

The ten issues presented in this annual publication have been selected to give a flavour of just some of the key questions likely to shape European Union policy and politics in 2018. The new year follows a far from calm 2017. From an EU perspective, continued migration reinforced the need for a concerted response, ideology-based acts of violence claimed many innocent lives, and fake news campaigns sought to provoke distrust, to name just a few of the challenges that dominated our daily lives. At the same time, 2017 saw big strides towards greater European cohesion in terms of defence and security, and financial and social affairs. All this, in the context of an ever evolving geopolitical configuration, where the United States has been redefining its foreign policy, security, trade and environmental priorities; China is poised to become a global superpower; and North Korea has launched one nuclear test after another seeking to intimidate its neighbours and the wider global community.

In 2017, the changing role of the US on the global scene, on the one hand, and the United Kingdom's decision to leave the EU, on the other, deeply affected the Union, causing Member States to reflect on a number of their key shared principles and common longer-term future, only to emerge with a strengthened sense of purpose, vision and resolve. In the spirit of this renewed awareness, and against the backdrop of issues ranging from unrest in the Middle East and terrorism, to disinformation and cyber-threats, the EU made considerable progress in 2017 in the area of defence and security cooperation, in particular including R&D, capacity development and a defence fund that will increase incrementally in size.

Even though at a lower level than in 2016, migration to the EU continued to put the Union's fundamental values to the test, notably in terms of the social, economic and humanitarian efforts required. In 2018 and beyond, issues such as conflicts, persecution and environmental degradation, and the resulting lack of security and opportunity, will continue to push people away from their homelands in search of a safer and brighter future. For an adequate, fair and unified response, the EU is set on reforming its common asylum system, on solidifying partnerships with third countries and on securing sufficient funding for tackling the phenomenon, while at the same time protecting its citizens and free movement in the EU.

Despite continuing efforts, long-term unemployment, especially among the young, and inequality persist. The EU is addressing these issues from several policy angles. These include measures for growth, investment and macro-economic stability in the context of a deepened economic and monetary union, and progress towards completion of the single market. In addition, the newly adopted European Social Pillar should, with enough resolve to act upon its principles, help to highlight the importance of the social dimension.

All these priorities are reflected in the EU budget for 2018, with the European Parliament negotiating more support for migration, youth employment in particular, and growth. They are also at the heart of the priority legislative actions and initiatives agreed by the institutions for the coming year, and are in line with the Commission's 'agenda for a more united, stronger and democratic Europe' set out in its 2018 work programme. Looking towards the European elections in 2019, the challenge for the EU will be to build momentum while finding the means to strike a balance between the various, often controversial and unpredictable, forces at work within and beyond its borders, the desire for greater cohesion and integration, and the need to strengthen and reassert its own role as a Union that defends, protects and empowers its citizens.

1. Terrorism

The evolving threat

In recent years, terrorism has been an issue of major concern that has dominated public debates across the EU. The deadly attacks that took place in several EU Member States in 2017 attest to the ongoing reality of the threat, despite a massive security response. Furthermore, with ISIL/Da'esh ('Islamic State') losing ground in [Iraq and Syria](#), the phenomenon of [foreign fighters](#) returning to Europe has emerged as a prime security concern. The apparent reduction in the number of individuals arriving in and leaving the conflict areas in 2017 is most likely due to military efforts, stricter border controls and states' increased efficiency in preventing travel. This trend may be reversed once ISIL/Da'esh has finally been defeated, although surviving fighters may choose to shift to other battlegrounds that present fewer challenges than returning to the EU. The demise of ISIL/Da'esh could also result in the resurgence of other groups, such as al-Qaeda, which might adopt new strategies. For the moment, effectively tackling radicalised individuals within the EU who may be beneath the authorities' radar, and preventing further radicalisation, appear as the most pressing problems.

The nature of Jihadist terrorist attacks on EU soil has changed somewhat since they were first launched. Whereas some are still perpetrated, or at least orchestrated, by terrorist networks, others are executed by individual Jihadists who are only loosely, if at all, connected to ISIL/Da'esh or other groups. Often acting alone, they tend to use simple, readily available means (for example, vehicles and knives), to inflict mass casualties or attack individuals. Both 'hard' (police and the military) and 'soft' targets (crowds in open public spaces) have come under attack.

Women appear to have acquired a more prominent role. Initially recruited mainly to fulfil lower-profile tasks, such as raising children in line with jihadist ideology, they now seem increasingly involved in preparing and executing terrorist attacks. According to [Europol](#), one in four people arrested in the EU for terrorist activities in 2016 was a woman. The fact that many women and children, possibly indoctrinated and accustomed to violence, are among potential returnees, calls for specific policy responses going well beyond law enforcement.

Furthermore, recent attacks have provided new insight into the relationship between terrorism and ordinary crime. Most offenders are known to have a history of criminal involvement, such as drug trafficking and theft, and for some, embracing violent extremism has not meant abandoning these. As a result, ordinary crime can serve as a ready source of financing for terrorist activities.

A comprehensive EU response

Against this evolving background, the EU has sought to establish itself as the main forum for counter-terrorism cooperation between the Member States. Even though counter-terrorism is to a large extent a national competence, the EU has created a legal and policy framework covering a wide range of areas, including police and judicial cooperation, cybersecurity and the fight against terrorist financing. Answering calls for an evaluation of the numerous measures already in place, the Commission published a comprehensive [assessment](#) in July 2017, much of which concerned counter-terrorism. The assessment concluded that the main EU security policy instruments are appropriate and that EU action has delivered positive results, with no substantial negative side-effects, duplications or overlaps. It pointed,

however, to the lack of full and effective implementation of some of these instruments. In addition, some major relevant EU legislation has only recently been adopted and is yet to be transposed into national law. Examples include the 2016 [PNR Directive](#) and the 2017 [Directive on combating terrorism](#), both of which should be transposed by Member States in 2018. These two directives illustrate the EU's willingness to go very far in granting access to information to law-enforcement authorities, in the case of the former, and in extending the list of terrorist activities by criminalising acts such as travelling and receiving training for terrorist purposes, in the latter.

For its part, the European Parliament has set up a special committee ([TERR](#)) to investigate deficiencies in the fight against terrorism and to consider possible ways forward.

Some areas are in need of further improvement and there is ongoing reflection on how best to address the existing gaps and challenges. Information- and intelligence-sharing is one such area, as cooperation between national authorities remains inadequate, despite the clear progress made over the past two years. One answer is to make better use of the existing EU [information systems](#) for border management and security, such as the Schengen Information System (SIS). Several options are being considered to make these systems more 'interoperable', to ensure that frontline officers get faster access to information and to avoid 'blind spots', where individuals are recorded in various databases under different aliases. Legislative proposals in this respect were made in December 2017, while a new mandate for the European agency for the operational management of large-scale IT systems in the area of freedom, security and justice ([EU-lisa](#)) is likely to be adopted in 2018.

Radicalisation is another issue on which work has intensified and is bound to continue. The Radicalisation Awareness Network ([RAN](#)) has been expanded and now covers over 3 000 frontline and grassroots practitioners from around the EU. Whilst RAN has succeeded in coordinating and supporting the collection of relevant expertise, much is still expected of it in terms of improving understanding of a phenomenon about which too little is known.

The EU bodies active in the field of security intend to further adapt their working methods to better address terrorist threats. Europol has already gone a long way, as it now hosts the European Counter Terrorism Centre ([ECTC](#)), a specialised unit pooling the agency's counter-terrorism capabilities. The centre manages, among other things, the Europol Information System, the EU-US Terrorism Financing Tracking Programme (TFTP), and the Internet Referral Unit, which tackles online terrorist propaganda and extremism. The ECTC thus acts as a central information hub and has supported and coordinated cross-border counter-terrorism investigations, including in the aftermath of the Paris and Brussels attacks.

