CENTRE FOR STUDIES ON FEDERALISM

policy paper

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The Juncker Plan and the Energy Union

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*The **Policy Paper** series of the Centre for Studies on Federalism includes analyses and policy-oriented research in the field of national and supranational federalism. The papers aim to stimulate scholarly and political debate on topical issues by presenting original data, ideas and proposals.*

Abstract

Europe is facing a crisis in growth and competitiveness, primarily due to the fall in investments, while also having to confront new global challenges. The Juncker Plan is an initial response, in which to include investments for the Energy Union, also to comply with the EU pollution limits. This requires the introduction of European taxes in the Eurozone (FTT and Carbon Tax) to be allocated to the Plan's European Fund, as a step towards an additional Budget of the Eurozone with the Juncker Commission as its provisional government.

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The economic situation in Europe is characterised by elements of crisis and weakness that are worth considering.

Firstly, there is a crisis in the growth.

According to data on the financial and economic crisis during the period from 2008 to 2014, as well as growth estimates over a ten-year period, if the situation does not change, the per capita GDP ratio in Europe has been and will remain 1 to 2 compared to the United States and 1 to 4 compared to emerging countries.

We can understand that Europe is clearly lagging behind its main competitors on the world market.

Secondly, growth in the Eurozone countries has not been uniform but rather highly asymmetric (see table 1), something which is reflected in the unemployment rate, especially youth unemployment.

Some of the most virtuous Eurozone countries have used the great benefits they reaped from the introduction of the common currency in 1999, in terms of increased intra-EU trade and reduced cost of money to balance public finances and implement the necessary internal structural reforms. However, other countries, Italy included, have squandered their opportunity and these benefits have been offset by an increase in current public expenditure, which is often unproductive, by inefficiencies, corruption and tax evasion.

Thirdly, Europe's position at the technological frontier is increasingly marginal. In the last 20 years the US's position has grown significantly stronger and a number of emerging countries (e.g. Korea) are excelling in their capability for technological innovation.

However, the EU's capability in this area is in decline, while we know that tomorrow's products and services are being produced at the technological frontier and that innovation is highly rewarded in an increasingly globalised economy.

The main cause of the foregoing is reduced investment in the Eurozone, as shown in table 2.

Fourthly, Europe is currently faced with a global economy, redesigned by globalisation and the emerging economies of Asia and Latin America.

It is a world in which economies of scale and innovation networks count more than ever.

Soon, in 2016, GDP in the Eurozone is expected to fall below China's but still remain ahead of India.

Together, these two countries will account for about twice the GDP of the Eurozone.

In a broader context, the cumulative GDP of the G7 countries will be overshadowed by the rapid development of emerging economies.

Europe has to face a new geopolitical scenario as well as new global challenges, such as climate change, migration, the financialisation of the economy, the activities of multinational companies, and of the international terrorism and organised crime, which can no longer be tackled individually by any EU member country.

All has been globalized except for the policy power which remains

at the level of national States which are too much weak to face challenges which have global dimensions.

To prevent its decline, which may lead to the eclipse of European civilisation, these challenges must be faced together by an increasingly united, efficient and democratic European Union.

The Juncker Investment Plan, which was approved by the Commission and the European Council in 2014 and became operational this year in June, fits into this scenario and aims at mobilising at least an additional 315 billion euros over three years, through the newly established European Fund for Strategic Investments (EFSI).

Its goal is to maximise the impact of public resources and boost private investment, backed by the European Investment Bank (EIB).

The EFSI was set up as a Trust Fund managed by the EIB but under the direction and responsibility of the European Commission, which, in turn, is democratically accountable to the European Parliament (EP).

As acknowledged by Juncker himself, "The plan presented is the first step in a new direction." This Plan represents a turning point in EU economic policy for several reasons:

a) It acknowledges, in fact, that economic growth, particularly as regards highly indebted countries, cannot only be stimulated by austerity policies, albeit necessary and appropriate, but needs to be supported by adequate investment in European infrastructure and production sectors; in research, development and technological innovation; and in the formation of human capital and production of public goods and services. The latter requires "patient" investment with no guarantee of an economic return and, in any case, has medium to long time frames (think of the basic research); therefore, private initiative alone has little interest in financing it;

b) Clearly, the financing of the EFSI must be considered initial and properly implemented through various possible instruments (including placing Euro projects bonds on the market) on the basis of the applications submitted through the EIB by Member States and private businesses;

c) It aims at financing not only investment in infrastructure, but also the strategic investments mentioned before;

d) Finally, the Juncker Plan will operate under the direction of the Commission. Therefore, indirectly, it will be under the indispensable democratic control of the EP.

