Briefing note

European elections Q&A
20 June 2014

What is the significance of the European elections?

The days when the European Parliament (EP) was able only to express opinions and its only right was to be consulted on key EU policies are long gone. Due to several Treaty changes, it has gained new and important powers.

Nowadays, in most policy areas, the EP has the same powers as the Council (Member States). Increasingly, it has been using its growing role to shape important pieces of legislation – even when that meant political fights with Member States or with the EU’s executive arm, the European Commission.

If you have been following the legislative proposals that have been adopted in the area of financial services in response to the crisis, you will know how key Members of the European Parliament (MEPs) from the main political groups have been able to influence significantly the final outcome.

The EU has reached a crucial moment in terms of its future direction of travel, and the new parliament will have a significant impact on the EU policy agenda over the next five years.

The EP will continue to play a central role in dossiers, including the:

- future shape of the single market
- complex dynamic between the Eurozone countries within the EU
- policies on the free movement of persons
- the annual EU budget
- ratification or rejection an EU-US free trade agreement
- remaining financial services initiatives (eg the proposal for structural separation in the banking sector).

The EP also has an important role in the selection process for the top EU jobs. See below for what we say about the ‘Spitzkandidaten’, and the political coalition likely to steer the positions of the new EP.

Don’t forget that the EP can, at any moment, force the Commission to resign, which happened in 1999.

So who ‘won’ the European elections?

In absolute terms, the centre-right European People’s Party (EPP) was the biggest winner. Based on previous allegiances, with 221 out of 751 seats, the EPP remains the biggest political group in the EP, ahead of the
Progressive Alliance of Socialists and Democrats (S&D), which secured 191 seats.

At the time of writing, the ECR group – to which the UK Conservative Party belongs – has obtained 68 seats; the Liberals (ALDE group) have 67; the European Left (GUE/NGL) 52; the Greens, 50; the Europe of Freedom and Democracy (EFD) group, 48; while the various non-aligned groups share the remaining 54 seats.

It is worth noting that groups in the EP are themselves made up of national party groups, and these can and do shift allegiance. So the numbers given above have already changed since the publication of the initial results, although the overall outcome has not changed dramatically.

As we explain below, these numbers show that the majority likely to steer the EP positions over the next five years will be built around the two main political groups: the EPP and S&D – the ‘Grand Coalition’ model.

The relative gains of individual groups and parties compared to the previous elections show other winners. Of note are the successes of the anti-EU, populist parties, such as the Front National (FN) in France, which won nearly 25% of the vote, and the UK Independence Party (UKIP) in Britain, with 27.5%.

In terms of national delegations, the Italian Democratic Party obtained 40.8% of the vote, and became the biggest delegation in the S&D. Germany forms the EPP’s largest delegation, while Poland has strong standing in both the EPP and the S&D delegations.

**What are the implications of the strong presence of Eurosceptics and populists in the new Parliament?**

If you combine all the votes of MEPs who are either unaligned or from parties other than the four mainstream pro-Europe parties, their total number would be larger than the centre-right EPP. However, the EPP will remain the biggest political group. Eurosceptics and radicals will not form one grouping, but several. Indeed, anti-EU populist groups come from both right and the left of the political spectrum.

In addition, the far-right parties have long been divided along national lines. It will be interesting to see whether Marine Le Pen can form a new far-right group – ie 25 MEPs from seven different Member States – which may be called the ‘European Alliance for Freedom’.

At the time of writing, the Liberals (ALDE group) have conceded to the Conservatives (ECR) their status as the third largest group in the Parliament. The ECR group has increased its political resources by welcoming new members in its ranks – including the Flemish separatist N-VA party and Alternative for Germany (AfD) – despite opposition from the UK Conservative Party. However, the ECR risks conflict with the German-dominated EPP, which is opposing cooperation with AfD.

Nigel Farage (UKIP), together with Beppe Grillo’s 5 Star Movement in Italy, has secured the seven required nationalities to form a political group. The anti-EU EFD, comprising 48 MEPs, will hence continue to exist and gain additional visibility and financial resources.