As regards initiatives likely to be developed in the foreseeable future, the EU will address the terrorism trends mentioned above. This is shown in the Commission's recent action plans to boost the protection of [public spaces](#) and to enhance preparedness against chemical, biological, radiological and nuclear ([CBRN](#)) [security risks](#). Encryption and the misuse of chemical substances to produce [home-made explosives](#) are also being addressed. Furthermore, the Commission is currently reconsidering the creation of a system to cover intra-EU payments, complementing the EU-US [Terrorist Finance Tracking Programme](#).

It remains to be seen to what extent future EU action will take into account fundamental rights and data protection standards. While these are defined by international and EU laws, they are not always fully respected in the context of what is a rather crisis-driven EU counter-terrorism policy.

2. Disinformation and cybersecurity

In 2017, Russian influence campaigns orchestrated via US-based social media continued to arouse deep anxiety in Western democracies. The scope of the Kremlin's [interference](#) in the 2016 US presidential election campaign was steadily revealed throughout 2017. A declassified US [intelligence assessment](#) from early 2017 said that the Kremlin had used professional 'trolls' (internet warriors) and Russian state broadcaster RT 'as part of its influence efforts'. A year on, social media giants finally revealed to US lawmakers that pro-Kremlin players had bought and published [divisive advertisements](#), amplified by [bots](#) and algorithm-enhanced human interactions. Aimed at influencing both liberals and conservatives, these adverts succeeded in reaching up to 126 million Americans on Facebook alone. Furthermore, a number of EU Member States – including the [United Kingdom](#) and [Spain](#) – have accused Russia of interfering in domestic elections and/or referendums, and the pressure on tech giants to share information and assume greater responsibility for content [keeps mounting](#).

EU steps to curb influence campaigns

In the light of these developments, the EU High Representative, Federica Mogherini, has faced growing pressure – including from the European Parliament in a 2016 [resolution](#) on counteracting anti-EU propaganda by third parties – to reinforce the [East StratCom task force](#). Since its creation within the European External Action Service (EEAS) in 2015, the task force has relied on seconded staff and a network of volunteers to collect disinformation stories (more than 3 300 examples in 18 languages to date), which it analyses, debunks and publishes in its weekly newsletter. Mogherini is expected to ask for [more resources](#) for the StratCom team in early 2018, despite warnings from the Kremlin that boosting StratCom could further strain EU-Russia [ties](#). The 2018 EU budget, approved by the Parliament in November 2017, includes the Parliament-initiated €1.1 million pilot '[StratCom Plus](#)' project, to be implemented jointly by the European Commission and the EEAS. It aims to increase EU capacity on fact-checking disinformation in and beyond the EU, by boosting the skills of staff (at Commission representations in Member States, and EU delegations in Eastern Partnership countries and in the Western Balkans), who will report to the EEAS and to the StratCom task force within it.

In June 2017, the Parliament passed a [resolution](#) on online platforms and the digital single market, stressing the 'importance of taking action against the dissemination of fake news'. Subsequently, the Commission launched a public consultation on 'fake news and online disinformation' and set up a [high-level group](#) of experts representing academia, online platforms, news media and civil society organisations. The results of the public consultation and a related Eurobarometer survey will be published in March 2018, and a report from the high-level group is expected in April. The Commission plans to publish a [communication](#) on fake news and disinformation in spring 2018.

Growing international cooperation amid increased hybrid threats

[EU-NATO cooperation](#) increased in 2017, in accordance with the July 2016 [global strategy](#) for EU foreign and security policy, which envisaged stronger ties and cooperation with NATO, as well as the July 2016 EU-NATO joint declaration. Following the April 2016 joint communication by the Commission and the High Representative on a [joint framework](#) on countering hybrid threats, a European Centre of Excellence for Countering Hybrid Threats ([Hybrid CoE](#)) was inaugurated in Helsinki in October 2017. The decision by 10 EU Member States (Germany, Estonia, Spain, France, Latvia, Lithuania, Poland, Finland, Sweden and the UK), Norway and the United States to open the centre is in itself seen as a sign that tensions produced by Russia

through its influence campaigns can no longer be ignored. Both the EU and NATO have been invited to support the steering board, and participation in the centre's work is open to all EU Member States and NATO allies. The centre maintains close contact with the [EU Hybrid Fusion Cell](#), set up within the EU Intelligence and Situation Centre structure and fully operational since May 2017. Whereas other centres have been established under NATO auspices in EU Member States, such as Estonia, Latvia and Lithuania, the one in Helsinki is the first to link NATO and the EU. This unprecedented level of EU–NATO cooperation is set to continue in 2018 in addressing hybrid threats, in line with the July 2017 [joint report](#) on the implementation of the joint framework.

Cybersecurity: a shift towards increased regulation

In 2017, the EU and the world continued to face multiple evolving cyber-threats, with ransomware attacks of [unprecedented scale](#) and massive [data breaches](#) hitting the headlines. It is estimated that, every day, over [5 million data records](#) are lost or stolen and more than [4 000 ransomware](#) attacks are launched. Europol's Internet Organised Crime Threat Assessment ([IOCTA 2017](#)) warns of a growing number of such attacks against critical infrastructure, such as hospitals, law enforcement agencies and transport companies, causing severe disruption. In addition, ongoing digitalisation has opened new doors for cyber-attacks targeting elections, which, according to the IOCTA, can take multiple forms: denial-of-service attacks against campaign websites or online electoral services, attacks against voter registration or voting machines, or exfiltration of data. In whatever form, they aim to undermine the integrity and credibility of elections. Ahead of the European elections in 2019, the European Parliament faces the risk of becoming a target of both influence campaigns and cyber-attacks.

Against this backdrop, some [analysts](#) expect governments to intervene further and demand more responsibility from businesses. At the EU level, two key legal instruments will enter into force in May 2018: the Network and Information Security ([NIS](#)) Directive and the General Data Protection Regulation ([GDPR](#)). The NIS Directive will require companies identified as operators of essential services to take appropriate security measures and report serious incidents to national authorities. The same requirements will apply to digital service providers (search engines, cloud computing services and online marketplaces). Under the GDPR, businesses will have to notify both customers and authorities about data breaches. Fines for non-compliance can reach up to €20 million or 4 % of annual revenue.

The EU's efforts to step up action in this field translated into the adoption, in September 2017, of a new overarching [approach](#) to cybersecurity in the form of a [package](#) aimed at increasing cyber-resilience, enhancing criminal law response and reinforcing international cooperation. Under the 'resilience' pillar, the package includes a legislative proposal – a '[cybersecurity act](#)' – to strengthen the European Union Agency for Network and Information Security, ENISA, and to transform it into an EU cybersecurity agency with full operational capacities. In October 2017, MEPs adopted a [resolution](#) on the fight against cybercrime, urging Member States to invest more in cybersecurity to prevent attacks aimed at destroying critical infrastructure and destabilising societies. MEPs also advocated improving information exchange through Eurojust, Europol and ENISA, and investing in education to address the lack of qualified IT professionals working on cybersecurity.

3. Brexit / United Kingdom withdrawal from the EU

On 29 March 2017, the UK Prime Minister, Theresa May, [notified](#) the European Council of the UK's intention to withdraw from the EU, thereby triggering a two-year deadline to reach a withdrawal agreement. The UK would also leave the EU single market and customs union, and seek a comprehensive free-trade deal with the EU. A month later, the European Council (EU-27) adopted guidelines for negotiations with the UK, setting out a phased approach. In a first phase, talks would focus on three priority issues: EU and UK citizens' rights; a financial settlement; and the situation of Northern Ireland. A second phase, to start when 'sufficient progress' had been made on the first, would address the framework for future EU-UK relations and, as later [requested](#) by the UK, transitional arrangements. On 8 December, after [six rounds](#) of talks, agreement was reached on the priority issues, allowing the European Council to decide that [sufficient progress](#) had been made to move to the second phase.

Timeline: Negotiations [need](#) to be finalised by autumn 2018, to allow time for the withdrawal deal to obtain the consent of the European Parliament, and UK parliament approval, so that UK membership can end on 29 March 2019. The EU-27 and the UK could extend this deadline by common agreement.

