EU Integration and Differentiation
for Effectiveness and Accountability

Research Papers No. 7

November 2020

Differentiated Integration and Accountability in the European Union – An Analytical Framework

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This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 822622

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Abstract

Differentiation has become an established feature of European integration in the past decades, and a variety of forms of differentiated governance have been established either within the EU Treaties, by the EU Treaties or outside the EU legal framework. At the same time, differentiated integration poses particular questions about how to organise accountability in an EU in which different groups of member states participate in very different forms of integration. Bringing together the accountability and differentiation literature, the paper develops an analytical framework allowing for an indicator-based assessment of accountability mechanisms. By proposing an analytical framework with concrete indicators for the assessment of accountability in various differentiated integration formats, this paper closes a gap in the literature and opens new paths for the comparative analysis of accountability across various shades of European integration.

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Introduction

For better or worse, differentiation has become an established feature of European integration in the past decades. The EU IDEA project takes as a point of departure for differentiation "any modality of integration or cooperation that allows states (members and non-members) and sub-state entities to work together in non-homogeneous, flexible ways".[1] The Eurozone and the Schengen area are well-known forms of long-term differentiated projects in the EU, but beyond these two textbook examples a number of other forms of differentiation have been established in the EU, both inside and outside the framework of the Treaties. These include, among others, the Banking Union,[2] the European Public Prosecutor's Office, or the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. Differentiation has thus become a far more crucial matter in the debate on the future of the EU than it has ever been.

At the same time, differentiation raises crucial questions on both representation and accountability in the European Union, as the recurrent debate on the necessity – or not – of establishing a distinct Eurozone Parliament has also illustrated. These questions stem from the fact that differentiation causes an incongruence between those who take decisions and those who are affected by them (Fossum 2015, Herrmann and Leuffen 2020). Accountability challenges are not uniform across policies and institutions as governance arrangements and types of accountability vary. The incongruence between those affected by a decision and those taking this decision is, for instance, particularly stark at the level of the European Parliament, where parliamentarians representing the citizens of all EU member states vote even on matters linked to arrangements in which not all EU member states participate or in which participation extends beyond EU membership. The assessment of accountability in a highly differentiated Union therefore requires systematic and fine-grained empirical analysis. This paper thus brings together the accountability and differentiation literatures to develop an analytical framework allowing for an indicator-based assessment of accountability mechanisms. It focusses in particular on the problems of incongruence which differentiation poses for accountability; and analyses, on the basis of the proposed accountability framework, the implications of the mismatch between decision-makers and decision-takers. Depending on the format of differentiation (internal vs. external), citizens in the EU have only marginal control over policies that affect them because they are either underrepresented or absent in the decision-making structures.

The paper starts by theorising the problematic relationship between differentiation and accountability through the lens of the principal–agent approach to accountability in democratic systems. It then proposes an analytical framework with concrete indicators for the assessment of accountability in various formats of differentiation, which is subsequently applied to two crucial cases for the study of differentiation: the Eurozone as an example of internal differentiation, and Schengen as an example of both internal and external differentiation. This application of the framework to sample cases serves to demonstrate how the framework is used and illustrates the added value of such a systematic and fine-grained assessment. By proposing this analytical framework, the paper closes a gap in the literature and opens new paths for the comparative analysis of

1 EU IDEA website: *Work Package 2: Vision and Theoretical Conceptualization*, https://euidea.eu/?p=332.

2 See for an analysis of differentiated integration in the Banking Union also: Mack 2020.

accountability across various shades of European integration.

1. A principal–agent perspective on differentiation and accountability

European integration can loosely be defined as the body of rules of the EU to which member states agree to adhere (Schimmelfennig and Winzen 2020: 2) (for a categorisation of different forms of differentiated integration see also Stubb 1996). Such rules can be applicable uniformly in all member states, or they can be differentiated. In such differentiated integration, "at least one member state must be legally exempt or excluded from the rule for some time" (Schimmelfennig and Winzen 2020: 2). The broader term differentiation, in contrast, is a wide concept that encompasses differentiated integration but also the disintegration of some member states that were previously more closely involved in some EU policies, as well as cases where even members within a policy field can have different membership status (Fossum 2015: 800).

In line with the EU IDEA project, this paper distinguishes various forms of differentiation, notably internal differentiation (arrangements for integration or cooperation among a reduced number of member states) and external differentiation (governance arrangements allowing third countries to participate in certain EU policies). It also makes a distinction between formal and non-formal types of differentiation and thereby briefly looks at the organisational dimension of differentiation, meaning how the different actors (participating and non-participating member states, third countries) are differently involved in practice (see: Lavenex and Križić 2019).

Accountability, in turn, is an elusive term, with which many different meanings are associated (see for example: Mulgan 2000, Bovens 2007a, 2007b, 2010, Schedler 1999). A commonly used definition is put forward by Mark Bovens, who provides a conceptual framework for analysing and assessing accountability in his 2007 work. He uses a narrow definition of accountability: "a relationship between an actor and a forum, in which the actor has an obligation to explain and to justify his or her conduct, the forum can pose questions and pass judgement, and the actor may face consequences" (Bovens 2007a: 450).