**Will the Eurosceptic and radical parties have a strong voice in the new parliament?**

Despite the significant rise of Eurosceptic parties in a number of Member States, their influence in the European Parliament is expected to be limited. Far-right groups are more likely to prioritise the national discourse, while remaining strong voices of opposition to the national governments.

At EU level, they will aim to implement a populist agenda that will focus greatly on issues such as immigration and EU reform. However, this will not heavily impact the day-to-day business of mainstream EU parties, because of the inability of these radical groups to come together and form alliances, due to internal divisions.
and lack of coherence. Experience has shown that these groups tend to be disengaged from the Parliament’s legislative work, and can often vote against each other.

The populist groups risk being marginalised from EU deal-making in the new Parliament by the main parties working on the basis of a Grand Coalition, which will outnumber the Eurosceptic forces. However, indirectly, they could put pressure on national governments to question EU’s role in a number of areas.

**What is a ‘Spitzenkandidat’?**

‘Spitzenkandidat’ means “lead candidate”. The term first appeared in EU jargon after the centre-left Party of European Socialists nominated its Spitzenkandidat, Martin Schulz, as the party’s lead candidate for the Commission Presidency, and the other political parties followed suit.

Spitzenkandidaten are not formally established by EU law. The concept has been adopted by the EP to enhance the EU’s democratic legitimacy by using the EP elections as a way to “directly elect” the next Commission President to replace the incumbent, José Manuel Barroso.

It is for Member States in the European Council to nominate the President of the Commission, based on so-called Qualified Majority voting. It is for the EP to accept or reject this nomination.

For the first time, the provisions of the Lisbon Treaty apply to the process of choosing a president. These state that when the European Council is nominating the president, it must take into account the election results after consultations with the Parliament.

However, there are varying interpretations as to whether the European Council should nominate the party-list leader from the winning EU party or choose another “dark horse” candidate. Many EU leaders are reluctant to cede more power to the Parliament or to establish a precedent via the Spitzenkandidat process.

Because the EPP is the largest party in the European Parliament, it is generally agreed that its candidate, former Luxembourg Prime Minister Jean-Claude Juncker, is the Spitzenkandidat with the best immediate claim.

**Will Jean-Claude Juncker become the new Commission President?**

Jean-Claude Juncker is certainly a leading candidate, but he will not necessarily get the job. The selection of the next Commission President will be subject to a decision by the European Council, from 26-27 June 2014, on the basis of a qualified majority vote.

The leader of the European Council, Herman Van Rompuy, is currently consulting with the members of the European Council on a bilateral basis and with the leaders of the political groups in the Parliament. Moreover, he is tasked with the drafting of a strategy paper outlining the EU’s economic priorities for the next five years that will be presented to EU leaders at the 26-27 June summit.

If there is not enough support from all member states for the same candidate, some countries may form a blocking minority against his candidacy. In that case, the Council will have to put forward a compromise candidate, who will have the backing of the majority of EU leaders.

At the time of writing, David Cameron, the UK Prime Minister, is continuing his campaign to counter the candidacy of Jean-Claude Juncker. The German Chancellor, Angela Merkel, who now supports Juncker’s appointment as Commission President, is said to favour a vote on this issue, which her UK counterpart would also like to see, at the June summit. David Cameron therefore has limited time to form a blocking minority against Juncker. The position of the Italian Prime Minister, Matteo Renzi, will be crucial, but remains to be
determined. If Juncker is appointed as Commission President, it is believed the UK might win concessions in other EU areas of interest in future.

The European Parliament (EP), where the idea of creating a precedent through the ‘Spitzenkandidaten’ process is seen as an attractive one, needs to adopt the European Council’s decision by an absolute majority (376 votes) at its plenary session on 14-17 July 2014. If Juncker gets nominated by the European Council, he will then attempt to form the required majority in the Parliament in order to get elected.

It is still not clear how the results of the European elections will be taken into account by the European Council. If the Council decides to nominate a “dark horse” candidate, this could create a major institutional clash with the EP, which may reject the nomination on the basis that it lacks democratic legitimacy.