Common understanding on the key issues of the withdrawal agreement

On 8 December, the EU and UK announced agreement in principle on the main issues for the withdrawal, set out in a [joint report](#). These could still be adapted to possible transitional arrangements and are without prejudice to discussions on the future EU-UK relationship.

- **Citizens' rights:** The parties reached a [common understanding](#) on ensuring the protection and effective exercise of the rights derived from EU law, of EU and UK citizens, including their family members, in each other's territories, 'where those citizens have exercised free movement rights by the specified date', so that EU-27 and UK citizens can continue living, working and studying in their host state. The 'specified date' means the withdrawal date, although the Commission's view is that, if the 'original' EU citizens' rights continue to apply in a transition period, that date would be the end of that period.
- **Financial settlement:** The parties agreed on a methodology for the financial settlement, including its components, the principles for calculating it and how payments will be made. Essentially, the UK will continue participating in the multi-annual EU budget up to 31 December 2020, and pay its share of liabilities incurred before that date.
- **Northern Ireland and Ireland:** Negotiators agreed on several principles and commitments, to tackle the challenges to north-south cooperation on the [island of Ireland](#), arising from the UK's withdrawal from the EU, single market and customs union. Essentially, the parties commit to upholding the peace process and the Good Friday Agreement in all circumstances, including by avoiding a hard border on the island. Moreover, in the event of failure to agree specific solutions for Northern Ireland through the future EU-UK relationship or otherwise, the UK committed to 'full alignment' with those EU rules that support cooperation and the economy on the island of Ireland.
- Other **separation issues** addressed during the first phase require further discussion. These include the UK's withdrawal from the Euratom Treaty; ongoing EU judicial and administrative procedures; goods placed on the market before withdrawal; ongoing police and judicial cooperation in criminal matters; and judicial cooperation in civil and commercial matters. In particular, divergence remains on governance of the withdrawal agreement, namely on the role of the Court of Justice of the EU, the institutional structures for dispute resolution, and the way to ensure compliance with the agreement.

Next steps: transition and future framework for EU-UK relations

The European Council (EU-27) decided on 15 December, on the basis of the Commission's [recommendation](#), that sufficient progress had been achieved to move onto phase two. New [guidelines](#) call on the negotiators to start drafting the withdrawal agreement, based on the joint report and talks on other separation issues. They also make clear that progress in the second phase is contingent upon fully respecting the commitments made in the first.

The [transitional arrangements](#), to be clearly defined and limited in time, will be part of the withdrawal deal, and underpinned by the following principles: i) the UK will remain in the customs union and the single market, but will not be represented in the EU institutions; ii) the entire EU *acquis* (including changes made during the transition period) will apply to the UK, together with 'all existing Union regulatory, budgetary, supervisory, judiciary and enforcement instruments and structures'; iii) the UK will respect its obligations arising from the single market's four freedoms and the customs union. The Council will adopt negotiating directives on transitional arrangements in January, based on a Commission [recommendation](#).

Procedures in the UK: On 13 July, the UK government submitted the [European Union \(Withdrawal\) Bill](#) to the UK Parliament. The aim of the bill is to revoke, as from the withdrawal date, the 1972 European Communities Act, which gives effect to EU law in the UK, while transposing most EU law into UK law. The bill still faces UK parliamentary [scrutiny](#). The UK has also [announced](#) that the withdrawal agreement would be directly implemented in domestic law by primary legislation.

On the [future framework for EU-UK relations](#), the European Council stated its willingness to begin preliminary talks to identify a common understanding, which would take the form of a political declaration accompanying the withdrawal deal, since an agreement can only be concluded once the UK becomes a third country. However, [discussions](#) on trade and other areas of cooperation, such as counter-terrorism, security, defence and foreign policy, will only begin after additional guidance has been agreed in March 2018. Preserving the integrity and proper functioning of the single market and avoiding disrupting relations with existing third-country partners will be key for the EU. While internal preparatory discussions are continuing within the EU, the UK still needs to clarify what type of trade deal it seeks.

What type of economic and trade deal?

In the EU's view, by ruling out participation in the EU single market (based on the [model](#) of the EEA/EFTA countries), the UK is left with the [option](#) of a EU-Canada type trade deal (CETA). However, market access for services is limited under CETA. A '[Canada plus-plus-plus](#)' option – meaning 'Canada plus the best of Japan, the best of South Korea and ... services' – has been advanced by the UK chief negotiator. [Experts](#) have also mentioned an association agreement, modelled on the EU-Ukraine deal. It would provide for a deep and comprehensive free trade area, and for political cooperation on foreign policy or counter-terrorism. A no-deal scenario, with trade on WTO terms, seems a remote possibility now, but the one with the most damaging [economic consequences](#), particularly for the UK.

The European Parliament's role

The Parliament, whose consent is required for the conclusion of any withdrawal deal, has adopted three resolutions on the negotiations with the UK, on [5 April 2017](#), [3 October 2017](#) and most recently, on [13 December 2017](#). In the latest, the Parliament called for the commitments made in the joint report to be fully respected and translated into legal terms, as a prerequisite for future progress. It also set out five outstanding issues to be addressed further. Finally, the Parliament reiterated that the full EU *acquis* and all EU oversight instruments and structures must apply to the UK during any transition.

4. Rising inequalities

Inequalities are a deep-rooted and persistent problem in the EU and globally. While across the EU the [Gini-co-efficient](#) of equivalised disposable income has been somewhat stagnant both for individual Member States and for the EU-28 as a whole, there are major territorial and developmental differences. In addition, new, more comprehensive forms of [data collection](#) that go beyond GDP and also take environmental and social factors into account, show an even more nuanced picture. The latest results of the OECD [well-being index](#), for example, show that the scars left by the financial and economic crises have not yet healed and that the benefits of globalisation, including greater openness, do not reach all in an equal manner. The data show clear divisions between societies and individuals according to education level, income, wealth, age and birthplace. For instance, despite having higher educational attainment than previous generations, people under the age of 25 are particularly hard-hit and are 60 % more likely to be unemployed than those aged 25-54. Overall, this situation erodes [trust in government](#), both national and EU, and thus leads to political tensions.

What is the issue?

Inequality not only means inequality of income, but can also refer to inequality of outcomes, such as educational attainment, health, and social mobility. Moreover, there can be inequalities between generations, genders and regions, and between people with different social or cultural backgrounds. Therefore, the issue is also dependent on the basic structures in our societies. In turn, the remedies have to address those basic structures, there being no 'one-size-fits-all' formula. Existing approaches include, for instance, combating [inequality of opportunity](#) or promoting [inclusive growth](#). The main rationale behind the latter has been that there is no trade-off between economic growth and equality, which also implies that high levels of inequality erode social cohesion. [Some](#) point out that the evidence provided by the literature on how inequality impacts growth is inconclusive, thus provoking lively debates on the best policies and strategies to adopt.

Policies to combat inequalities in the EU in 2018

Currently, the broader context of addressing inequalities is marked by the reflection process on the future of the EU, which was prompted by the European Commission's [white paper](#) on the subject in March 2017. Two of the additional specific reflection papers – on the [social dimension](#) of the EU and on [harnessing globalisation](#), respectively – directly address the core issue of inequality and new types of inequality stemming from economic and technological change, and possible ways of dealing with them. The social dimension paper refers to income inequalities and how a well-functioning welfare state can counterbalance this phenomenon. The globalisation paper explains how wealth in the EU is concentrated in the hands of the few, albeit to a much lesser degree than in the rest of the world, and how Member States that are more integrated within the global supply chain experience less inequality. The [basic dilemma](#) behind all decisions concerning the social and economic dimension of the future of the EU is rooted in the need to concurrently address expectations relating to both 'responsibility and competitiveness' and 'solidarity and caring'. While the first implies stricter implementation of rules, reiteration of the 'no bail-out' principle, reduction of risks, a stronger market principle and implementation of structural reforms, the second requires more flexible rules, introduction of common risk-sharing instruments, more European support for national reforms, more fiscal room for public investment, reduction of macro-economic imbalances

and a narrowing of the gap between the countries that use the euro and those that do not. To reach these very [diverse](#), sometimes even contradictory objectives, and to move towards convergence instead of divergence, pro-environmental economic policy mixes are required. This also implies closer coordination of economic and social policies.