One of the main challenges posed by differentiated integration to accountability is that it causes an incongruence between those who take decisions and those affected by them (Fossum 2015, Herrmann and Leuffen 2020). Democracy requires, among other things, that the subset of people who are affected by political decisions must be identical with those electing the representatives who take these decisions (Hurrelmann and DeBardeleben 2009: 233). Where this is not the case and where "citizens are affected by decisions that are beyond their control and where they cannot hold the decision-makers to account", a situation of incongruence arises (Fossum 2015: 801). This in turn results in an arbitrary domination. In such a case a basic principle of democracy, that those subjected to laws are at the same time their

authors, is called into question (Eriksen 2019: 3).

This principle can be aptly explained by the principal–agent theory, notably introduced by Strøm (2000) to conceptualise accountability: those authorised to make political decisions conditionally designate others to make political decisions on their behalf (Strøm 2000). Parliamentarians are therefore the "agents" of the voters (the "principal") and the relationship between a national parliament and the national government is also that of a principal to its agent. In parliamentary democracies, delegation takes the form of a long and singular chain: citizens delegate their decision-making powers to their elected representatives in parliament, who in turn delegate some of those powers to the head of the executive, who again delegates some of those powers to their ministers, who then delegate them to their civil servants and so on. This is called the chain of delegation, and it is mirrored by a corresponding chain of accountability.

The chain of accountability runs in the opposite direction and is supposed to minimise the divergence by the agent from the principal's interest. A divergence of interests occurs where agent and principal pursue different policy objectives (Müller et al. 2003: 23). This can either result in the agent failing to act in the principal's best interests or explicitly acting against those interests. Agency problems may occur if two or more agents compete for the attention of the same principal or if a single agent is accountable to two or more principals (Strøm 2000). A divergence of interests between agent and principal can also occur because of an adverse selection of the agent, i.e., the appointment of an unsuitable agent unwilling or unable to fulfil the interests of the principal, or because the agent lacks the necessary information to act in the principal's interests. Where he lacks such information, the agent "never benefits from choosing any action other than his own ideal point" (Lupia 2003: 42), resulting in his acting in his own interest only (moral hazard) (Müller et al. 2003: 23). In order to mitigate the risks of such agency loss, and in order to guarantee the power of the principal to de-authorise and replace the agent where necessary, the chain of accountability is to ensure that every delegation of power is accompanied by an accountability mechanism from each agent towards their direct principal (Müller et al. 2003: 20).

In the EU, there are two strands of accountability. Where in a nation-state the principal is the national citizens, directly electing a parliament on a nation-wide basis, in the EU there are 27 different national citizenries of 27 member states. These are indirectly represented as the citizens of their state by their own national parliament as well as directly represented as European citizens by the European Parliament.

In the case of differentiation in the EU, we often have a mismatch between principals and agents. Depending on the format (internal vs. external differentiation), some principals only have marginal control over their agents and are underrepresented or absent in the chain of accountability. In other instances, principals find themselves within a chain of accountability, even though they are not directly affected by the agent's actions or decisions. This problem of incongruence arises in particular at the level of the European Parliament, and less so at the level of national parliaments. If for example we take the Eurozone, and starting from the premise of dual accountability strands, each national parliament holds to account their individual

government. Parliaments from non-participating member states, whose ministers do not participate in the decision-making, are thus not involved in the matter. This is different with members of the European Parliament. There exists an incongruence between on one side the territorial scope of the policies, in which only 19 member states fully participate, and on the other side the composition of the legislature in form of the European Parliament, which is composed of members from all 27 EU member states (Herrmann and Leuffen 2020: 1018). In consequence, decisions taken in the European Parliament consider the votes of MEPs from non-Eurozone countries, which citizens from Eurozone member states have no control over, and this in turn has democratic implications.

Another issue that arises with differentiated integration is that it can lead to more complexity in the EU's system and thereby less transparency, which in turn can endanger accountability. According to the principal–agent theory, agency loss occurs where there is asymmetric information between the principal and the agent (Lupia 2003: 35). Typically, this occurs because the agent has more information at their disposal than the principal. This in turn can lead to a situation where the principal is no longer able to readily determine the activities of the agent (Auel 2007: 496), thereby increasing the danger that the agent will act in accordance with its own interests only. The more complex the system of delegation becomes in areas of differentiation, the more likely it is that such information asymmetry occurs between principal and agent. In short, if the line of accountability becomes too blurred by a complex network of actors, it becomes increasingly complicated and untransparent for those affected by decisions to hold decision-makers to account.

Democratic accountability, as described above in terms of principal–agent relationships, is a central but not the only type of accountability. Other types with varying degrees of formality can complement it or compensate for the lack of democratic accountability. Fine-grained assessment of the empirical reality of differentiation thus requires including a set of accountability types that are not mutually exclusive (Brandsma and Schillemans 2013: 955).

1. *Legal accountability*: The central accountability forum is a legal institution (i.e., courts). The court acts as a forum that may ask parties to provide information, and that may ask questions and pass judgment (Steinbach 2019). Legal accountability is the least ambiguous type of accountability as "the legal scrutiny will be based on detailed legal standards, prescribed by civil, penal or administrative statutes, or precedent" (Bovens 2007a: 456). It is therefore not based on a principal–agent relationship such as political accountability but on legal rules and procedures.
2. *Administrative accountability*: The forum consists of quasi-legal institutions such as ombudsmen, audit offices, independent supervisory authorities or anti-fraud offices. Similarly to legal accountability, this type of accountability is often based on specific statutes and prescribed norms (Bovens 2007a: 456), but unlike legal accountability, ombudsmen, audit offices and supervisory authorities often have no formal power themselves to directly enforce compliance by the actor but must derive such powers from the government or parliament to which they report.
3. *Professional accountability*: This type is less formal as it relies on standards for acceptable practices within a group of actors, which are binding on all members and the adherence to which is controlled through peer review, often in the form

of disciplinary boards (Bovens 2007a: 456).