I think it may be argued that the Juncker Plan applies the solution suggested as a way out of the EU financial and economic crisis by the great economist and federalist Tommaso Padoa-Schioppa, “budgetary rigour is the responsibility of the States, but responsibility for growth lies with the European Union.”

In other world: we must combine the consolidation in member States with a real investment offensive at the European level.

It should also be remembered that in November 2014 Juncker obtained from the European Parliament and the European Council a commitment to establishing the Energy Union, entailing huge investments at the European level, thus directly linking it to the Juncker Investment Plan.

The Energy Union must set a series of extremely challenging medium- and short-term objectives for itself:

1. Ensure Europe has the energy supply it needs.

   In fact, the EU is currently the second largest world economy, it consumes 1/5 of the energy produced in the world, is the largest importer of fossil fuels (its energy costs amount to 350 billion dollars per year) and has a high degree of variability among states as regards their percentage of energy dependence and the mix of prevailing sources used.

   External dependence is 50%, half of which comes from Russia. A European strategy is required as well as shared negotiating skills, which also entail the ability to build a common foreign policy (by speaking with one voice), particularly with respect to Russia, Ukraine, the Middle East and the Mediterranean African countries.

2. Establish common strategic reserves to jointly face potential crises arising from interrupted supply resulting from geopolitical issues.

3. Then, create a real European energy market, something which still does not exist, by standardising tax policy and abolishing regulations preventing foreign operators from breaking into national markets.

4. Moreover provide Europe with new energy networks from producer countries (such as the South Stream gas or the Trans-Caspian Stream gas pipelines) as well as cross-border networks to create a fluid market (it is estimated that in the coming years as much as 1 billion euros of investments will be needed just to build these energy networks).

5. Finally, contribute to deeply converting the energy production sector to comply with the pollution limits adopted by the EU to address climate change. This will have a major impact on many sectors of the economy as well as on employment. In fact, energy efficiency will need to be boosted, energy from renewable sources will need to be promoted, many sectors of production and transport as well as construction and daily life all requiring energy will need to be re-organised and cities will need to be redesigned.

That means a real revolution in the structure of the economy as well as of the society.

It should be remembered that in 2014, the Council of the European Union made the targets of the measures to be taken to reduce global warming more stringent due to polluting emissions in the atmosphere, so that by 2030:

- greenhouse gas emissions in the atmosphere must be reduced by 40% compared to 1990;
- energy from renewable sources must be increased to at least 27%;
- efficiency must be increased to 30%.

At the same time, the target set (in 2007) for 2050 of a 80% reduction in emissions of polluting gases into the atmosphere, particularly carbon dioxide (as shown in table 3), was confirmed. As a consequence, emissions to produce electricity and residential heating will be reduced to 0 (zero), making it possible to allocate only the remaining 20%, in total, to the sectors of industry, transport and agriculture.

All this means that:

- energy saving and the efficient and rational use of energy will play an increasingly important role;
- the main source of energy can no longer be fossil fuels but rather renewable sources (geothermal, hydro, biomass, wind and solar energy, which are becoming increasingly more efficient and competitive). They would be supplemented by the remaining amount of energy from nuclear power, especially in France.

Converting the European economy is a huge task, immediately rendering the 315 billion euros allocated to the Juncker Plan over three years obviously inadequate; however, this sum has been declared by Juncker himself as initial.

Many initiatives can be proposed to strengthen the capital allocated to the EFSI over time (using, for example, a portion of the ECB's Quantitative Easing, i.e., the national contributions

to the EFSI additional projects and the national co-financing of projects financed by the EIB and excluded from compliance with the Maastricht criteria, the issue of euro project bonds and so on).

I do believe that this development plan, designed to have a significant effect on the economy of the Eurozone, may hardly be implemented unless European taxes intended to finance the EFSI are introduced.