In the EU, measures directly addressing some of the root causes of inequalities will be related in 2018 to the implementation of the [European Pillar of Social Rights](#) and associated initiatives. The Social Pillar contains 20 principles and rights to support the renewal of current labour market and welfare systems while promoting intergenerational fairness. It addresses three main topics: equal opportunities and access to the labour market; fair working conditions; and social protection and inclusion. The [interinstitutional proclamation](#) on the Social Pillar was signed by the presidents of the European Commission, the European Parliament and the Council of the EU at the [Social Summit](#) held in Gothenburg in November 2017, thereby attesting to their shared political commitment to the issue.

The Social Pillar was conceived for the euro area, but according to the proclamation, is addressed to all Member States. However, the major remaining challenge is how best to implement the Social Pillar and related EU policies to respond to the specific socio-economic situations in the different Member States. As reiterated in several European Parliament [resolutions](#), implementation strategies should involve initiatives with a life-cycle approach as well as measures on governance and funding. According to the joint proclamation, implementation should mainly remain with the Member States, with involvement from the social partners. For the purpose of monitoring and supporting the implementation process, the Commission [2018 work programme](#) envisages the integration of the [Social Scoreboard](#) accompanying the Social Pillar, into the [European Semester](#) (the framework for coordinating economic policies at European level).

As part of the implementation of some of the Social Pillar principles, the measures built into the [social fairness package](#), due for adoption in 2018, are meant to support Member States in their efforts to update their national welfare systems. These measures include establishing a European Labour Authority, granting atypical self-employed workers access to social protection, introducing a European social security number that could be used across policy sectors, and revising the [Written Statement Directive](#) that obliges employers to inform their employees about their working conditions. In addition, the [work-life balance package](#), containing [legislative](#) and non-legislative measures, might help to [reconceptualise](#) the area of care, so that it becomes seen more broadly as an integral part of society. In relation to the Social Pillar principles on ensuring access to quality education and reducing skills mismatches, particular attention will be given to the 10 actions put forward in the [New Skills Agenda](#) in 2016. Priority will be assigned to implementing the recommendation on [upskilling pathways](#) for adults struggling with low levels of basic skills and qualifications.

'Hard' economic governance and the future of EU finances will greatly impact on efforts to overcome inequalities within the EU. Forthcoming initiatives on completing [economic and monetary union](#) include the introduction of an EU budget line dedicated to structural reform assistance and to developing a convergence instrument for pre-accession assistance. The debate on the post-2020 [Multiannual Financial Framework](#), starting with the Commission's proposal expected in May 2018, will also be influential. It will need to reconcile the need for flexibility and rapid reaction on the part of the executive, on the one hand, and for stronger democratic legitimacy and unity of the budget, on the other.

5. Migration

Although the record-high migratory flows to the EU witnessed during 2015 and 2016 had subsided by the end of 2017, [sea arrivals](#) remained at significant levels. In 2018 and in the years to come, considering the [global repercussions](#) of international and internal conflicts, climate change and the growing disparities between the EU and third countries, it is unlikely that migratory pressure will decrease. The EU must therefore find ways to adjust to the new reality and prepare for [volatile](#) forced migration flows. Several measures to this end are currently under way, and the political priority is also reflected in the [EU budget](#), where nearly €4.1 billion has been set aside for migration and security in 2018, bringing the total funding in these policy areas to €22 billion over the 2015-2018 period.

Reform of the Common European Asylum System

In 2016, the Commission presented a number of proposals to [reform](#) the Common European Asylum System (CEAS), by amending the [Dublin Regulation](#), to create a [European Union Agency for Asylum](#), to reinforce the [Eurodac](#) system for fingerprinting migrants, to replace the [Asylum Procedures Directive](#) and the [Qualification Directive](#) with regulations, and to recast the [Reception Conditions Directive](#). While the European Parliament and Council have made progress in negotiating these reforms, the legislative process is still ongoing, and all the files are included as [priority pending proposals](#) in the Commission's 2018 work programme as well as in the interinstitutional joint declaration on legislative priorities.

Strengthening borders

Last year saw the lifting of the [internal border controls](#) that several Schengen countries had temporarily reintroduced after the detection of serious deficiencies in Greece's external border management in 2015. Based on the [Schengen Borders Code](#), Austria, Denmark, Germany, Sweden and Norway were allowed to keep these [arrangements](#) until November 2017. Considering that prolongation was no longer possible, and in line with the 'Back to Schengen' [roadmap](#), the Commission [proposed](#) to update the Schengen Borders Code by introducing stronger procedural guarantees, a special procedure for persistent serious threats and a longer maximum limit for the temporary re-introduction of internal border controls in case of foreseeable events and identified threats. The proposal is to be examined by the Parliament and Council in 2018. Another step towards stronger external border management was taken with the [adoption](#) of the [Entry/Exit System](#) to register all third-country nationals crossing Schengen borders. This will replace the stamping of passports with more automated controls, and help to detect document and identity fraud as well as visa overstayers. Due to become functional by 2020, the system is expected to improve the interoperability of [EU information systems](#) and close an important information gap.

Focus on return and re-admission

In its mid-term [review](#) of the European Agenda on Migration, the Commission estimated that out of the roughly 1 million third-country nationals found to be illegally present in the EU in 2016, half were ordered to leave and only 226 000 were actually returned. Part of the problem lies in the lack of cooperation from third countries on re-admission. In order of priority, the EU is focusing on concluding re-admission agreements with Nigeria, Tunisia and Jordan, and on pursuing negotiations with Morocco and Algeria. The EU's policy approach, as reflected in its renewed [return action plan](#), also insists on a more systematic approach to non-cooperation on return, including through visa measures. However, [low return rates](#) are also

the result of EU Member States' inefficiency in applying the relevant instruments. To address this, the Commission has recommended establishing a common set of guidelines – a '[return handbook](#)' – and stepping up cooperation with the European Border and Coast Guard Agency. Proposed new border-management tools such as the recast [Schengen Information System](#), [Eurodac](#), and the [European Travel Information and Authorisation System](#), are also expected to improve information exchange between Member States for return purposes.

Cooperation with third countries

In March 2016, the EU and Turkey made a [statement](#) on their plans to increase cooperation to stem irregular migration from Turkey to the EU. Later that year, the Commission initiated a new dialogue with other countries of origin and transit to reinforce efforts within existing frameworks such as the Africa-EU Migration and Mobility Dialogue, and the Khartoum and Rabat processes. Accordingly, it devised a new [partnership framework](#) with third countries, intended to address the root causes of irregular migration, combat human smuggling, and motivate these countries to increase cooperation on return and re-admission. The new partnerships are linked to incentives, both positive ones such as visa facilitation, and negative ones such as conditions on development cooperation. Such partnerships have been concluded with Jordan, Lebanon, Niger, Nigeria, Senegal, Mali and Ethiopia. In September 2017, the Commission [announced](#) that further partnerships had been established with western and northern African countries to reduce pressure on the Central Mediterranean route. With the same objective in mind, Italy signed a [Memorandum of Understanding](#) with Libya in early 2017. In July, the EU produced an [action plan](#) with measures to support Italy and to assist the Libyan coast guard in intercepting and returning migrants in the Mediterranean. This course of action has recently drawn [criticism](#) from the UN High Commissioner for Human Rights, among others, and the EU has been invited to ensure compliance with human rights and respect for the principle of *non-refoulement* when working in or with third countries, as also set out in the [guidance](#) by the European Fundamental Rights Agency.

