EU POLITICS: A NARROW VOTE FOR PROGRESS

Berenberg Macro Flash

*Ende gut, alles gut* – all is well if it ends well? After some unsavoury back-and-forth on the distribution of top jobs in the European Union, the European Parliament has narrowly elected Ursula von der Leyen as the successor to Jean-Claude Juncker at the helm of the European Commission. Her five year term starts in November. She received 383 votes, only slightly more than the required minimum of 374 votes. Five years ago, Juncker had been elected with 422 votes. With today's vote, the EU has averted a major institutional crisis. On balance, the vote for von der Leyen could put the EU on track for some progress. But the unusually tight result also highlights the challenges von der Leyen will face.

*Can von der Leyen make a difference? Probably yes, but only modestly so.* And possibly not in the straightforward way that some observers may hope for. The ambitious agenda she presented today has more green, centre-left and risk-sharing elements than German chancellor Angela Merkel has ever endorsed. However, as head of the Commission, von der Leyen will have little control over which elements, if any, will be enacted. But that she as a German conservative has put forward such an agenda can soften German resistance to some of the ideas she put forward today. In that sense, her election may make a modest difference.

The vote in Strasbourg for von der Leyen also removes the last shred of doubt that Christine Lagarde will be the next ECB President. A few hours ahead of today's vote, Lagarde resigned from the IMF, effective as of 12 September.

The powers of the Commission president are quite limited. The Commission takes the lead in enforcing EU rules and plays a significant role in EU legislation and regulation. It conducts trade (and Brexit) negotiations. But the big decisions in the EU such as those during the euro crisis are taken by the heads of states and governments (the European Council) rather than the Commission or Parliament. As Commission president, von der Leyen cannot even pick her fellow commissioners who are nominated by member countries. She can, after careful consultations with member countries, only allocate more or less important portfolios to them. Also, key decisions on Brexit will be taken just before von der Leyen takes office in November.

**URSULA’S AGENDA**

Von der Leyen laid out her agenda in a passionate speech at the European Parliament this morning and in more detailed “political guidelines” published at the same time. Given her limited power as head of the Commission, she was remarkably ambitious. Among many other issues, she proposed to

- make the EU climate-neutral by 2050, with a cut of carbon emissions of 50% or even 55% by 2030 instead of the current 40% goal,
- unlock €1 trn of green investment over the next decade as part of a “Green Deal for Europe”,

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- introduce a **European unemployment benefit reinsurance** scheme,
- develop a framework for **minimum wages** that “pay for a decent living”,
- “make use of all the flexibility allowed in the rules“ of the Stability and Growth Pact,
- complete **capital markets union** and banking union, including a **European deposit insurance scheme**, 
- grant the UK a further **Brexit extension** beyond 31 October if required “for a good reason”,
- support a right for the **European Parliament** to initiate legislation, currently a prerogative of the European Commission.

The last promise should be easy to keep. Von der Leyen today announced that her Commission will formally propose all legislative acts which the European Parliament wants to take up. No need to change the European treaties. Whether or not she can keep the other promises will not be under her control, except perhaps in the sense that her choice of commissioner for economics and financial affairs can influence the discussion about how flexibly fiscal rules should be interpreted. She may nonetheless make a bit of a difference.

The European reform plans of French President Emmanuel Macron have so far yielded very few results. As seen from Berlin, reforms have been held back by a penchant in Paris to often stick to well-rehearsed French ideas that did not find sufficient support in the past. As seen from Paris, progress has been arduously slow as Merkel’s CDU/CSU in Berlin has not dared to break new ground. If France had insisted on installing, say, its own Michel Barnier at the helm of the European Commission, selling reform ideas to Berlin and The Hague would not have become any easier. Having a German with solid conservative credentials make the case for more EU/Eurozone reforms could now enhance the prospects that Berlin may agree to more substantial changes in the end. Progress towards a banking union with a joint deposit insurance will remain very slow, but perhaps not quite as slow as otherwise. Von der Leyen may also initiate a serious debate on an unemployment re-insurance scheme. If done the right way, such a scheme could help to buffer major short-term shocks without stifling incentives for individual member countries to reform their labour markets.

**THE NEXT STEPS**

Having elected a new president for the European Commission, the EU now needs to select the 27 other commissioners so that each member country (including the UK for the time being) is represented by one person in the Commission. That process can be at least as difficult as the one to install von der Leyen in Brussels. Upon being nominated by EU national leaders on 2 July, she already had to promise that two of the unsuccessful “Spitzenkandidaten”, centre-left **Frans Timmermans** and liberal **Margrethe Vestager**, will be the highest-ranking vice presidents of her Commission. Once von der Leyen and EU national leaders have adopted a list of future commissioners, the candidates will be quizzed in the relevant committees of the European Parliament before lawmakers can then accept or reject the entire set of commissioners in one simple majority vote.
An outright rejection seems unlikely. However, in line with trends across the Western world, the European parliament is more fractured and riven by deeper antagonism between various political camps than before. It is quite possible that the European Parliament will try to take out some of the proposed commissioners, perhaps candidates put forward by the populist governments in Poland, Hungary or Italy. If a parliamentary committee or two were to argue strongly against an individual candidate, von der Leyen – and the candidate’s national government – would be under heavy pressure to withdraw the name. Put differently, the process may not be pretty and may end with a lot of mutual embarrassment before the new European Commission could start to work.

Trying to manage tensions between parliament and member states as well as between the various commissioners with very different political allegiances will be quite a challenge for von der Leyen as well as for Donald Tusk and Charles Michel, the current and future head of the European Council of EU national leaders. Politics are rarely pretty. The suspicion that, in today’s secret ballot, support from some of the non-mainstream parties apparently helped her into office and that she might thus be beholden to some of the populists in Poland, Hungary or Italy can complicate von der Leyen’s tasks. For better or worse, EU politics look set to remain interesting, to put it mildly.