THE COVID-19 PANDEMIC AND THE REORDERING OF EU FISCAL GOVERNANCE

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Culminating more than a decade of crisis in Europe, the Covid-19 pandemic has opened an important window of opportunity for institutional and policy change, not only at the “reactive” level of emergency responses, but also to tackle more broadly the many socio-political challenges caused or exacerbated by Covid-19. Building on this premise, the Horizon Europe project REGROUP (Rebuilding governance and resilience out of the pandemic) aims to: 1) provide the European Union with a body of actionable advice on how to rebuild post-pandemic governance and public policies in an effective and democratic way; anchored to 2) a map of the socio-political dynamics and consequences of Covid-19; and 3) an empirically-informed normative evaluation of the pandemic.
Abstract

This paper aims to assess the mode of EU fiscal governance that prevailed in the EU’s response to the COVID-19 pandemic. To do so, it examines the role of the European Council in the policymaking process for the establishment of two innovative instruments with fiscal implications for the EU - the Recovery and Resilience Facility (RRF) and the general regime of conditionality (GRC) for the protection of the Union’s budget, both adopted through the ordinary legislative procedure (OLP) of the supranational system. Combining insights from the ‘new intergovernmentalism’ and the ‘emergency politics’ literatures, the paper argues that, in times of emergency, consensus and deliberation become the guiding norms of European integration through the leading role of the European Council even in the context of supranational policymaking. The paper shows that in both cases the European Council exercised quasi-legislative decision-making powers explicitly denied to it by the Treaties, securing a series of political compromises on the two instruments that limited the role of other EU institutions. This contributes to turning the consolidated post-Maastricht paradox of ‘integration without supranational policymaking’ into the new paradox of ‘intergovernmental integration within supranational policymaking’.

**Keywords**: COVID-19 pandemic; emergency politics; European Council; general regime of conditionality (GRC); new intergovernmentalism; Recovery and Resilience Facility (RRF).
Introduction

On 25 March 2020, in a letter to the President of the European Council following the outbreak of COVID-19, nine government leaders of the European Union (EU) acknowledged that ‘we are facing an external shock, for which no country bears responsibility, but whose negative consequences are endured by all’ - adding ‘we are collectively accountable for an effective and united European response’ (Letter of the Nine 2020). As such, the pandemic crisis constituted a formidable ‘window of opportunity’ for institutional change in EU economic governance and the EU’s fiscal framework (Ladi and Tsarouhas 2020, 1051). This paper aims to assess the mode of EU fiscal governance that prevailed in the EU’s response to the COVID-19 pandemic.

By ‘fiscal governance’ we mean ‘the institutional arrangement which structures the decision-making process in economic policy in the EU’, including the policy instruments adopted by decision-making authorities (Buti and Fabbrini 2022, 2). To this effect, the paper examines the role of the European Council in the decision-making process for the establishment of two innovative instruments with fiscal implications for the EU - the Recovery and Resilience Facility (RRF) and the general regime of conditionality (GRC) for the protection of the Union’s budget, both adopted through the ordinary legislative procedure (OLP) of the supranational system. While the concepts of ‘supranational’ and ‘intergovernmental’ assume slightly different meanings in the literature, we adopt them to indicate the two separate modes of governance that have steered the integration of market-related policies (e.g. agriculture, trade, competition) and the new policies of EU activity (e.g. economic and fiscal policy, foreign and security policy, justice and home affairs), respectively, since the Maastricht Treaty (Dehousse 2011).

The OLP is the standard decision-making procedure of the EU supranational Community method and is geared towards the adoption of a binding legislative act. Under such a procedure, the European Commission elaborates a legislative proposal and submits it to the Council of Ministers (henceforth, ‘Council’) and European Parliament for discussion and approval. The Council and European Parliament act on an equal footing based on their voting procedures - that is, qualified and absolute majority voting respectively (Art. 294 TFEU). While formally the European Council is excluded from the OLP and ‘shall not exercise legislative functions’ (Art. 15 TEU), in practice the European Council is generally able to influence the supranational decision-making process by adopting ‘Conclusions’ of its meetings, through which it can task the European Commission to come up with a legislative proposal in line with a set of pre-defined political guidelines (Carammia et al. 2016). Though informal, such agenda-setting role has become a distinctive mark of the European Council in supranational policymaking since the Lisbon Treaty, often touching upon the legislative prerogatives of the European Commission (Bocquillon and Dobbels 2014).
Contrary to the intergovernmental governance system, where the European Council takes decisions by unanimity and thereby instructs the Council, in the supranational system it thus carries out informal agenda-setting tasks, leaving to the European Commission, Council and European Parliament the exercise of formal legislative policy-formulation and decision-making powers. To this effect, the European Council’s role should be limited to providing the supranational law-making process with the necessary input in the form of policy guidelines informing the elaboration of legislative proposals by the European Commission, subsequently discussed and adopted by the Council and the European Parliament. The European Council should not negotiate or adopt EU laws (Figure 1).

Figure 1: Supranational policymaking under the OLP. Source: Author’s own elaboration.

