



Country Issue: Luxembourg



The Relaunch of Europe

Mapping Member States' Reform Interests

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Institut für Europäische Politik (Institute for European Politics, IEP) is one of the leading foreign and European policy research centres in the Federal Republic of Germany dedicated to the study of European integration.

Further information on the project can be found here:

www.relaunch-europe.eu

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Deadline for data collection: September 2017

Editorial deadline: June 2018

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THE RELAUNCH OF EUROPE

MAPPING MEMBER STATES' REFORM INTERESTS

The Relaunch of Europe. Mapping Member States' Reform Interests (RelaunchEU) is a project conducted by the Institut für Europäische Politik (IEP) on behalf of the Friedrich-Ebert-Stiftung (FES) that surveys the implementation prospects for twelve concrete reform proposals. It covers the policy areas of Social Union, Economic and Monetary Union and Defence Union as well as asylum and migration policy and the EU's institutional set-up. Furthermore, it analyses the support for flexible integration and the positioning towards the five scenarios presented in the European Commission's »White Paper on the Future of Europe« of spring 2017. It covers the positions of national governments and of relevant progressive political parties, which received a minimum share of 5 % of the votes in the previous European or national elections.¹

The study follows two main objectives: (1) It demonstrates the scope of action for prompt reforms of the EU in the selected policy areas while also taking into account which member states would, under certain conditions, be willing to implement the specific proposals. (2) It empirically determines which member states could belong to an avant-garde group willing to deepen integration.

Researchers from think tanks and research institutions in the member states of the EU-27 compiled information to determine the position of governments and progressive political parties towards the twelve reform proposals. This qualitative analysis reflects the country experts' views and is based on documents such as coalition agreements, government or party programmes, position papers, press releases, interviews, op-ed pieces, and official documents. It presents a snapshot of the discussions within the governments and parties. In order to keep the country issues short, internal debates and deviating opinions cannot be covered in detail. Positions are subject to change, especially following elections and the formation of new governments. The snapshot was taken at the end of September 2017. More recent developments could not be included. Notable exceptions are the country issues of Austria and Germany, which were updated following the latest coalition negotiations.

The study's results are published in English on the website www.relaunch-europe.eu. It presents maps for every actor and reform proposal, 27 country issues and an analytical paper. The paper compares the positions of all actors in all member states of the EU-27 on the twelve concrete reform proposals and presents five flagship-projects, which bear the chance for a relaunch of Europe.

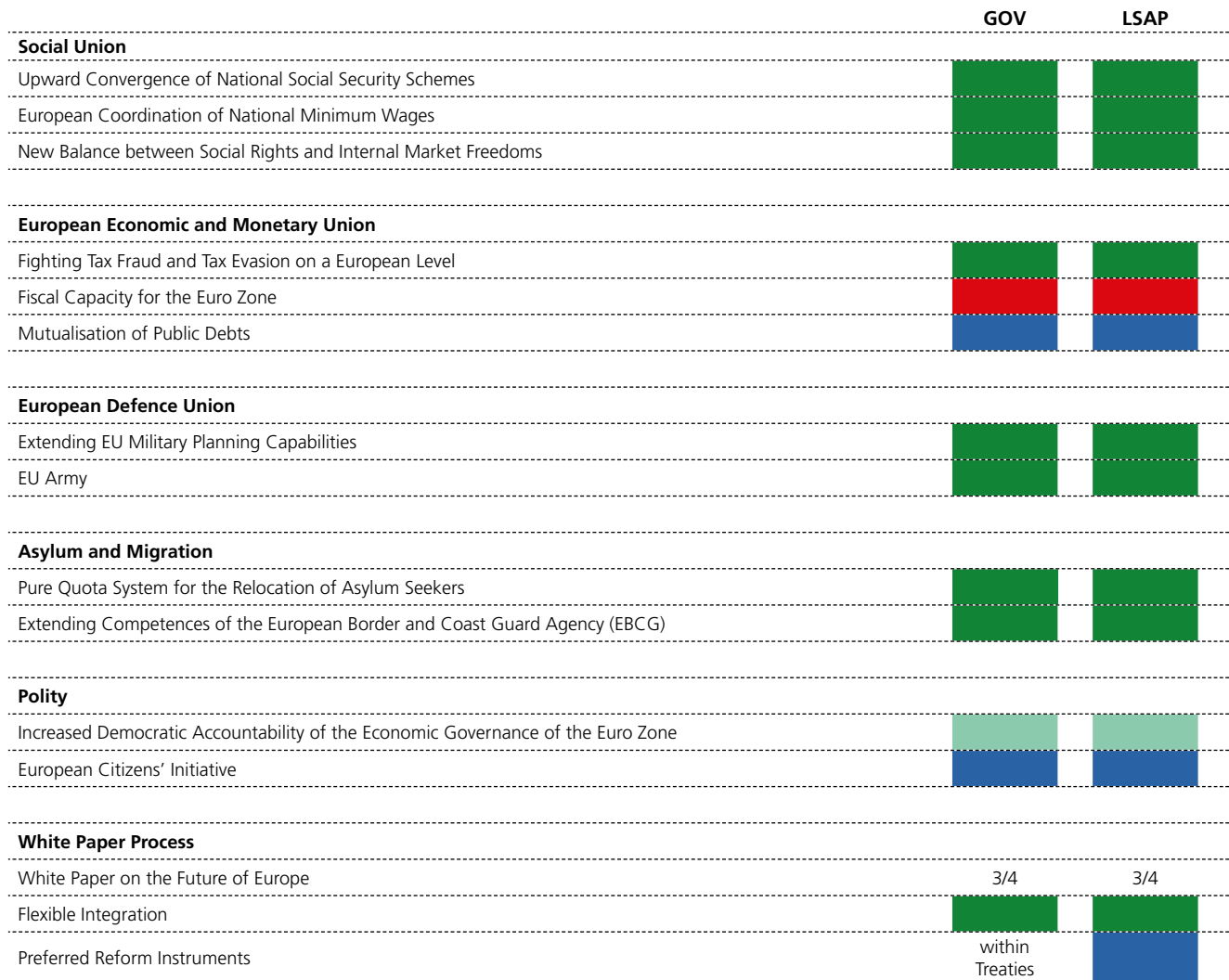
¹ If a party fulfills this criterion, but is not a relevant actor in the national public debate anymore, it was deleted from the sample based on the judgement of the projects' country expert.