Legal pathways to the EU

In his 2017 [State of the Union address](#), the Commission President, Jean-Claude Juncker, acknowledged that 'irregular migration will only stop if there is a real alternative to perilous journeys'. Within the EU framework, Member States have been resettling refugees from third countries directly under the provisions of the EU [emergency resettlement scheme](#) and the EU-Turkey statement. However, the number of resettlements remains modest on the global scale. In September 2017, the Commission [recommended](#) that Member States additionally resettle at least 50 000 vulnerable persons by October 2019. A more targeted approach to large movements of migrants and refugees, coupled with specific international commitments, including from the EU, is also being prepared by the UNHCR and the International Organization for Migration. Launched in September 2016 through the [New York Declaration](#), this multi-step exercise will reach a formal consultation phase in the first half of 2018, with a view to adopting the final texts of two global compacts – on [refugees](#) and on [migrants](#) – by December. In parallel, [private sponsorship schemes](#) could be envisaged through engaging civil society organisations and private groups. Labour mobility is yet another way of increasing legal pathways to the EU. The [EU Blue Card](#) is meant to attract and retain highly skilled workers, but its use has remained limited. Its proposed revision is currently being negotiated between the European Parliament and the Council.

6. Youth empowerment

According to [Eurostat](#) data, there are currently 88.6 million young Europeans between 15 and 29 years old. They constitute 17.4 % of the total population, a slow but steady decline from 19.6 % (96.6 million) in 2006. While women are a majority in the overall population, the reverse is true in this age bracket. Some 66 % of young people live with their parents, leaving on average at the age of 26. Some 28.8 % are at risk of poverty or social exclusion.

Considering the upper age bracket of 25 to 29-year olds, in 2016, 37.2 % had attained tertiary level education, 46.8 % upper or post-secondary education and 15.9 % lower secondary education or less. The employment rate was 73.2 %, but only 54 % of those with the lowest educational level were employed. While almost 91 % claimed to be in good or very good health, there was a difference of more than 10 % between the lowest income quintile (83.7 %) and the highest (94.3 %).

Youth policy in the EU is a competence of the Member States. Nevertheless, to assist them, the EU has adopted a nine-year [Youth Strategy](#) that will run until the end of 2018. It aims to increase opportunities for all young people and to encourage them to participate actively in society. Its actions are concentrated in the fields of education and training, employment and entrepreneurship, health and wellbeing, participation, voluntary activities, social inclusion, youth and the world, creativity and culture. The European Commission dedicated 2017 to an exercise of [stock-taking](#) and [consultation](#) regarding these actions.

During this exercise, youth representatives indicated the desirability of extending student and youth mobility to groups of young people who have in practice been socially excluded up to now. Greater inclusion is also one of the concerns of policy discussions within the [European Higher Education Area](#), an initiative aimed at improved mobility through reforming higher education systems. Youth representatives have further highlighted the importance of engaging young people in civic issues and in the democratic process in a meaningful way. They have drawn attention to the importance of recognising the knowledge and skills developed outside the formal education system, and also of offering access to stable work and decent housing, which still elude a significant number. On a positive note, the [structured dialogue](#), a regular exercise that brings together young people and high-level policy-makers, was described by participants as inspiring and unique.

In 2018, a new Youth Strategy for 2019-2027 will be established. Stakeholders have pointed out that, to succeed, it needs to be transversal and closely aligned with other policy fields and funding sources. They have indicated the importance of improved participation by a wider spectrum of authorities, young people and youth-workers in designing, implementing and monitoring the strategy. The objectives of [Erasmus+](#), the EU funding programme for education, youth and sport and the Youth Strategy need also to be linked more clearly.

In his [State of the Union](#) speech on 14 September 2016, the Commission President, Jean-Claude Juncker, announced another youth-oriented initiative, the [European Solidarity Corps](#), which aims to enrol 100 000 young people in solidarity projects by the end of 2020. The Council adopted its [general approach](#) on the Commission's proposal for a legislative framework on the above initiative in November 2017. The European Parliament is expected to adopt its [position](#) in early 2018. In a [resolution](#) on the corps, the Parliament insisted on clear definitions, avoidance of negative impacts on existing programmes and integration within a broader volunteering strategy. The Commission envisages the adoption of the legal framework in early 2018.

Discussions on the Youth Strategy and the European Solidarity Corps are backed by a growing sense among policy-makers that groups of young people are hindered from participating constructively. Both initiatives thus adhere to the [Paris declaration](#) of 2015 that called on policy-makers to focus their [efforts](#) on fighting inequalities, racism and discrimination, and to encourage citizenship education that develops young people's media literacy and critical thinking. This was largely in response to news of young people leaving Europe to join terrorist groups fighting in Syria and the 2015 terrorist attacks. Consequently, interest grew in building an understanding of how social media and the internet are used to [lure](#) young people, and later, to propagate what became widely referred to as [fake news](#).

Social situations with an impact on the whole population can hit young people in specific ways. For instance, young people are more [exposed](#) to periodic economic crises. Difficult transitions from education to work also heighten the risks of exclusion. Furthermore, although work-based learning is useful to address [skills mismatches](#), there is also the [risk](#) that tools such as internships are misused to replace real jobs. Unpaid work experience also shifts the costs of skills acquisitions onto individuals, creating a labour market barrier for those who lack the financial means to support themselves. To provide support to young people who are not in employment, training or education, or are long-term unemployed, the EU adopted the [Youth Employment Initiative](#) in 2012 and the [Youth Guarantee](#) in 2013.

Young people are also exposed to other forms of inequality and discrimination, often linked with specific identities. For instance, while progress has been made in making education more accessible to the young [disabled](#), barriers persist. At EU level, [measures](#) are now being put in place to open up learning mobility to this and other disadvantaged groups. Other areas, such as access to work, culture and sport, are still lagging behind.

[Data](#) indicate that foreign-born and second-generation young people are at greater [risk](#) of poverty, are more likely to [leave school](#) early and to be out of employment, education or training, and are less likely to have mastered basic skills (literacy, maths and science) by the age of 15. This is also [linked](#) to parents' income and education level. However, [practices](#) such as good (and continuing) teacher training on intercultural education, avoiding early selection and learning in both native and host-country languages, seem to make a difference.

[Gender](#) influences educational outcomes as well. Boys from disadvantaged socio-economic backgrounds are more likely to leave school early and obtain weaker results. Girls are more likely to take up a first degree, but they are still under-represented in the fields of science, technology, engineering and maths. Later, men are more likely to carry out doctoral studies, to find work once they leave education and to earn higher salaries.

At the same time, recognition that gender identity is not simply binary is still uneven in Member States, as a result of which [LGTBI](#) youth are still exposed to discrimination. While the principle of equality and the prohibition of discrimination on the basis of sexual identity are embedded in EU legislation, research indicates that homophobia and bullying in schools are still a problem. EU funds have served to finance programmes that challenge attitudes in schools and local communities as well as share good practices internationally.

Youth will be very high on the EU agenda in 2018, with the renewal of the Youth Strategy, the establishment of a legal basis for the European Solidarity Corps, the upcoming meeting of the Bologna Process stakeholders in Paris and the [campaign](#) to increase funding for Erasmus+ tenfold in the run-up to the discussions on the next multiannual financial framework negotiations, which start in earnest in May.

7. European elections

The next European elections – for the ninth elected term – will be held in May/June 2019. But the European Parliament elections struggle to be truly 'European' rather than 'national' in both form and substance. Elections to the EP are often said to be ['second order' elections](#), since the campaigns are frequently dominated by purely national topics and are mostly led by national political actors. The 'national' label is even more firmly attached to European elections, because they are largely governed by national rules. The [1976 Direct Election Act](#) (as amended) only establishes some basic common principles, such as proportional representation, a common 'electoral period' and a voluntary threshold of not more than 5 %. Conversely, all other aspects, such as the precise election day, the right to vote and to stand as a candidate, the deadline for nominating candidates, voting from abroad, and the use of closed lists or preferential voting, as well as the use of a minimum threshold, are governed by [national rules](#), and therefore differ significantly among Member States.