4. *Social accountability*: This type occurs between public actors on the one hand, and non-governmental organisations, interest groups and stakeholders on the other hand. It generally lacks any kind of formal requirements between the actor and the forum, and rendering account is usually voluntary (Bovens 2007a: 457, 460). Social accountability has been facilitated by the rise of the Internet and social media, but unlike the other types of accountability often lacks a clearly demarcated principal or forum to which account should be rendered.

Having addressed the interrelation between accountability and differentiation through the lens of the principal–agent approach, this paper will take democratic accountability as a starting point. In second instance it will look at the question as to whether such mechanisms are either complemented or compensated by other forms of accountability.

2. An accountability framework for differentiation

A basic principle of democracy is that the people affected by political decisions must, with constitutional limits such as age or nationality, be identical to those electing the representatives who take these decisions. This is in line with a guiding principle in the EU that democratic control and accountability should occur at the level at which a decision is taken (Crum 2018: 269). A 2012 European Commission Communication thus also states in this regard: "accountability should be ensured at that level where the respective executive decision is taken, whilst taking due account of the level where the decision has an impact" (European Commission 2012: 35). Similar commitments can also be found in a European Council conclusion from 2012 (European Council 2012) and in a European Parliament resolution from 2013 (European Parliament 2013).

To analyse accountability in the context of differentiation, we need to address two central questions: First, which specific accountability mechanisms or practices are in place; and second, how do these mechanisms or practices link principals and agents and to what extent is there congruence between them? From these two questions we can derive different degrees of accountability.

As to the first question, accountability mechanisms or practices are those that occur between the actors and the different forums, which are to hold them accountable. Accountability is in particular characterised by three elements or stages (Bovens 2007a):

1. *Information*: In this first stage the actor informs the forum about their conduct. This includes information about the performance of tasks, outcomes or procedures. The actor can provide the forum with explanations and justifications for their behaviour.
2. *Questioning*: In the second stage, the forum must have an opportunity to question the actor as well as the adequacy of the information given or the legitimacy of

the conduct.

3. *Consequences*: The third stage refers to the possibility of the forum to pass judgement on the conduct of the actor, which can result in the actor having to face consequences for their actions – or in other words, be sanctioned for their actions.

These stages can be both formal and informal, voluntary or obligatory, based on permanent mechanism or happen on an ad hoc basis. In the first stage (information), the executive branch can thus inform parliament about their conduct through reports or oral testimony (Brandsma and Schillemans 2013: 955). In the second stage (discussion), in representative democratic systems, parliaments usually have a variety of instruments at their disposal to ask for additional information or pose follow-up questions (Brandsma and Schillemans 2013: 955). These can include regular question hours with members of the government, the right to ask oral or written questions, the right to launch parliamentary investigations or simply parliamentary debates. What is perhaps important to note here is that the information and discussion stages in parliamentary systems are both dependent on not just the quality of information given to or demanded by parliament. Efficacy at these stages involves also the capacity of parliament to process such information, which in turn requires, among other things, for information to be provided sufficiently early to give parliament time to scrutinise the government's behaviour. The provision of information as well as the discussion of the information can happen in different fora, for example either in full plenary or in committee hearings. Similarly, also the consequences that actors face may range from formal sanctions such as fines, disciplinary measures or penal sanctions to informal ones such as having to justify actions on public TV. In political accountability relationships between executive and parliament, the most far-reaching sanction is the dismissal of a minister or the government as a whole.

As to the second question, the issue for accountability in differentiation is that it causes an incongruence between those deciding on a policy and those affected by the policy. This means that the possibility arises that the accountability mechanisms or practices in place no longer fully link principals and agents. Incongruence can happen to various degrees: those affected by decisions can either be excluded from any influence, or they can be excluded from influence depending on the policy or procedure (Fossum 2015: 801). The second category would also include those member states that "at least get more information and more opportunities to use those decisions that do require their participation to get bargaining leverage over those decisions from which they are formally excluded" (Fossum 2015: 801). If we apply this to the three categories of accountability, we can have different constellations in practice, whereby, for example, a member state is informed and may participate in discussions preceding a decision but may not vote. This in turn would mean that the principal, in this case the citizens of that member state, can also be informed about the decision and can perhaps question the agent, but cannot assign any consequences as in the end the decision was taken by other actors.

In order to allow for a wide-ranging but fine-grained analysis of the various forms of accountability mechanisms in differentiation on the basis of the theoretical

embedding above, an accountability framework, which was firstly developed by Valentin Kreilinger for the EU IDEA project in December 2019, was further refined for the purpose of this paper. It defines a small set of indicators, which can be used to examine accountability mechanisms in differentiated integration.

Q1. Who to hold accountable (who is the agent)?

- Are the executive powers attributed to the DI arrangement dispersed between different actors which cannot be collectively held accountable? Yes / No
- If yes, please name the actors within the DI arrangement.

Q2. Who is holding accountable (who is the principal)?

