LETTER FROM BERLIN

Merkel's EU Legacy Summit

By Klaus C. Engelen

Angela Merkel is being praised around the world for her astute handling of the coronavirus crisis. Voters give the German chancellor her highest approval rating in years. And her center-right Christian Democrats are profiting from her popularity, reaching an approval rating of 40 percent, while her coalition partner, the Social Democrats, lingers at around 15 percent.

Elected chancellor in November 2005, Merkel will step down after next year's national elections. She will end a three-decade political career, half of which will have been served as head of government with different coalitions.

In July 2020, Germany assumed the presidency of the Council of the European Union, which means that until December 2020, Germany will chair the meetings of the Council and will be responsible for progress on EU legislation. Merkel will thus play a key role on the Brussels stage, especially during the final phase of the negotiations and implementation of the coming 2021–2027 budget and the new Recovery Fund.

The editors of *Euractiv* offer an interesting analysis: "If one had to name a day on which Merkel took up the fight for her legacy as a European shaper, it would have been 18 May when she and French President Emmanuel Macron proposed that the twenty-seven EU member states should, for the first time, take on debt together to tackle the crisis."

This move by Merkel will have a political cost.

On that day, *Euractiv* argues, Europe was confronted with two new realities. First, the Franco-German axis, once the engine of European integration, was back. Second, Germany went from being a savings champion to a major donor.

This move by Merkel will have a political cost in coming regional and national elections, helping the right-wing Alternative für Deutschland and weakening the CDU/CSU. When her SPD coalition partner and Finance Minister Olaf Scholz, next year's SPD candidate for chancellor, greeted the joint debt financing of the coronavirus recovery fund as "irreversible progress for Germany and the EU," Merkel immediately countered. She insisted that the EU summit decision was an "exceptional agreement."

Even highly respected CDU veteran Wolfgang Schäuble, former finance minister and current president of the Bundestag, backed Merkel's U-turn on joint debt at the EU level, softening the blow to her disappointed conservative party members.

However, one thing is certain: Using joint EU debt to finance EU projects has no legal basis in the Treaties of the European Union. Those in Germany who challenged the European Central Bank decisions

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on whether the Public Sector Purchase Programme exceeded EU competences will probably again lodge complaints in the German Constitutional Court.

NEW BASIS FOR NEW CORONA FINANCING

Here is how Merkel provided the new basis for the forthcoming critical Brussels negotiations. In May, her former cabinet minister Ursula von der Leyen, now president of the European Commission, put forward a Commission proposal for a €750 billion coronavirus recovery fund. The Commission would raise new revenues for its seven-year budget, and then use that money to raise the €750 billion in the financial markets.

Merkel's joint debt proposal dominated July's special meeting of the European Council to deal with a recovery package and the 2021–2027 budget. The exit of the United Kingdom as third-largest net contributor had to be compensated for, and the planned €750 billion recovery, called "Next Generation European Union," had to be negotiated. It was one of the biggest challenges in the history of the European Union.

"Never waste a good crisis" seemed to be the common denominator of the unexpectedly huge budget and recovery package that EU leaders clinched at the summit.

An expected two-day meeting turned into a five-day diplomatic marathon. Leaders of the twenty-seven EU member states reached agreement on the Multiannual Financial Framework for 2021–2027 and the specific recovery instrument to cope with the economic and social damage from the coronavirus crisis, for a package totaling €1,824 billion.

For the *Irish Times,* "it is still a landmark agreement, against considerable odds, which will give Brussels the unprecedented power to borrow hundreds of billions on the markets and hand it out as budgetary support for member states."

European Council President Charles Michel called the deal a "Copernican moment."

A DEAL, BUT AT HIGH COST

When the results of the five-day-and-night haggling were published, Brussels experts at Eurointelligence came out with the heading, "A deal, but at what cost?" In their view, EU leaders finally agreed to a deal, but paid a heavy price. The deal sacrificed investment in climate change transition and research and development, enlarged national rebates, and abandoned any meaningful budget linkage to rule of law.

In the Eurointelligence analysis, a big victory of member states is the raised rebates for the "frugals" who insisted on the reduction of grants and were bought off with higher rebates. "The Dutch rebate went up from €1.57 billion to €1.92 billion. Austria's rebate doubles to €565 million."

Major crisis has led to major reforms, deeper integration, and more competences for the European Commission and the European Parliament.

Health groups reacted with dismay to the European Council's decision to axe €7.7 billion for a standalone health program (EU4Health). German MP Franziska Brantner from the Greens tweeted: "In the middle of the coronavirus crisis, drastically reducing the planned program to better coordinate and equip health systems is simply absurd."

NOT READY TO SWALLOW THE PILL

Manfred Weber, who leads the center-right bloc in the European Parliament, demanded major changes to the EU summit results. He is outraged that "90 percent of the funds go as transfers into member state budgets," according to his complaint in an interview with the German business daily *Handelsblatt.* There he sounded the alarm that the EU summit financial package is "invested too much in the past and not enough in the future."

In an extraordinary plenary session debating the deal, Weber warned, "We are not ready to swallow the MFF pill."

On July 23, the European Parliament voted by a large majority to demand changes in the draft long-term EU budget. The resolution warned that MEPs would not approve the hard-fought text when they vote later this year and called for negotiations to improve the proposals.

With respect to potential changes in the deal, Eurointelligence remains highly skeptical. "It would be quite an act for the European Parliament to veto this budget, or even to force yet another summit as predicted by the Socialists," noted Eurointelligence. They agree with MEP Philippe Lamberts, who said, "The 'frugals' are not interested in making the EU work better. It's just about the money."

In the end, one could argue that the timely German-French plan helped to keep the twenty-seven–member union together and reduced the risk that other EU member states will follow the United Kingdom down the slippery exit slope. Veteran Carnegie Europe expert Judy Dempsey noted what Europe's expensive coronavirus summit missed: "Neither values nor geopolitics played any role when EU leaders agreed to spend their way out of the coronavirus crisis at a marathon summit. Once again, Europe as a strategic player has been postponed."

But as before, major crisis has led to major reforms, deeper integration, and more competences for the European Commission and the European Parliament. ◆