Fulfilling the mandate of Article 223(1) of the Treaty on the Functioning of the European Union (TFEU) to propose either a uniform electoral procedure for European elections or electoral rules based on principles common to all Member States, in November 2015 the Parliament adopted a [proposal](#) to reform the current electoral law. The proposal sought to make elections to the EP more European, in both form and substance, as well as more democratic, through promoting electoral equality among EU citizens and by improving the functioning of Parliament. It contains, inter alia, provisions on a common deadline (12 weeks before the vote) for the establishment of electoral lists and for the nomination of lead candidates (*Spitzenkandidaten*). Other provisions concern gender balance on electoral lists; visibility of any national party affiliation to European political parties on the ballot papers; the right of EU citizens residing in a third country to vote in elections to the EP; simultaneous communication in all Member States of the first projections of results; and a minimum electoral threshold of 3-5 % in single-constituency Member States with more than 26 seats, and per constituency in Member States with multiple constituencies.

The proposal has faced severe opposition in the Council, with some Member States opposing it *per se*, deeming it 'unnecessary' for the conduct of European elections, and others arguing that most of the proposed legal provisions be converted into non-binding recommendations or discretionary provisions. The time for agreement on the many outstanding issues is short, due to some Member States' legal requirements that any adjustments to electoral rules should enter into force at least a year before an election.

In particular, the reference in the proposal to the *Spitzenkandidaten* process is meeting resistance in the Council. This process, which first took place in the 2014 European elections, was made possible due to a change in Article 17(7) of the Treaty on European Union (TEU) introduced by the Lisbon Treaty, establishing that the European Council must 'take into account the elections to the European Parliament' when proposing to the Parliament a candidate for president of the European Commission, and that the Parliament now 'elects' the Commission President rather than only 'approve' his/her election. The *Spitzenkandidaten* process is of considerable constitutional significance for the institutional balance in the EU, as it establishes a direct political link between the European elections and the Commission President. Such a link between the EP and the EU executive has already translated into further parliamentarisation of EU decision-making, not only within the legislative process itself, but also in the rest of the EU policy cycle, including agenda-setting and evaluation. The

Parliament's voice in the EU's political and legislative planning has seen an important boost, expected to strengthen further, through this new political link, rendering political and legislative agenda-setting more democratic and, indeed, [more political](#).

However, despite its constitutional potential, the *Spitzenkandidaten* process has shown some [limitations](#). Greater media interest during the lead candidates' electoral campaigns in 2014 [did not translate](#) into higher turnout, although it may have prevented a further decrease. In general, media impact varied in relation to the candidates' countries of origin. However, the process was [found](#) to have contributed to the 'Europeanisation' of the elections, by putting truly European topics at the centre of the electoral debate, and by increasing the Parliament's visibility through the personalisation of the campaign. These developments, although at an early stage, show the potential of the *Spitzenkandidaten* process to help create a common European political space, in which voters make an informed choice about the different political options at hand during the election to the Parliament.

Furthermore, the Parliament's proposal for electoral reform contains a legal basis for the introduction of transnational lists for the election of Members of the European Parliament (MEPs). Accordingly, in a constituency covering the whole EU, each political family would have a list headed by its lead candidate for the post of Commission President. Whilst transnational lists are meant to strengthen the European character of European elections, to ensure a more active role for European political parties and to foster direct political competition, they have been a controversial issue within the Parliament for many years, and only succeeded in making it into an electoral reform proposal in 2015. The idea seems also to be gaining support in the Council, even though to a rather limited extent, with the French government issuing a non-paper on a European constituency, with detailed proposals on the possible design of the election of MEPs on such transnational lists.

Discussions on possible transnational lists in a joint EU constituency have gained momentum with the prospect of 73 vacant EP seats after the UK withdraws from the EU. To redistribute some of these seats, but also to find a stable method for adapting the composition of the Parliament at each election, the Parliament's Committee on Constitutional Affairs (AFCO) is preparing a [report](#) due to be voted in plenary in early 2018. The Lisbon Treaty mandated the Parliament to propose to the European Council a decision on the composition of the Parliament, while respecting three principles: a maximum number of MEPs set at 751, a minimum of six and a maximum of 96 seats per Member State, and 'degressive proportionality'. The current composition was established by a [2013 European Council Decision](#), which also defined 'degressive proportionality' as proposed by Parliament: 'before rounding up to whole numbers, each MEP from a more populous Member State represents more citizens than each MEP from a less populous Member State and, conversely, no less populous Member State has more seats than a more populous Member State'. The current distribution of seats does not comply with the first requirement in all cases. However, a new (permanent) distribution model is proving difficult to establish, first, because of the uncertainty surrounding the UK's withdrawal date, and second, because most [mathematical formulae](#) lead to a loss of seats by mid-sized Member States, which has prompted some to demand a corresponding readjustment of the Council voting rules. So far, the draft report envisages that only some of the vacant seats after Brexit would be distributed among some Member States to achieve better degressive proportionality, with the remaining seats kept available for a possible future transnational constituency.

8. Future of the euro area

The euro area twice came under immense pressure in recent years: in 2007, when the US financial crisis spilled over to Europe, and then, when the European sovereign debt crisis broke out, peaking in 2010-2012. The latter clearly revealed [weaknesses](#) in the original architecture of economic and monetary union (EMU). During and after the crises, a major legislative overhaul aimed to strengthen and complete the framework of EMU. The biggest changes involved revamping [economic governance](#), henceforth to be accomplished through the [European Semester](#) and, most notably, its [Six Pack](#) set of rules for economic and fiscal surveillance. Moreover, changes were made through an inter-governmental approach, introducing the European Stability Mechanism ([ESM](#)), the Treaty on Stability, Convergence and Growth ([TSCG](#)) and the [Europlus Pact](#). To alleviate the crises, the European Central Bank (ECB) took robust [action](#), lowering its interest rates and engaging in quantitative easing. In parallel, the framework for regulation of financial services was extensively revamped. These efforts resulted in a more stable EMU, sometimes referred to as 'EMU 2.0'.

Two main schools of thought exist with regard to the future of EMU. The first deems EMU nearly completed, while the second would like to see a substantially different EMU, or erect a lot more on top of what already exists. The latter strand of thought is exemplified by the 2015 '[Five Presidents' Report](#)', which advocated that to complete EMU, further steps must be taken towards achieving a union in economic, financial, fiscal and ultimately in political terms. It is important to remember that the report reflects the personal views of five EU institutions' presidents, but is not an agreement between the institutions they headed.

Several ideas from the Five Presidents' Report have since been implemented rapidly. Among them are the establishment of [national competitiveness boards](#) and an independent advisory [European fiscal board](#) within the euro area, and the drafting of an [action plan](#) on building a capital markets union. The latter set out numerous measures to be adopted or implemented by 2019, including a European Deposit Guarantee Scheme ([EDIS](#)). Finally, the [European Pillar of Social Rights](#), introducing 20 principles and rights to EMU, including the right to fair wages, was proclaimed and signed in Gothenburg in November 2017. Similarly, a [roadmap](#) towards [Banking Union](#) had already been launched in 2012.

European Commission's view and proposals

In March 2017, the Commission presented a [white paper on the future of Europe](#). Rather than proposing concrete ways forward, it outlined five possible scenarios of varying degrees of ambition, ranging from 'carrying on' with the current framework, to 'doing much more together'. It also announced further reflection papers, including one on the [deepening of EMU](#). The latter was published in May 2017, but just like the white paper, only suggested ideas for the future EMU, such as a macroeconomic stabilisation function or a European unemployment reinsurance scheme, and sought to inspire debate.

However, the Commission President, Jean-Claude Juncker, was more specific during his [State of the Union speech](#), delivered to the Parliament in September 2017, and in the accompanying [letter of intent](#). He proposed using the '[passerelle clauses](#)' to move from unanimity to qualified majority voting in several policy fields, including taxation. He further advocated steps to incorporate substantial parts of the inter-governmental TSCG into the EU legal framework. The inter-governmental ESM would be transformed into a European Monetary Fund (EMF) under EU law. A strong dedicated euro-area budget line would be created within the existing EU budget, which would offer (1) structural reform assistance, (2) a stabilisation

function, (3) a backstop for the banking union's single resolution fund (SRF), and (4) EMU pre-accession assistance. As part of the completion of banking union, measures would be taken to reduce the level of non-performing loans, and an enabling framework for the development of sovereign bond-backed securities would be created. In a 2025 perspective, the post of a European minister of economy and finance would be created to support structural reforms in the Member States (for the Commission, this figure should be a Commission vice-president who also presides over the Eurogroup), and exploratory work would be done on the possible development of a euro-area safe asset.