- Do the legal provisions for the DI arrangement name specific bodies or institutions which are supposed to hold the DI arrangement accountable? Yes / No
- If yes, please name those bodies/institutions.
- Do the legal provisions name the tasks which those bodies or institutions are supposed to perform? If yes, please specify.
- Besides those specifically named bodies and institutions, which other bodies and institutions hold the DI arrangement accountable, possibly only in individual countries?

Q3. Are accountability mechanisms in place and do they link principal and agent?

- Information: Have specific bodies or institutions listed under any of the questions secured the right to receive information? How do they receive it? Directly or by intermittence?
- Questioning: Do specific bodies or institutions have the means to voice concerns, demand explanations about the performance of elected officials and officials of public or private service providers in the DI arrangement?
- Consequences: Do they have the means to, if necessary, impose consequences for such performance?
- Linking principal and agent: Is the territorial scope of the agent identical with the territorial scope of the principal?
- Do these specific bodies or institutions have the powers to block or delay a decision to be taken within the DI arrangement, for instance by voting on a binding mandate for their representative in the DI arrangement?
- To what extent does the mandate clearly specify the goals ex-ante and thereby allow for a straightforward ex-post evaluation of activities?
- A multitude of agents and principals can lead to information asymmetry, which can result in agency loss, while a more open and transparent structure means more accountability. How transparent is the governance structure? Are there too many accountability mechanisms established, resulting in an accountability overload/accountability diffusion whereby no clear responsibility can be assigned anymore?

Q4. Are other accountability mechanisms in place that complement, or compensate for the absence of, democratic accountability?

- Are there multiple channels of accountability, whereby the failure of one channel can be compensated by the presence of others?
- Legal accountability: Does a judicial review mechanism limit discretionary activity?
- Administrative accountability: Do the legal provisions of the DI arrangement provide for quasi-legal accountability forums, such as ombudsmen or courts of auditors?
- Professional accountability: Does a form of professional accountability amongst peers exist?
- Social accountability: Do particular non-governmental organisations, interest groups or stakeholders scrutinise the activities in the DI arrangement?

3. Applying the accountability framework

In order to capture these different forms of differentiation and to demonstrate the usefulness of the accountability framework presented in the last section, the framework will next be applied to two textbook examples of differentiation: 1) the Eurozone, as an example of internal differentiation between 19 EU member states, which also has considerable spill-over effects on non-participating member states, and 2) Schengen, as an example of external differentiation, in which also non-EU member states participate, and which at the same time is also characterised by internal differentiation and informal cooperation.

3.1 Internal differentiation: Eurozone

The Economic and Monetary Union (EMU) is perhaps the deepest form of internal differentiated integration in the EU, with the establishment of and differentiated participation in the common currency being enshrined in the EU Treaties. The EMU is enshrined in article 3 TEU, and the convergence criteria for joining the Eurozone, for example, are laid down in article 140 TFEU.[3] Throughout the TFEU we also find an explicit distinction between Eurozone member states and "member states with a derogation"; and the opt-out for Denmark (and previously the United Kingdom) are also enshrined in the Protocols.

3.1.1 Who to hold accountable (who is the agent)?

Decision-making in the Eurozone is, as for any policy field in the EU, dispersed between different actors or agents, some of which act in a differentiated manner and

3 The Treaty on European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU) are the primary treaties of the EU since the entry into force of the Treaty of Lisbon in 2009.

some of which do not. Both the Commission and the European Parliament hence decide and vote in their full composition on Eurozone matters. At the same time, the European Parliament (EP) does not hold full legislative powers in the EMU as it does in other policies. The ordinary legislative procedure, under which the EP has the most power as a co-legislator, is only applicable in very limited circumstances in the EMU, namely under article 121(6) TFEU on the procedural aspects of the multilateral surveillance procedures, article 129(3) TFEU for amending certain provisions of the European System of Central Banks as well as the European Central Bank Statute and article 133 TFEU on currency law. In all other matters, the European Parliament merely holds a consultation or information power; and where the Treaty provisions concern the exclusive powers of the Eurozone, the EP holds neither.

The Council, in contrast, does work on a differentiated basis. For Eurozone matters, article 138 TFEU limits voting on decisions establishing "common positions on matters of particular interest for economic and monetary union within the competent international financial institutions and conferences" as well as to adopt measures "to ensure unified representation within the international financial institutions and conferences" to members of the Council representing Eurozone countries. According to Article 1 of Protocol No. 14 on the Eurogroup, "The ministers of the Member States whose currency is the euro shall meet informally […], when necessary, to discuss questions related to the specific responsibilities they share with regard to the single currency". Similarly, the Heads of State or government of Eurozone member states meet twice a year as the Euro summit in order to discuss questions relating specifically to the Eurozone.

In addition, there is also the European Central Bank (ECB), responsible for monetary policy in the Eurozone, that must be named here as an agent.

3.1.2 Who is holding accountable (who is the principal)?

The main principals in the Eurozone are the citizens of the 19 member states participating in the common currency. They hold to account their representatives in both the national parliaments and the European Parliament, which again delegate to non-majoritarian structures (Dehousse 2008: 790) such as the Commission or the Council. Because of the dual representation structure of the EU, which is also applicable to the Eurozone, two different chains of accountability exist: on the one hand, all citizens together hold to account the European Parliament, which in turn holds to account the Commission, even though questions can be asked concerning whether the Commission in reality indeed operates as the Parliament's agent with a popular mandate to implement a specific political programme as European elections are mostly dominated by national issues and the composition of the College of Commissioners is mostly dependent on national governments' preferences (Dehousse 2008: 795), as is the choice of Commission President (see for example the 2019 Spitzenkandidatenprocedure). On the other hand, the national citizens of each member state also hold to account their own national parliament, which in turn holds to account their individual ministers and heads of State and government in the Council and European Council.