This paper combines insights from the ‘new intergovernmentalism’ (NI) (Bickerton et al. 2015a; 2015b) and the ‘emergency politics’ (EP) (White 2019) literatures to raise a theoretical expectation about the European Council’s role in the EU’s fiscal reaction to COVID-19. It argues that, during emergency circumstances, consensus and deliberation become the guiding norms of European integration through the leading role of the European Council even in the context of supranational policymaking. The paper thus shows that, while post-Maastricht European integration does continue to take place through both the intergovernmental and the supranational method alike, the powers of the European Council as a decision-making body extend, in times of crisis, from the intergovernmental framework into the realm of legislative policymaking, thus limiting the role of other EU institutions. This contributes to turning the consolidated post-Maastricht paradox of ‘integration without supranational policymaking’ (Bickerton et al. 2015b, viii) into the new paradox of ‘intergovernmental integration within supranational policymaking’. That is, the paradox whereby supranational law-making increasingly conforms to the intergovernmental logic of consensual deliberation based on unanimity voting within the European Council.
The above argument is structured as follows. Section 2 elaborates the theoretical framework and lays out a research hypothesis through the combination of the ‘new intergovernmentalism’ and the ‘emergency politics’ approach to the study of the European Council. Section 3 illustrates the paper’s method and data. Section 4 examines the European Council’s role in the policymaking process behind the establishment of the RRF. Section 5 analyses the European Council’s role in the policymaking process leading to the adoption of the GRC. Section 6 discusses the results of the empirical analysis. The final section summarises the paper’s findings and concludes.

Theoretical framework

This paper combines insights from the ‘new intergovernmentalism’ (NI) and the ‘emergency politics’ (EP) literatures to explain the increasing decision-making role of the European Council under supranational policymaking in the EU’s fiscal response to the COVID-19 pandemic. On the one hand, NI (Bickerton et al. 2015a; 2015b) has sought to theorise the relative centrality of the EU’s intergovernmental method in pushing forward European integration, albeit neglecting the impact of crises, and the uncertain institutional dynamics these might engender, on the integration process itself. On the other, EP (White 2015; 2019; 2022) has focused on the role of intergovernmental executive institutions (i.e., the European Council) during emergency circumstances, but has mostly overlooked the institutional constraints that come with each decision-making system depending on the policy area under stress. The present paper offers a synthesis of the two theories and derives from their combination a research hypothesis on the governance of European fiscal integration during the COVID-19 pandemic.

For one thing, taking issue with neo-functionalism’s deeply-rooted emphasis on supranational ‘Community’ bodies (Haas 2004), the new intergovernmentalists have argued that, in the post-Maastricht era, European integration has not been achieved through supranational decision-making or the ‘Community method’, but rather through the voluntary policy coordination by member state governments within the main intergovernmental settings, notably the European Council and the Council. For NI, following the end of the Cold War and the fall of the Berlin Wall in 1989-1991, the EU has undergone a major change in its political economy and domestic politics, which has encouraged an ‘ideational convergence [towards] intergovernmental co-operation rather than delegation to supranational institutions’ (Bickerton et al. 2015a, 709). To this effect, traditional supranational institutions such as the European Commission and the European Parliament, which have since been seen as having abandoned the pursuit of an ‘ever closer union’, are expected to act within the intergovernmental framework as either implementing or consultative bodies at the service of member state governments (Bickerton et al. 2015b).
In institutional terms, NI thus points to a model of post-Maastricht integration based on the absence of supranational policymaking as typically represented by the Community method, including the exercise of legislative initiative by the European Commission, the shared exercise of legislative decision-making by the European Parliament and Council (through different majority voting procedures), and the powers of the Court of Justice of the EU (CJEU) to enforce legislation across the member states (Dehousse 2011). In parallel, new intergovernmentalists contend, this development has led to the widespread adoption of consensus and deliberation as the ‘guiding norms’ of EU decision-making at all levels (Bickerton et al. 2015a, 711). Contrary to the supranational system, where decisions are taken by means of majority voting and assume the form of legal acts, decisions in the intergovernmental framework are taken through consensus and deliberation (i.e., unanimity) and assume the form of inter-state agreements, political compromises and declaration of intents, rather than binding legal acts. Consensus and deliberation are, in this light, a necessary condition for member state governments to coordinate their domestic policies across a range of issue areas of common interest, thereby avoiding further supranational integration. As a result, deliberation and consensus-seeking practices have gradually become ‘ends in themselves’ rather than means through which to push forward the integration process (Bickerton et al. 2015a, 711).

As a matter of fact, the practice of consensus-seeking and deliberation is deeply embedded in the institutional infrastructure of the European Council, which - as the intergovernmental institution par excellence, comprising the heads of State and government of the member states - has become the EU’s new ‘centre of political gravity’ (Puetter 2012, 161; 2014). To this effect, the European Council best embodies the theoretical expectations of NI in post-Maastricht European integration. Not only does the European Council identify the political priorities of the Union through its agenda-setting functions, but it exercises exclusive decision-making powers under the intergovernmental system, that is over all the policy areas - known as ‘core state powers’ (CSP) (Genschel and Jachtenfuchs 2014) - integrated at the EU level with the Maastricht Treaty (Fabbrini and Puetter 2016). So much so that, in such policy areas, no final decision is expected to be made without the proactive political endorsement of the heads. This is even true to the detriment of senior cabinet ministers sitting in the Council, who do not dispose of the necessary political authority at home to forge common EU decisions (Puetter 2015). Consensus and deliberation (as prevailing decision-making norms) within the European Council (as a prevailing decision-making body) have thus become the distinctive feature of post-Maastricht integration.