The instrument of "enhanced cooperation" may be used, in accordance with EU law, to levy taxes on a group of states and allocated, either all or some of them, to a special European fund designed for specific purposes, i.e., the EFSI (as this does not infringe on the principle of the universality of the Community budget).

This is stated by the European Treaties.

The first European tax to be allocated to the EFSI should be the financial transaction tax (FTT), already implemented through enhanced cooperation among 11 Eurozone countries and which could also be extended to other Eurozone countries and set aside for the EFSI, under the specific decision of the cooperating states.

Another tax could be the European carbon tax, which is suitable for the objective of "decarbonising the economy."

This tax should affect domestic consumption, regardless of the place of production, should be applied with varying rates according to the carbon content of the various fuels, such as coal, oil and gas, and should entail imposing a countervailing duty at the border on imports from third countries which do not apply it, to avoid risking a loss in competitiveness on the global market.

According to many scholars, such as Joseph Stiglitz, Paul

Krugman, Jeffrey Sachs and Lawrence Summers, reducing oil prices would allow states (in this case, the Eurozone) to reap a small portion of the consumer benefits resulting from this reduction.

According to CSF studies, a carbon tax equal to E20 per ton of carbon dioxide emitted into the atmosphere would generate a revenue of 50-80 billion euros per year in the Eurozone to be allocated to the EFSI. While, with a price of 1.5 $ per litre of petrol, the increase due to the tax would amount to 2.5% and would represent an additional burden to consumers of no more than 1/10 of the reduction in oil prices.

Others, such as the Confederation of German Trade Unions (DGB), have proposed a property tax to finance European development.

These hypotheses, aimed at strengthening the funding capabilities of the Juncker Investment Plan through the financing of the EFSI, would lead to the establishment of an additional Eurozone budget, the Juncker Commission's role as the provisional Eurozone government with fiscal and borrowing capacity and the appointment of a European Treasury Minister within the European Commission to organise the activities that would result from it, under the control of the European Parliament.

I think that this is the way forward to advance the process of EU federal unification.

In conclusion, let me mention what Juncker said in front of the European Parliament few week weeks ago "*The EU is not in a good situation. There is a lack of Europe in this Union, and a lack of union in this Union*".

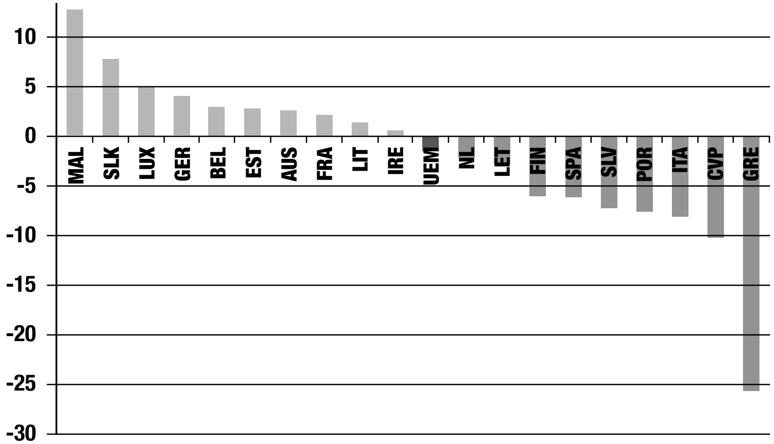
It is necessary to go back to the original inspiration of the Schuman Declaration of 9 May 1950 that gave the birth to European integration.

France and Germany had the political courage to pool their economic resources and share sovereignty within a common institution.

Konrad Adenauer, was present and he commented "*Wenn Furcht beseitgt werde, werde Europa, wie ein genesender kranker seine kraefte wiederfinden*" ("Once fear has been overcome, Europe, like a convalescing patient, will find its strength again").

We need an equivalent courage to set a real road map to lead the Eurozone to establish a multi-level federal union, based on a very special constitution, perhaps without existing historical precedents, which will gave the States a relevant weight, but that, at the same time, recognizes the fundamental value of the democracy.