3.1.3 Are accountability mechanisms in place and do they link principal and agent?

The EMU arrangements under the Treaties do not provide for specific accountability mechanisms for the Eurozone as such, and also the link between principals and agent is given only to a limited extent. In this regard, we have to look at two different chains of accountability: one between the citizens of the Eurozone and the European Parliament, and the ones between the citizens of the member states participating in the Eurozone and their national parliaments (see also Nguyen 2018).

Starting with the first, it should be recalled that the citizens of all member states, irrespective of their participation in a form of differentiation, have elected representatives in the European Parliament, which always decides in full composition. This is also where the biggest challenge to accountability in the Eurozone lies: at the level of the European Parliament. While only 19 EU member states participate in the Eurozone, decisions taken with the participation of the European Parliament mean that also MEPs from non-Eurozone member states can vote on measures that do not immediately take effect in their countries. Citizens from Eurozone member states are thus subject to decisions decided partially by representatives whom they cannot control. Citizens in the Eurozone may be informed about Eurozone decisions (information stage) and even question the Parliament's actions in this regard (questioning stage), but it is impossible for them to assign consequences to large parts of the EP. In essence, those affected by the EP's decisions cannot sanction MEPs from non-Eurozone member states by voting them out of office.

This problem is furthermore carried over to the European Parliament's role as principal vis-à-vis non-majoritarian institutions. Where the EP is responsible for holding to account the Commission or the ECB in Eurozone matters, for example, it acts as the interlocutor between the citizens of the Eurozone and these institutions. But also here, those on behalf of whom the European Parliament holds to account the Commission or ECB, cannot sanction MEPs from non-Eurozone member states for their scrutiny activities.

When it comes to the second chain(s) of accountability, we can also identify a form of incongruence, but one which is the exact opposite of the one located at the European Parliament level. National ministers and heads of State and government in the Council and European Council are held accountable by their individual national parliaments at home. This means that for Eurozone decisions, there are 19 different chains of accountability leading from the national citizens of the Eurozone member states to the national parliaments to the government representative in question. Neither citizens nor parliaments from non-participating member states are thus involved in this strand of accountability chains.

The possible problem of incongruence that arises here is that non-participating member states do not directly participate in the Euro area – and hence their governments cannot vote on issues falling therein – but that their citizens can nevertheless be affected by Eurozone decisions through spill-over effects. Eurozone

policies thus do not necessarily only have a direct impact on the 19 Euro area member states but indirectly also affect the other member states in the EU and their citizens. The situation of non-participating member states in the Eurozone aptly exemplifies the second type of incongruence identified by Fossum (2015), under which they are not totally excluded from the decision-making but still receive information and can bargain on the basis of other policy areas on which they do decide. These member states are, however, not entirely excluded from Eurozone decision-making processes as their ministers may still take part in discussions and as they can participate in many related policy areas, which are interlinked with the common currency and which can be used to influence Eurozone policies.

What reinforces the problems of accountability in the Eurozone is that the role of the European Parliament, but also the role of national parliaments in the EMU, was even further marginalised during the management of the Eurozone crisis. This is, for one, due to the fact that some of the crisis response measures were adopted outside of the EU law framework, such as the European Stability Mechanism (ESM) and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, and do not foresee the participation of the EP in their design. In addition, the crisis – due to its urgent nature – led to a strengthening of European executive powers, meaning the European Council, the Euro summit (consisting of the Heads of State or government of the Euro member states) and the Eurogroup (consisting of the finance ministers of the Eurozone).

The (re-)emergence into power of these (partly informal) intergovernmental institutions had an impact on the powers of national parliaments as it became increasingly difficult for the latter to remain informed about the negotiations at the EU level. These were mostly held behind closed doors; more often than not, national parliaments would be confronted with faits accomplits by their governments ex post, rather than being involved before or during the discussions. This consequently led to the marginalisation of the European Parliament, as well as the exclusion of the national parliaments from the negotiation process. Their role was reduced to that of external veto-players (Benz 2013: 139), meaning that they could have a say in whether a decision is being taken or not (i.e., a veto power), but were not able to influence the content of the decision itself.

In sum, incongruence problems can be identified both with regard to the European Parliament and the Council and European Council in the Eurozone. The European Parliament represents more citizens than are directly affected by Eurozone measures, whereas the Eurogroup and Euro summit exclude the government representatives of those member states that may be indirectly affected by the decisions.

In light of these problems, it is not surprising that various ideas have been floated to improve accountability in the EMU, which will be briefly outlined here, including their advantages and disadvantages (for a deeper analysis see: Herrmann and Leuffen 2020).

In 2017 French President Macron, for one, suggested the creation of a Eurozone finance minister, responsible for a Eurozone budget and held accountable by a Eurozone parliament (Macron 2017). He, in essence, suggests establishing a

Eurozone government with its own parliament and its own minister. The advantage of such a reform would be the full accountability of the proposed Eurozone finance minister to the newly established Eurozone parliament. It could thereby ensure that accountability is organised at the same level as decisions are taken thus eliminating the incongruence between the country of origin of the elected representatives and the countries to which the decisions apply, in particular by scrutinising decisions by the Eurogroup and the Euro summit. Such a parliament could either be a second parliamentary chamber, a Euro-Chamber so to speak, composed of national parliamentarians, who are accorded the role of scrutinising a new Euro-government. Or it could be established as a Euro-Parliament, in addition to the current European Parliament, which would be composed of both MEPs and MPs from the parliaments of the Eurozone member states. The idea of a separate parliament for the Eurozone has been proposed many times on various occasions (see also: Curtin and Fasone 2017, Herrmann and Leuffen 2020).