LUXEMBOURG

Following the snap election of 2013, the Christian Social People's Party (*Chrëschtlech Sozial Vollekspartei*, CSV) remained the strongest party with 33.68%. The progressive Luxembourg Socialist Workers' Party (*Lëtzebuenger Sozialistesche Arbechterpartei*, LSAP)

reached 20.28%, the Democratic Party (*Demokratesch Partei*, DP) 18.25% and the Greens (*Déi Gréng*) 10.13%. However, LSAP, DP and the Greens formed a coalition, thus forcing the CSV into the opposition for the first time in over 30 years.

Support of the Luxembourg Government and the LSAP for Deepening EU Integration



Legend

- support for
 - support under conditions
 - against
 - neutral
- GOV** National Government
 - LSAP** Luxembourg Socialist Workers' Party

- 1 – Scenario 1: »Carrying on«
- 2 – Scenario 2: »Nothing but the single market«
- 3 – Scenario 3: »Those who want more do more«
- 4 – Scenario 4: »Doing less more efficiently«
- 5 – Scenario 5: »Doing much more together«

SOCIAL UNION

In general, the current government coalition and the LSAP support the **upward convergence of national social security schemes** in Europe. Thus, the biggest ruling party, LSAP, favours an EU-wide harmonisation of social security standards as long as this does not lead to a deterioration of the high standards already existing in Luxembourg. The country has a balanced health, social and pension system. The so-called »Luxembourg three party body« of government, trade unions and industrialists federation has agreed upon maintaining the very high national social security standards. Therefore, suggestions from the Commission that Luxembourg should either increase its retirement age or lower its pension contributions are wholly rejected by the LSAP-led government. Considering the economic growth in Luxembourg and steadily increased pension fund reserves due to a rising number of employees compared to pensioners, the government has taken structural measures to create a favourable socioeconomic environment. In fact, there is a pending discussion concerning the application of Luxembourgish standards to employees living in neighbouring EU member states but working in Luxembourg. A minimum wage has existed in Luxembourg since 1944 and is regularly adjusted. In 2017, it reached almost 2,000 euro per month for an unqualified worker and around 2,400 euro for qualified workers. Both the Luxembourg government and the LSAP support a **European coordination of national minimum wages**, as long as it does not cause a downward convergence for Luxembourg. For the LSAP, it is a means to create a »social Europe« and to fight social dumping within the EU. As it is impossible to impose the same minimum wages on every member state, the party prefers an EU-wide minimum wage regulation taking into account the employees' productivity. Luxembourg as an entirely open market economy has genuine interest in preserving the four freedoms of the Single Market under any circumstances. However, concerning a **new balance between social rights and internal market freedoms**, labour unions and the Socialist party LSAP are keen on adding a social progress protocol to the EU treaties. Luxembourg's government is in favour, too, but is aware that any change of the treaties must be approved by all member states, which is extremely difficult to achieve. Furthermore, the French proposition for a revision of the posted workers' directive is supported by Luxembourg.