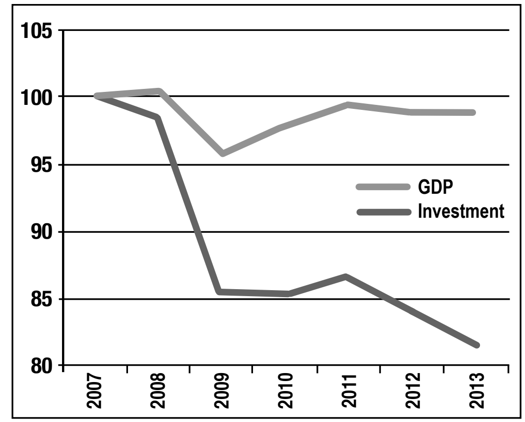
Table 1 • ***GDP Growth in the Eurozone - 2008/2014***
(percentage changes)



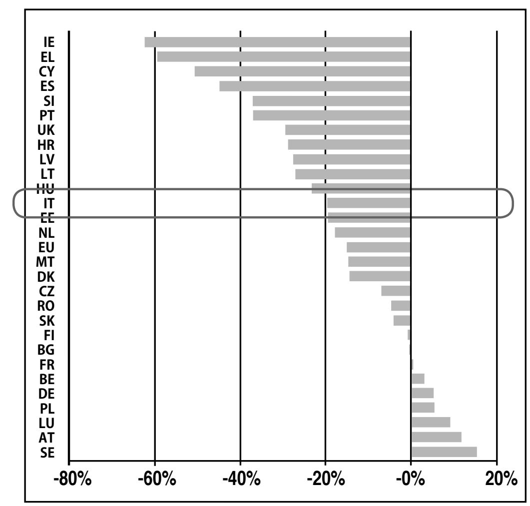
Source: EUROSTAT - Compared to 2008, the year when the economic and financial crisis began, the Eurozone lost 1.4%, with 10 growing countries, including Germany (+ 3.9%) and France (+ 2%) and 9 in downturn. Italy is third from bottom, with a - 8% accumulated loss of real GDP

Table 2 • ***Ongoing Investment Crisis***

Growth (GDP) and Investments in Europe (2007=100)

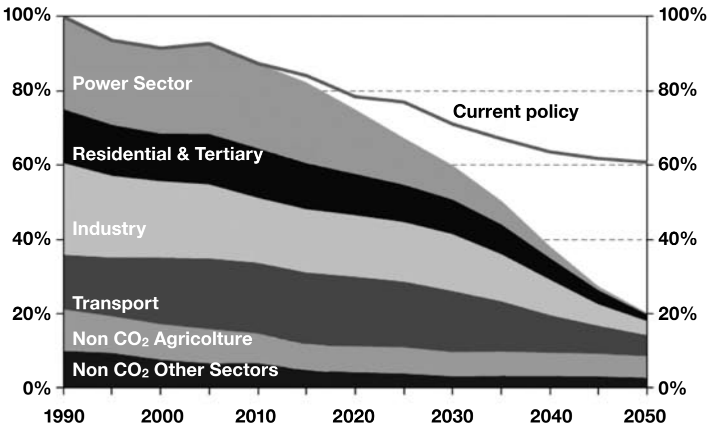


Investment Trend 2007 and 2013 (%)



Source: Eurostat - EIB

Table 3 • ***Europe's decarbonisation strategy by 2050***



Source: Communication from the Commission "A Roadmap for moving to a competitive low carbon economy in 2050" (COM (2011) 112 final)

CENTRE FOR STUDIES ON FEDERALISM

The **Centre for Studies on Federalism (CSF)** was established in November 2000 under the auspices of the Compagnia di San Paolo and the Universities of Turin, Pavia and Milan. It is presently a foundation.

The activities of the CSF are focused on interdisciplinary research, documentation and information on internal and supranational federalism, the developments of regional and continental integration (notably, of the European Union), the issues related to the world order and the democratization process of the international system.

The CSF promotes an annual **Lecture**, named after Altiero Spinelli, on topical European issues. The CSF publishes **Research** and **Policy Paper**, as well as its own "**Federalism**", **The Federalist Debate** (also online), the **Bibliographical Bulletin on Federalism**, the online-journal **Perspectives on Federalism**, the **International Democracy Watch**.

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