Building on these announcements, the Commission's 2018 [work programme](#), published in October 2017, envisaged concrete new legislative proposals concerning the ESM/EMF, the creation of a dedicated euro-area budget and the integration of the TSCG into EU law. Accordingly, legislative proposals as well as a [roadmap](#) for deepening EMU were published on 6 December 2017. Other legislative proposals planned include an enabling framework for the development of EU sovereign bond-backed securities.

The Parliament, which as co-legislator played a considerable role in establishing EMU 2.0, is also open to changes, as shown in the three resolutions prepared by rapporteurs [Brok/Bresso](#) ('Improving the functioning of the EU'), [Verhofstadt](#) ('Possible evolution and adjustment of the current institutional set of the EU') and [Böge/Berès](#) ('Budgetary capacity for the euro area'), which were adopted in plenary in February 2017.

The debate in 2018

Throughout 2017, many offered ideas about the future of Europe, but the French President, Emmanuel Macron, may well have stolen the limelight, including with his landmark [speech](#) at the Sorbonne on 26 September, in which he proposed a major step forward towards European integration. Although Presidents Juncker and Macron both suggest scenarios for making Europe advance, their solutions are sometimes diametrically opposed. Concerning EMU, Juncker wants a complete shift to the Community method, an increase in the Commission's powers, more prerogatives for the EP and the creation of a strong EU budget with a dedicated euro-area budget line. Macron, on the other hand, tends to favour an approach featuring strong inter-governmental elements, such as a separate parliament and budget for the euro area. The issue is therefore not only where Europe is heading, but also how the balance of power within the EU may shift. Others, such as the Dutch and German governments, which are of the opinion that EMU 2.0 needs little change but would benefit from better enforcement, will also weigh in strongly.

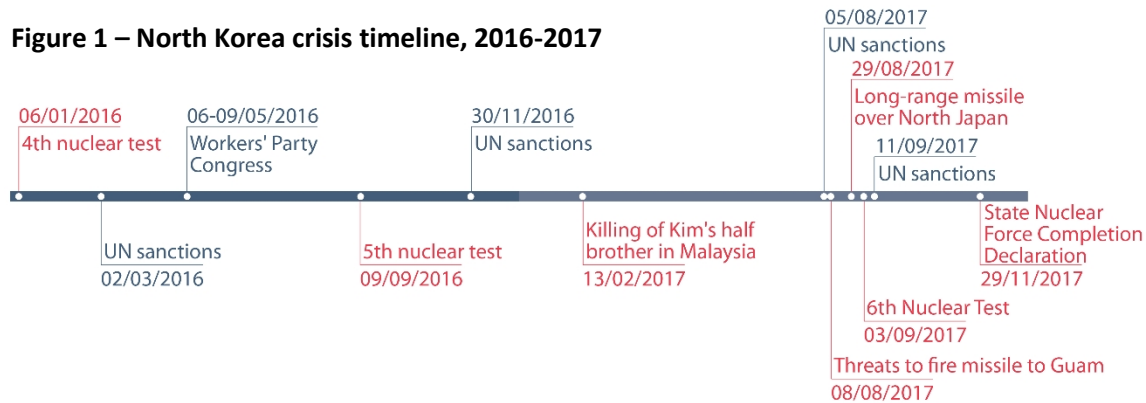
In 2018, two more aspects – legal feasibility and political acceptance – should also be expected to move centre-stage in discussions. So far, most EMU integration advocates have avoided indicating which of their proposals would require amendment of the EU Treaties. Concerning political acceptance, any new step forward would require broad consensus between governments or even unanimity in case of Treaty changes. Public [expectations](#) regarding EMU vary considerably from country to country. Therefore, not all governments will be inclined to support change, and even those that are will need to take rising euroscepticism and its implications for elections into account.

At the 15 December 2017 Euro Summit meeting, at which the diversity of views concerning the future of the euro area became evident, it was [decided](#) to convene a further Euro Summit in March 2018. Issues such as the completion of the banking union and the transformation of the ESM, will be at the centre of that debate.

9. North Korea

One of the biggest concerns internationally is that 2018 could see the long-standing North Korean crisis develop into a larger-scale conflict, potentially affecting not only eastern Asia, but also a large variety of players across the globe.

Figure 1 – North Korea crisis timeline, 2016-2017



Escalation under Kim Jong-un

Kim Jong-un succeeded his father as President of North Korea in December 2011. Under his rule, the régime has remained closed to the rest of the world while increasing its anti-American rhetoric; threatened Washington and Tokyo (which [supports](#) a strong US stance); and generally destabilised the region, thereby affecting EU interests, given the volume of the Union's trade with China, Japan and South Korea. In March 2013, a month after North Korea had conducted its third nuclear test, Kim announced the adoption of the '[Byungjin line](#)': a policy of simultaneous economic and nuclear development. Three nuclear tests followed, with September 2017's the most powerful thus far: Pyongyang claimed that was a miniaturised hydrogen bomb, capable of being launched through an intercontinental ballistic missile (ICBM). Pyongyang has also developed its own ICBM technology: in July and September 2017 it fired a Hwasong-12 intermediate-range missile over the north of Japan.

The international community has reacted by adopting [UN-backed sanctions](#) against Pyongyang, to push it to return to the negotiating table and to abandon its nuclear programme. The increased frequency of North Korean nuclear and missile tests has stirred growing hostile rhetoric between the regime and the Trump administration: Pyongyang has even threatened to fire missiles at the US military base on Guam in the Pacific. This war of words has side-lined South Korea, which is [striving](#) to find the right line in its relations with the North. Although China is South Korea's main trading partner, it has recently undertaken retaliatory steps against Seoul's business interests, on account of the ongoing deployment by the USA of a terminal high-altitude area defence (THAAD) system on South Korean territory. Beijing also accounts for [90 %](#) of North Korea's trade and is deemed to have decisive leverage for the survival of the Pyongyang regime. Together with Moscow, it has prevented the UN Security Council from adopting more severe sanctions against North Korea, but is now under pressure (especially from Washington) to adopt a full embargo on oil exports to the reclusive country. Seen from China's perspective, the regime's collapse may imply an allied buffer state on its border (China and North Korea's Treaty of Mutual Assistance goes back to 1961) being substituted by a unified Korea, allied with the US. China and Russia advocate the '[dual suspension](#)' of both North Korean tests and US military exercises in South Korea.

An issue under the radar: Human rights in North Korea

Kim Jong-un has succeeded in distracting the international community's attention away from the appalling human rights situation in his country. In February 2014, the UN Commission of Inquiry on Human Rights issued a report accusing North Korea of crimes against humanity, including arbitrary detention, torture, executions, abductions and the deaths of hundreds of thousands of political prisoners under conditions of unspeakable atrocities in prison camps over the past five decades. In November 2017, a report released by the UN Committee on the Elimination of Discrimination against Women underlined the systematic violations of women's rights.

Latest developments

In September 2017, North Korea's Foreign Minister, Ri Yong-ho, [hinted](#) at a possible atmospheric nuclear test over the Pacific. A two-month interruption of tests and lowering of the tone followed. [Analysts](#) suggested technical problems, or that Pyongyang may have refrained from provocations while waiting for the outcome of US President Donald Trump's 11-day [visit](#) to five Asian countries in November 2017. Following that visit, the US re-designated North Korea as a state sponsor of terrorism, in a mostly symbolic move. It also imposed secondary sanctions on Chinese firms trading with Pyongyang. This drew opposition from Beijing, whose relations with Seoul have been [improving](#), while those with North Korea have chilled; this became evident from the November [visit](#) to Pyongyang by President Xi Jinping's special envoy, who did not meet Kim, and from China's recent enforcement of the UN sanctions against North Korea. Meanwhile, the US administration has [claimed](#) that the sanctions are having an impact on the North Korean economy. Others had argued that North Korea was failing to make advances in its ICBM technology, but the regime's response arrived on 28 November 2017, when Pyongyang fired its most powerful missile, a Hwasong-15, over the Sea of Japan, and Kim [declared](#) the goal of becoming a nuclear state achieved. Following the US-South Korean decision to delay annual joint military drills until after the winter Olympic and Paralympic Games in PyeongChang (South Korea), high-level talks are to be held to discuss North Korean participation in the Games.