Among the most prominent potential compromise candidates are Jyrki Katainen, the former Finnish Prime Minister; Enda Kenny, the current Irish Prime Minister; Donald Tusk, the current Polish Prime Minister; Michel Barnier, current Internal Market Commissioner; and Helle Thorning-Schmidt, the current Danish Prime Minister.

Do we expect to see a coalition being formed by certain groups in the parliament? If so, which ones? And will they elect a prime minister?

A coalition of different political groups will be necessary, and it is likely to be a ‘Grand’ one. The outcome of the elections and the resulting size of the different political groups show that the majority likely to steer the EP positions in the next five years is a relatively broad one, built around the two main political groups, the EPP and S&D (the Grand Coalition model), with the Liberal and Green groups retaining a strong influence, since the EP traditionally tries to achieve very broad majorities.

This majority is not new, and in fact is the same one that shaped all the main legislative proposals in financial services during the previous legislative term.

The first test for such a majority will be the election of the President of the Commission, after the candidate has been identified by the leaders of the EU Member States (see the Spitzenkandidaten section above).

After selection of the President-elect, the new College of Commissioners will need a vote of investiture from the EP for their mandate of five years. This gives the EP the power to influence the composition of the College of Commissioners. The EP can already hold public hearings to scrutinise Commissioners-designate and, if it is not happy with them, can threaten to deny the College its investiture.

The stronger and more solid the EP’s majority, the more it will be in a position to impose its views. At the same time, a broad majority will remain fluid, as it cannot be achieved on all themes. The rise of the extremist and anti-EU parties might produce an even stronger glue for this ‘Grand coalition’. Moreover, if the EP is successful in influencing the composition of the next European Commission, this will strengthen its sense of ownership over the mandate to the EC and its responsibility for its success.

If it is all about consensus and fluid coalitions, why does it matter how many members each of the groupings have?

The Members of the EP sit in political groups that are not organised by nationality, but by political affiliation. There are currently seven political groups in the parliament. Every MEP either belongs to a group or is registered as "Non-attached".

Political groups are very important because they allow MEPs to form alliances, as well as to steer the decision-making process via the allocation of responsibility for certain legislative files.
The rapporteur and shadow-rapporteurs from the various political groups steer the legislative proposals within the EP and can heavily influence the final outcome. Rapporteurships are allocated after negotiations among the various political groups. As you can expect, the larger the group, and the more allies in other groups it can find – being part of the majority coalition is a key factor – the larger the number and importance of rapporteurships it receives.

Political groups are eligible for EU funding from the EU budget. The minimum requirements to form a political group are 25 MEPs from at least seven different Member States.

**What do the outcomes of the elections mean for the future regulation of financial services?**

An enormous, multi-year effort by policy-makers and financial institutions is making the financial system more resilient and able to contribute to sustainable growth.

In this context, the EU has already seen over 40 major pieces of legislation, including: CRD IV; the Bank Recovery and Resolution Directive; the MIFID II Directive and Regulation; Banking Union; the EMIR Regulation; the Market Abuse Regulation and Directive; and the European System of Financial Supervisors. All of these have radically reshaped the way markets operate.

The next EP and Commission will attach great focus and importance to implementing these important reforms. Monitoring Level 2 implementation, as well as the review clauses embedded in some of the key regulations and directives, will be taken very seriously.

Some remaining issues, eg the debate on the need for structural measures in the banking sector, regulation of benchmarks, the debate on shadow banking, and the Financial Transaction Tax (FTT) will be clear priorities.

At the same time, emphasis will shift towards restarting growth in the EU. European policy makers are likely to focus on achieving the right balance between financial stability, which needs to remain the key objective, and ensuring that the financial sector is able to fund sustainable growth and innovation in the real economy.

**What about important files that have already been started, such as banking structural reform, FTT and financial benchmarks?**

The Banking Structural Reform proposal is a file with major structural and economic implications. It was adopted as a proposal in February 2014, very late in the lifetime of the outgoing Commission. The Parliament has not done any work yet on the proposal, while the Council has had only some preliminary exchanges.