EUROPEAN ECONOMIC AND MONETARY UNION

Luxembourg had traditionally developed a system of tax shelter and for a long time tried to defy or at least postpone any compliance to demands resulting from the growing pressure from other member states to change its policies. However, since the financial crisis in 2007/2008 and the revelations of the Panama Papers and LuxLeaks scandals about tax schemes, the current Luxembourg government and the LSAP consider the idea of **fighting tax fraud and tax**

evasion on a European level an absolute must. Matters of international taxation and tax rulings cannot be limited to one country's regulatory framework and practice. Therefore, Luxembourg is strongly in favour of the creation of an EU-wide level playing field. The 2017 Commission's initiative is an important step in that direction according to the finance minister, as many of the proposals overlap with provisions in the Anti-Tax Avoidance Directive of 2016 and the globally agreed base erosion and profits shifting legislation (BEPS). However, Luxembourg does not want full harmonisation at EU level, as this would not strengthen the economies of the member states. Both the government and the LSAP oppose the idea of the creation of a **fiscal capacity for the euro zone**. They fear that the introduction of a larger EU budget could lead to a redistribution of wealth to help struggling members at the expense of countries such as Luxembourg, which has an excellent position as market leader on investment funds in Europe. Furthermore, they all reject proposals, which aim at extending the fiscal competences of the European Commission, especially when it comes to taxing investment funds. Both the current government and the LSAP are rather indecisive with regard to the **mutualisation of public debts**. Although they have supported proposals by the former Prime Minister in 2012 and current President of the European Commission to establish Eurobonds as a logical consequence of all 27 EU members adhering to the fiscal compact, the government of Luxembourg as well as the political parties no longer insist on it, due to the opposition of other member states such as Germany.

EUROPEAN DEFENCE UNION

As a founding member of the Western European Union as one of the first common European defence structures, Luxembourg is a strong supporter of a common European defence policy. For this reason, Luxembourg supports all initiatives strengthening the common European defence policy. Thus, both government and LSAP are in favour of **extending EU military planning capabilities**. Since a joint initiative with Germany, France and Belgium in 2003 to launch EU headquarters, Luxembourg's government and the LSAP has been supportive regarding the establishment of EU military headquarters and common military equipment purchases. In addition, they are willing to contribute to its funding. As one of the smallest EU member states with limited defence capacities, Luxembourg has been similarly in favour of the establishment of a European army since 1953. The traditional support for an **EU army** is still valid today and applies to government and LSAP. However, both actors have not disclosed any further positions on these issues.

ASYLUM AND MIGRATION

The LSAP-led government supports the **pure quota system for the relocation of asylum seekers**, which is generally not controversial in Luxembourg, as the principle of burden sharing is widely accepted across all political

parties. Furthermore, the Minister of Foreign and European Affairs (LSAP) called for a transformation of the Common European Asylum System (CEAS) into a truly European asylum system in order to replace the Dublin system, which has reached its limits. In addition, differences between the member states in the processing of asylum applications and the recognition of asylum seekers have become too large. The government stresses the importance of registering arriving asylum seekers when they first enter the EU to allow for their effective and timely distribution across the EU. The LSAP-led government is also in favour of **extending competences of the European Border and Coast Guard Agency (EBCG)** and suggests deploying units to non-member states such as Serbia and Macedonia, too, in order to increase the effectiveness of the EU's external border protection. Especially those EU member states with no external border, like Luxembourg, should provide more assistance to those countries with external borders for their protection. In the context of the so-called migration crisis, the government has underlined the need for further integration on the control of the Schengen area's external borders in order to prevent the system's collapse. This can be achieved by replacing national with European competences.

to consolidate the EU before pushing for further integration without durable support in all member states. Thus, the government has endorsed a combination of scenario three, »those who want more do more«, and scenario 4, »doing less more efficiently«. Additionally, the concept of **flexible integration** is supported by the LSAP-led government. Luxembourg has rather pushed for further EU unification. However, the country was never opposed to closer integration of more »willing« member states. Nevertheless, the government would like to advance within the treaties.