Future prospects

Despite international sanctions and isolation, Kim is unlikely to put his nuclear programme up for negotiation. His goal is to be recognised as a de facto nuclear power similar to India, Israel and Pakistan, all outside the Non-Proliferation Treaty (NPT). Should Kim attain his goal, it might pave the way to a moratorium on nuclear bomb and missile tests by Pyongyang. On the other hand, it could push other countries in the region to adopt the nuclear option. Meanwhile, North Korea's ultimate goal remains a peace treaty with the USA, which would replace the armistice agreed at the end of the 1950-1953 Korean War. Until then, the regime can play the card of unity against the external enemy, for which it draws strength, among other things, from the US President's statements. At times, Donald Trump has indeed hinted at the possibility of a pre-emptive strike, a scenario with unpredictable consequences. Whatever its scale, it could provoke retaliation against South Korea, thereby endangering the lives of millions of Seoul's inhabitants, given the proximity of the city to the border, and triggering an influx of refugees on China's borders. The international community has not, on the other hand, invested in North Korea's internal destabilisation, for instance, through disseminating outside information to pave the way for a leadership change. North Korean defectors, including high-profile ones, have nevertheless underlined the potential of this option, given also that a growing number of citizens turn a deaf ear to propaganda and that the elite is increasingly opposed to Kim's rule.

10. Future financing of the Union

The EU has a modest fiscal capacity in the form of an annual budget, whose size and structure are largely predetermined by a Multiannual Financial Framework (MFF). The current MFF covers the 2014-2020 period and amounts to €1.09 trillion, or roughly 1 % of EU GDP. The EU Budget funds spending priorities collectively agreed by the Member States, the Parliament and Commission. It is currently financed by three categories of 'own resources': 'traditional own resources' consisting of customs duties and sugar levies (€20.1 billion in 2016, or 14 % of revenue); an own resource consisting of a percentage of the Member States' estimated VAT income (€15.9 billion in 2016, or 11.1 %); and an own resource based on a fixed percentage of Member States' gross national income (GNI) (€95.6 billion in 2016, or 66.6 %). Other revenue includes income taxes on EU staff, contributions by non-EU countries to EU Budget-funded programmes, fines paid by companies in breach of competition law, and revenue from EU borrowing and lending operations. Unlike national budgets, the EU's cannot be in deficit and spending must be matched by revenue. Own resources mobilised to cover EU Budget spending are capped at 1.20 % of EU GNI per year.

Some Member States' GNI-based contributions are partly reduced by 'rebates', or reductions designed to offset the gap between their contributions to the EU Budget and their public and private sector receipts at home. While the United Kingdom's rebate is the most high-profile of these, it has led to a series of other rebates for other net contributors.¹

Significant spending on EU priorities is also done outside the EU Budget in a number of ways. One of them involves setting up a separate intergovernmental fund, one such example being the €30.5 billion 2014-2020 European Development Fund, to which Member States contribute individually. Others involve the use of various financial instruments and vehicles such as loans or guarantees managed by the European Investment Bank, or trust funds pooling EU Budget funds with contributions by other donors. The latter have grown in importance in recent years as the EU has sought to contribute to development both within and beyond its boundaries through leveraging private investment.

Potential for reform and expected developments in 2018

There is a broad consensus among the European Commission, the European Parliament and many academic observers that the current own resources system needs reform.² It is seen as complex and opaque, and as encouraging Member States to focus on getting a 'fair return' on their national contributions through money spent locally, rather than on shared European priorities. But while there is no shortage of ideas for alternative own resources that would radically simplify the system and endow the EU Budget with greater financial autonomy, achieving significant reform has proven difficult. Changes to the own resources system require the Council of the EU to agree unanimously after consulting the Parliament, and then need to be ratified by all Member States.

¹ A. D'Alfonso, [The UK 'rebate' on the EU budget: An explanation of the abatement and other correction mechanisms](#), EPRS, February 2016.

² See, for example, A. D'Alfonso, [How the EU budget is financed: The 'own resources' system and the debate on its reform](#), EPRS, June 2014; [Opinion of the European Economic and Social Committee on the Reflection paper on the future of EU finances](#), October 2017; M. Schratzenstaller, [The next Multiannual Financial Framework \(MFF\), its Structure and the Own Resources](#), Policy Department for Budgetary Affairs, European Parliament, October 2017.

An opportunity for reform will present itself in 2018, however. The Commission plans to publish a package in May comprising a comprehensive proposal for the future MFF beyond 2020 and proposed changes to the EU Budget's own resources. This will be followed by proposals for the next generation of multiannual spending programmes.

In anticipation of the proposal for the post-2020 MFF, in June 2017, the Commission published a [reflection paper](#) on the future of EU finances, linked to the March 2017 [white paper](#) on the future of Europe, setting out five scenarios of varying scale and ambition, with corresponding implications for EU finances. In the reflection paper, the Commission suggests simplifying or even abolishing the VAT-based own resource, and notes that Brexit renders the UK rebate obsolete, and with it the various 'rebates on the rebate'. In the white paper, echoing a recommendation in the December 2016 [report](#) by the interinstitutional High-level Group on Own Resources (HLG) that any new own resource should be clearly and transparently linked to the core policy objectives of the EU, the Commission cites the possibility of levying common energy or environmental taxes to help incentivise decarbonisation of the EU economy, or of allocating a percentage of the common corporate tax base or creating a financial transaction tax to help stabilise the single market and the euro area.

The Commission also sees scope for an expansion of financial instruments such as loans, guarantees and equity, both within the EU Budget and beyond, as part of the EU's 'extended financial architecture', of which the European Investment Bank is part. During the current MFF, the most noteworthy example of such a financial instrument has been the European Fund for Strategic Investments (EFSI). The Commission is interested in further exploring the potential of these instruments at a time when the EU budget comes under the twin pressures of responding to new challenges and adjusting to reduced revenue with the departure of the United Kingdom, or of doing 'more with less'.

Role of the European Parliament

The Parliament has long advocated reform of the EU Budget, including its own resources. To this effect, it adopted one resolution in [2007](#) and another in [2011](#), calling for the introduction of genuine EU own resources to reduce the role of those perceived by Member States as national contributions, and to shift the focus of budgetary negotiations to activities with the highest EU added value. Setting up an HLG to conduct a thorough review of the own resources system was among the Parliament's conditions for agreeing to the 2014-2020 MFF.

In October 2017, the Parliament adopted a [resolution](#) on the Commission's reflection paper on the future of EU finances. Parliament agreed that any new policy priorities for the Union should be coupled with additional financial means, and reiterated that the EU should be funded by 'genuine' own resources, as provided for in the EU Treaties. The resolution encouraged the Commission to develop further the idea of 'European added value', seeing this as crucial to deciding on the Union's spending priorities, and thus on the correct mix of own resources. The Parliament also reiterated its commitment to budgetary unity, and questioned the wisdom of creating additional funding instruments outside the EU Budget.

The Parliament plans to debate own-initiative reports on the post-2020 MFF and on future own resources in spring 2018.

This is the second edition of an annual EPRS publication designed to identify key issues and policy areas that are likely to feature prominently on the political agenda of the European Union over the coming year.

Topics presented include: the implications for the EU of the terrorism threat, the North Korean issue, the security challenges posed by disinformation, fake news and cyber-crime, the ongoing migration crisis and rising inequalities. Other important policy areas covered are youth empowerment, the EU budget, the future of the euro area, the European elections in 2019 and, last but not least, Brexit.

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