The downside of this proposal, however, is its feasibility. Not only does the question remain open as to how such a Eurozone parliament would be composed and how its seats would be distributed. The number of seats accorded to each member state would still need to be proportionate to their respective populations, all the while having to ensure that the distribution of seats properly reflects the political parties in the parliament(s), which could potentially lead to a very big parliament if it were to also include parliamentarians from national parliaments (Wessels 2013: 104). It would also pose questions on the further path of integration for the EU – i.e., what would the scope of the act of creating a new parliament be? Would its creation be limited to the Eurozone only or would a separate parliament be required for any form of differentiated integration? Creating yet another parliamentary assembly in the European Union would lead to more complexity in the system and less transparency, which can be more harmful than useful to accountability.

Another question that has regularly arisen in the context of differentiation in EMU is whether the European Parliament should decide in a differentiated composition to match the territorial scope of the policies that it decides on (Herrmann and Leuffen 2020). The idea is that only MEPs from member states participating in the Euro would be able to vote thereon. The advantage of this idea is that no new institution would have to be created, thus not leading to more complexity in the EU's institutional structure. However, there are also many arguments against this proposal, most notably that it would run counter to the spirit of the Treaties: the members of the EP have a European mandate, not a national one. In this regard, article 10(2) TEU stipulates that the EP directly represents EU citizens as a whole and does not function on a nationality basis. This is also reflected by the fact that MEPs are organised and work according to denationalised political groups within the Parliament, and do not represent national interests (Maurer 2013: 9). In addition, and peculiar to the Eurozone specifically, it should be remembered that the Euro was designed to constitute a currency for the European Union as a whole. All member states, except for Denmark (and Sweden),[4] are supposed to join the third stage of

4 Sweden does not have legal opt-out, but after the rejection of the Euro in the 2003, it has chosen not to join the Eurozone through an abnormal mathematical formula, through which it consistently does not meet the criteria.

the EMU and adopt the common currency as soon as they meet the criteria that are laid down in Article 140 TFEU. In light of this, it could be argued that Eurozone decisions are in fact decisions pertaining to Union interests as a whole (as opposed to Eurozone interests only) as they are meant to affect nearly all member states in the future (Maurer 2013: 9). At the same time, it could of course also be argued that simply because (almost) all member states will join the Eurozone at some point in the future, this does not imply a right to veto decisions in the present when they are not members yet.

3.1.4 Are there other forms of accountability in order to complement or compensate the accountability mechanisms above?

When looking at other forms of accountability that complement or compensate for the absence of democratic accountability mechanisms, the special position of the European Central Bank must be mentioned. From a principal–agent perspective, the chain of delegation would lead from the Eurozone citizens to the European Parliament to the ECB, with a corresponding chain of accountability in the other direction. The ECB, however, was, on the one hand, designed to be independent from political interference (article 130 TFEU); on the other hand, there has long been discussion on the need for ECB accountability to a democratically elected institution (Marikut-Akbik 2020: 1199, Fromage et al. 2019: 5; for an analysis on ECB accountability towards the European Parliament, see for example: Marikut-Akbik 2020). This contradiction has partially been addressed by providing the ECB with a narrow mandate to only conduct monetary policy in the EU (article 282 TFEU). The idea here is that "the narrower the legal mandate of the institution, the easier it is to hold it accountable" (Dawson et al. 2019: 77). An inherent deficit in democratic accountability is thus compensated for by a narrow specification of the institution's mandate.

Not all Eurozone policies fall within the framework of the Treaties. If we look beyond the Treaty provisions, another example for other forms of accountability within the EMU could be those established for the European Stability Mechanism. The ESM Treaty is an intergovernmental treaty that was concluded by the member states of the Eurozone to set up a permanent emergency fund amongst them. While the ESM Treaty does not provide for classic democratic accountability mechanisms, it compensates for the lack thereof through administrative accountability. Under article 29 of the ESM Treaty, the accounts of the ESM have to be audited by independent external auditors. Article 30 provides for the establishment of a Board of Auditors, whose annual audit report must furthermore be made available to the national parliaments of participating member states, their supreme audit institutions and the European Court of Auditors (article 30 ESM Treaty).

3.2 External differentiation: Schengen

The Schengen area represents a textbook example of both internal and external differentiation in the EU, and one which is at the same time also characterised by instances of informal cooperation (Votoupalová 2020: 413). This section will in particular deal with the aspect of external differentiation, even though challenges raised by internal differentiation as well as informal cooperation in the Schengen area will be pointed out where applicable (see for an analysis of Schengen as an example of both internal and external differentiation: De Somer et al. 2020). At present, 26 states participate in the Schengen area, which foresees the abolition of internal borders between its members: 22 EU member states and four non-EU member states, namely Norway, Switzerland, Iceland and Liechtenstein (which also constitute the membership of the European Free Trade Association).