Renewed work on the proposal is expected to start in earnest in the autumn of 2014. It will be important to see who is appointed as rapporteur and shadow rapporteurs. Different political groupings will be interested in securing the rapporteurship.

Banking structural reform will be seen as central to the pursuit of different perspectives. It remains to be seen whether significant further regulation is necessary – eg on the partition or breaking up of large banks – or if the focus should now be on letting the large amount of regulatory reform already introduced bed down before further changes are attempted, to maximise opportunities for restoring growth.

Regarding the Financial Benchmarks file, which lapsed from the previous Parliament without a first reading agreement within the ECON Committee, the former rapporteur Sharon Bowles, along with the shadow rapporteurs Gay Mitchell and Emilie Turunen, will not be returning. As a result, there is a possibility that the ECON Committee may have to restart its work on this file; should responsibility for the dossier (the rapporteurship) shift from the Liberals to one of the two main political groups.
It is to be hoped that the work will be taken up where the previous rapporteur left it. A similar situation exists for the Money Market Funds proposal, where again three of the rapporteurs/shadow rapporteurs will not be returning.

The so-called Enhanced Cooperation proposal for an FTT to be adopted by 11 countries continues to be discussed by Member States. For the well-documented negative consequences for end-users, click here. Because the proposal concerns a tax matter, where unanimity is required among the participating Member States at EU level, the EP does not have a formal role. However, MEPs will continue to follow closely the discussions, and are likely to seek to influence them whichever way they can.

**Will there be continuity in the ECON committee?**

The current Economic and Monetary Committee (ECON) will see several of its most influential MEPs (namely Sharon Bowles, Gauzès, Astrid Lulling, Peter Skinner, Corien Wortmann-Kool, Olle Schmidt and Arlene McCarthy) not returning.

This will have a big impact on the dynamics of the Committee and the continuity in certain files in terms of the rapporteurships and upcoming Level 2 decisions, given that these MEPs have been rapporteurs and/or shadows on key pieces of legislation of interest to AFME during the Level 1 decision-making process.

The departure of Jean-Paul Gauzès may signal significant loss of influence for France over the ECON Committee. However, there have been suggestions he may find his way back to the EP as a substitute, should the French UMP representative ahead of him in the party list step down, as a result of the “Bygmalion affair” in France.

Former EU Commissioner Olli Rehn is now expected to sit in ECON, while Germany will be highly influential since German MEPs Markus Ferber and Werner Langen will be coming back, and are rumoured to be among the main candidates to become ECON Chairs or ECON Coordinators. In the event that the Socialists manage to secure the ECON Chairmanship, considered to be their top priority, Italian MEP Roberto Gualtieri could be their frontrunner.

**What is the timetable for appointments to the EU’s top jobs?**

The Parliament’s group leaders are currently holding behind the scenes discussions on the formation of the various political groups in the Parliament, which is due to be completed by 23 June. The nomination of the official candidate for the Commission Presidency is scheduled to take place at the European Council on 26-27 June, where deal-making regarding the various candidates for Commissioners will take place on the margins. If the appointment of the Commission President is delayed, the whole process of the appointment of the new College will be delayed as well.

Allocation of the Parliament’s high posts will be agreed in the run-up to the first constituent plenary session in Strasbourg, to be held 1-3 July. On 1 July, MEPs will officially take up their seats in the Parliament, while the President and Vice Presidents of the Parliament will be elected. On 2 July, there will be a vote on the composition of the parliamentary Committees, and on 8-9 July the various Committee Coordinators within the political groups will be appointed. On 16 July, during its second plenary session at Strasbourg, the Parliament should vote on the Commission President-designate. By September, the relevant parliamentary Committees are expected to conduct hearings to evaluate the Commissioner-designates. On 21 October, the Parliament is expected to vote by normal majority on the new European Commission. Provided all this goes according to schedule, the new Commission will take office on 3 November 2014.

ENDS