POLITY

Since 2012, the Socialist party and the Green party MPs have asked for measures to **increase democratic accountability of the economic governance of the euro zone**. However, there is hardly any political debate on this issue. Regardless of party affiliation, Luxembourg's finance ministers so far have not really been keen on changing the existing practice, as their influence on decision-making could only decrease. In fact, they managed to gain substantial influence in informal or back-room dealings, exceeding the political weight of a small country like Luxembourg by far. Thus, reforms would only be supported, if a loss of influence on the side of Luxembourg is ruled out. There are hardly any specific political positions concerning the **European Citizens' Initiative (ECI)**. It is not really a priority, considering the minimum support threshold of 1,000,000 supporters is perceived as too high for a country with a total population of about 600,000, with nearly 50 % being non-nationals. Nevertheless, this does not mean that Luxembourg's citizens do not support general interest ECIs, i.e. the initiative opposing the TTIP agreement was signed by over 4,500 Luxembourgers.

WHITE PAPER PROCESS

The five proposed scenarios of the **»White Paper on the Future of Europe«** have been thoroughly debated in Luxembourg. However, the government and the LSAP are rather indecisive as to which one of the scenarios to choose. Traditionally, Luxembourg has always been an advocate of further European integration and ultimately would have preferred scenario 5, »doing much more together«. However, nowadays the main priority of the government is

Legend

Actors Covered by the Study in each EU Member State

- *National Government*: including its members from one or more political parties, the Head of State or Government, relevant executive ministers and administration.
 - *Progressive Parties*: They include all parties that are represented either in the Group of the Progressive Alliance of Socialists and Democrats in the European Parliament (S&D) or that are members of the Party of European Socialists (PES) and have gained a minimum share of 5 % of the votes in the last national or European elections. They also include La République en Marche (REM) in France.
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Concrete Reform Options in Different Policy Areas

Social Union

1. *Upward Convergence of National Social Security Schemes* to provide Europe-wide protection against social risks and to ensure a decent standard of living for EU citizens.
 2. *European Coordination of National Minimum Wages* to ensure a decent income within the EU to prevent in-work poverty, to promote social convergence and to avoid social dumping across the EU.
 3. *New Balance of Social Rights and Internal Market Freedoms* to compensate the current precedence of internal market freedoms over national social rights.
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European Economic and Monetary Union

4. *Fighting Tax Fraud and Tax Evasion on a European Level* for a fair allocation of tax burdens among natural and judicial persons.
 5. *Fiscal Capacity for the Euro Zone* to provide stabilisation against economic shocks through public expenditure in the euro zone.
 6. *Mutualisation of Public Debts* to tackle the problem of a sharp increase in public debts in some member states as a result of the euro zone crisis.
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European Defence Union

7. *Extending EU Military Planning Capabilities* also for executive military missions and operations.
 8. *EU Army* establishing a permanent multinational military force under European command.
-

Asylum and Migration

9. *Pure Quota System for the Relocation of Asylum Seekers* which would replace the Dublin system.
 10. *More Competences for the European Border and Coast Guard Agency (EBCG)* expanding the current EBCG tasks in terms of »shared responsibility« between the EBCG and national authorities.
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Polity

11. *Increase Democratic Accountability of the Economic Governance of the Euro Zone* to make its institutions more responsive to EU citizens.
 12. *European Citizens' Initiative (ECI)*: revision of the ECI regulation to make the instrument more citizen-friendly and effective in order to strengthen the participative democracy in the EU.
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White Paper Process

13. *The White Paper on the Future of Europe* by the European Commission presents five possible scenarios for the future course of European integration.
14. *Flexible Integration*: limiting the application of certain rules to certain EU member states.
15. *Preferred Reform Instrument*: Treaty reform, reforms inside or outside the Treaties.

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Imprint

© 2018

Friedrich-Ebert-Stiftung

Publisher: International Policy Analysis,
Hiroshimastraße 28, D-10785 Berlin, Germany
www.fes.de/ipa
Orders/Contact: info.ipa@fes.de

Study conducted by:
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ISBN: 978-3-96250-131-0

Front cover image: [AboutLife/shutterstock.com](https://www.shutterstock.com)
Design concept: www.stetzer.net
Realisation/Typesetting: perTEXT, Berlin
Print: www.druckerei-brandt.de

August 2018