3.2.1 Who to hold accountable (who is the agent)?

Ever since the Protocol Integrating the Schengen *acquis* into the Framework of the European Union (Protocol No. 19 of the TFEU), the agents to be held accountable are the same in Schengen as in any other EU policy: the European Parliament, the Commission and the Council. Article 5 of the Protocol thus states that "proposals and initiatives to build upon the Schengen *acquis* shall be subject to the relevant provisions of the Treaties". In addition, the four non-EU member states Norway, Switzerland, Iceland and Liechtenstein are involved through the so-called Mixed Committees, consisting of government representatives of the countries.

3.2.2 Who is holding accountable (who is the principal)?

As is the case with the Eurozone, not all EU member states participate in the Schengen area but only 22 of them. The crucial difference here is, however, that also non-EU member states are part of the group. The principals in this context are thus not only EU citizens of those member states that participate in Schengen, but also the citizens of Norway, Switzerland, Iceland and Liechtenstein.

3.2.3 Are accountability mechanisms in place and do they link principal and agent?

The Schengen character of being both internally and externally differentiated raises particular problems concerning a link between the principals and the agents in its context. In this case, the existence of citizens of third countries acting as agents in the Schengen area creates problems, in part directly opposite to those raised in the Eurozone, which is marked by internal differentiation only.

The Agreement concluded by the Council of the European Union with the Republic of Iceland and the Kingdom of Norway concerning the latters' association with the implementation, application and development of the Schengen *acquis* (the

Agreement) sets out the decision-making procedures for Schengen with regard to these two countries. Article 8 explicitly states that the adoption of any acts or measures relating to Schengen is reserved for the competent institutions of the European Union. Once adopted, they apply to Norway and Iceland, unless they reject the content and do not want to implement the measure in their internal legal order, or unless the act states otherwise. Because neither Norway nor Iceland is represented in the EU's decision-making process, either in the European Parliament or in the Commission or Council, they have only very limited influence on such processes. As associated members they do not have voting rights and almost no influence on the law-making of Schengen measures, except through their government representatives in the Mixed Committees.

The Mixed Committee addresses matters covered by the Schengen *acquis* and ensures that any concern entertained by the countries is duly considered (Article 4 of the Agreement). More explicitly, the Agreement enshrines the right of the representatives of Iceland and Norway to explain their problems with a particular measure, answer any questions in regard thereto, as well as make suggestions relating to Schengen. After discussion, these suggestions may then be taken up by the European Commission or a member state to make a legislative proposal in accordance with EU rules (article 4 of the Agreement). Article 5 of the Agreement states that the Mixed Committee must be informed about any acts relating to Schengen that are prepared in the Council. Article 6 of the Agreement furthermore requires the Commission to "informally seek advice from experts of Iceland and Norway in the same way as it seeks advice from experts of the Member States for drawing up its proposals".

In practice, this means that Norway and Iceland only become involved once the legislation has been passed by the EU institutions and is then presented to the institutions of the European Economic Area (Fossum 2015: 809). This has as a consequence that Norwegian and Icelandic citizens, who are affected by Schengen decisions, do not have a say in the processes leading up to such decisions. They find themselves virtually outside of the chains of accountability attached to these decisions. Applying this to the different stages of accountability, it means that citizens of European Free Trade Association states can receive information on the decision-making processes within Schengen but may not assign consequences to those taking such decisions. There exists thus a high degree of incongruence between those taking the decisions (EU institutions) in Schengen and those affected by them (the citizens of Norway, Switzerland, Iceland and Liechtenstein).

The internal differentiation character of Schengen reinforces this incongruence even further. Because citizens of non-participating EU member states can vote in European Parliament elections, the paradoxical situation can arise in which Irish or Bulgarian citizens – to whom the Schengen *acquis* does not apply – can have more say on Schengen policies than Norwegian citizens. This in turn raises the danger of arbitrary domination as a result.

Apart from the external and internal differentiation aspects of Schengen, also its informal, differentiated cooperation aspects should be briefly mentioned here. Such

differentiated informal cooperation, which takes place between some members of Schengen but not all, can best be exemplified through the issue of border controls, where local and informal cooperation is regarded as even more important than cooperation at the European level (Votoupalová 2020: 413). De Somer et al. (2020) illustrate such intra-Schengen differentiation with the examples of border controls or closures during the migration and the COVID-19 crises. As a result of the migration crisis in 2015, a number of member states closed their borders, with six EU member states having continuously re-extended border controls, i.e., Germany, France, Austria, Norway, Sweden and Denmark. These countries in turn "appear to maintain some degree of multilateral coordination among them. This can be derived from the synchronisation of the notifications that are sent, every six months anew, by that same group of states. EU-wide coordination, however, is sorely lacking" (De Somer et al. 2020: 11). Equally, also the COVID-19 crisis caused an array of Schengen member states to introduce border controls, while the lifting of such border controls happened in a "highly uncoordinated manner", with the Baltic states, for example, establishing so-called "travel bubbles" between them (De Somer et al. 2020: 12).

The challenges raised by forms of informal differentiated cooperation have been pointed out by Grevi et al. (2020) in relation to the field of foreign policy, which is characterised by informal formats such as regional groupings, contact and lead groups or flexible cooperation within international bodies. Such challenges pertain notably to the coherence and consistency of EU policy as well as transparency (Grevi et al. 2020: 17, 19). Applying this to the issue of informal cooperation regarding border controls within Schengen, it can be argued that also here a problem of coherence and transparency arises, whereby different groups of member states approach the question in a different manner, with no clear principal at the EU level being discernible.

As has been mentioned above, the more transparent a governance structure is, the more accountable it becomes. The more information asymmetry there exists, the more complicated and untransparent it is for those affected by decisions to hold decision-makers to account. A wide array of differentiated informal cooperation structures would thus lead to a situation in which the agents could be held to account only with difficulty because the decision-making structures – taking place outside the formal routes of the EU law framework – have become too ad hoc, complex or obscure.

3.2.4 Are there other forms of accountability in order to complement or compensate for the accountability mechanisms above?

Focusing specifically on accountability in external differentiation in Schengen, the Agreement concluded between the Council and Iceland and Norway on this matter provides for a form of professional (peer) accountability, in conjunction with legal accountability. The basis for assigning sanctions is grounded in legal provisions as well as court decisions, but the decision on whether or not they are imposed depends on the Mixed Committee itself. In this regard, article 10 of the Agreement requires Iceland and Norway to submit annual reports to the Mixed Committee

regarding the application and interpretation of Schengen measures, as interpreted by the European Court of Justice as well as by their administrative authorities and courts. In cases of substantial differences in the case law between the European court and the Icelandic and Norwegian courts, or in case of a substantial difference in application between the authorities of participating EU member states concerned and those of Iceland or Norway, it is for the Mixed Committee to resolve the matter (article 11 of the Agreement). If, after a certain period of time, the dispute cannot be settled, the Agreement is considered to be terminated with respect to Iceland or Norway respectively (article 11 of the Agreement). This particular accountability mechanism is, however, very asymmetric in its application. It thus takes the EU and its member states as the standard against which the actions of the Norwegian and Icelandic courts are to be judged. As a result, the EU member states cannot, under these provisions, be sanctioned with the termination of the Agreement. This threat only exists for the associated members of Schengen.

Conclusion

Differentiation in the EU, both external and internal, raises particular challenges for accountability. A basic principle of democracy is that the people affected by political decisions must be identical to those electing the representatives who take these decisions. Differentiation challenges this basic principle. An analysis of the Eurozone and the Schengen area using the analytical framework proposed in this paper has demonstrated that decision-makers in differentiated policy decisions can either represent more citizens than are affected by the measure in question (internal differentiation) or represent fewer citizens than are affected (external differentiation). In situations where internal and external differentiation coincide, it is even possible that citizens who are not affected by the policy at all have more say in the decision-making processes through their representatives in the European Parliament than do citizens of participating third countries.

At the same time, no easy solution on the question of how to best organise accountability in differentiated policy fields is in sight. The recurrent debate on the necessity or non-necessity of establishing a new parliament for the Eurozone illustrates, for one, the difficult trade-offs that exist due to spill-over effects between policy areas. On the one hand, only 19 member states participate in the Eurozone, leading to an incongruence between the citizens directly affected by Eurozone policies and the European Parliament. On the other hand, it can be argued that Eurozone policies affect not only the citizens of the 19 Euro member states but, in fact, have an impact on all EU citizens, supporting the argument that these citizens also should be represented in Eurozone decision-making structures. In addition, it can be questioned to what extent the European Parliament must mirror the territorial scope of differentiated policies. As is explicitly stated in the Treaties, the EP represents all EU citizens as a whole and does not operate along national lines. Its capacity as agent can, from this viewpoint, therefore not be undermined by the fact that there are some countries which do not participate in the measures that it decides on.

Furthermore, the question of creating a separate Eurozone parliament also illustrates the trade-off between reducing incongruence and increasing complexity, which can lead to agency loss. This trade-off should in particular be borne in mind in the context of the European Union, when questions of accountability are discussed. EU citizens are already represented by variety of parliamentary assemblies at the local, national and European level. Establishing yet another representative assembly would not only add to the array of representative structures but also make the decision-making structure of the EU – which many citizens struggle to understand as it is – too complicated to increase democratic accountability in the differentiated policy that is the Eurozone.

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EU Integration and Differentiation
for Effectiveness and Accountability

Differentiation has become the new normal in the European Union (EU) and one of the most crucial matters in defining its future. A certain degree of differentiation has always been part of the European integration project since its early days. The Eurozone and the Schengen area have further consolidated this trend into long-term projects of differentiated integration among EU Member States.

A number of unprecedented internal and external challenges to the EU, however, including the financial and economic crisis, the migration phenomenon, renewed geopolitical tensions and Brexit, have reinforced today the belief that **more flexibility is needed within the complex EU machinery**. A Permanent Structured Cooperation, for example, has been launched in the field of defence, enabling groups of willing and able Member States to join forces through new, flexible arrangements. Differentiation could offer a way forward also in many other key policy fields within the Union, where uniformity is undesirable or unattainable, as well as in the design of EU external action within an increasingly unstable global environment, offering manifold models of cooperation between the EU and candidate countries, potential accession countries and associated third countries.

EU IDEA's key goal is to address **whether, how much and what form of differentiation is not only compatible with, but is also conducive to a more effective, cohesive and democratic EU**. The basic claim of the project is that differentiation is not only necessary to address current challenges more effectively, by making the Union more resilient and responsive to citizens. Differentiation is also desirable as long as such flexibility is compatible with the core principles of the EU's constitutionalism and identity, sustainable in terms of governance, and acceptable to EU citizens, Member States and affected third partners.

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This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 822622