Overall, NI predicts that member states will, for the foreseeable future, avoid delegating decision-making powers to the supranational level, and build the new areas of post-Maastricht EU integration - e.g., economic and budgetary policies under the EMU, foreign, security and defence policy under the CFSP/CSDP, migration and asylum poli-
cies under JHA - through voluntary intergovernmental coordination in the Council and (most notably) the European Council, instead. The Community method, with its range of market-related policy areas - e.g., trade, competition and agriculture -, will no longer shape the path of European integration, leading to the institutional paradox of EU ‘integration without supranational policy-making’ (Bickerton et al. 2015b, viii). In this respect, the Maastricht Treaty constitutes a ‘critical juncture’ in that it marks the ‘end of [supranational] legislative activism as the main driving force of EU integration’ (Puetter 2014, 31), and replaces it with intergovernmental coordination based on consensus-building and deliberative dynamics.

NI refrains, however, from any analytical attempt at distinguishing between European integration taking place in ‘normal times’ as opposed to it taking place in times of crisis. With its assumption that the EU finds itself in a state of permanent disequilibrium (Bickerton et al. 2015b) - characterised by underlying instability, growing societal fragmentation and the fundamental disconnect between EU and domestic politics -, the new intergovernmentalists tend to downplay the impact that the outbreak of large-scale exogenous shocks might have on EU policymaking, claiming indeed that consensus and deliberation, along with the leading role of the European Council, apply to the ‘day-to-day EU decision-making at all levels’ (Bickerton et al. 2015a, 711). At the same time, post-Maastricht European integration has not followed an exclusively intergovernmental path, as the new intergovernmentalists like to assume. For one thing, deliberation and consensus-seeking practices predate the Maastricht Treaty, with a clear manifestation in the so-called ‘Luxembourg compromise’ (1966), which replaced unanimity to qualified majority voting whenever member states claimed their national interests were at stake in the policymaking. For another, since Maastricht, the EU has further consolidated supranational voting procedures, such as shared legislative co-decision between Council and European Parliament, and increased the number of policy areas falling under the control of supranational institutions, including through delegation to so-called ‘de novo bodies’ (Schimmelfennig 2015).

The recent EP literature (White 2019) draws a fundamental distinction in EU institutional dynamics based on the emergence of ‘exceptional’ circumstances. Crisis situations are characterised by a sense of urgency that requires swift political action at the highest level. In such situations, institutionalised decision-making procedures tend to give way to intergovernmental executive bodies as key policymaking actors. As former Commission President Jean-Claude Juncker admitted with reference to the management of the Eurozone crisis, ‘at the height of the crisis, far-reaching decisions had often to be taken in a rush, sometimes overnight. In several cases, intergovernmental solutions were chosen to speed up decisions or overcome opposition’ (2015, 17). Intergovernmental summits between government leaders offer the perfect institutional context for off-the-record conversations and small working group negotiations, whose
informal character exempts policymakers from rigid accountability as well as publicity constraints. According to White, the explosion of critical exogenous events thus fosters what he defines the ‘hour of the executive’ (2019, 27). Because of their responsibility to deliver against problems unanticipated in their nature and scale, intergovernmental executive bodies in emergency mode may act beyond the scope of their mandate, breaking deeply embedded policymaking norms and institutionalised practices.

The EU’s multi-level and anti-hierarchical institutional system allows intergovernmental executive bodies to concentrate power when emergency politics is needed, most notably following the outbreak of unprecedented exogenous shocks. Reliance on informal governance by government representatives helps them circumvent formal EU decision-making procedures and prevents effective resistance from supranational institutions. Executive agents thus invoke exceptional circumstances to prioritise the achievement of policy goals (e.g. financial stability) ‘whatever it takes’, to the detriment of institutionalised norms and procedures (White 2022). Calling on emergency times is also a way to focus attention on political leaders’ decisions, elevating them to actual red lines other institutions are expected to abide by, and to seek public confidence in centralised policymaking.

Emergency politics occurs when collective action measures depart ‘from conventional practice and are rationalised as necessary responses to exceptional and urgent threats’ (White 2015, 300). This might involve all range of institutional implications from the formal suspension of the law to the more subtle contravention of norms, all the way to acts of legal improvisation. As EP contends, national executives have been the primary supporters and the very architects of this emerging institutional pattern in the EU. Adopting ‘securitisation’ narratives (Buzan et al. 1998), the European Council has increasingly centralised executive powers and governed high-stakes political challenges through closed-door diplomacy in the context of ‘special’ or ‘extraordinary’ meetings of the heads. This has invariably come with a weakening of domestic parliaments’ ability to scrutinise national executives operating at the EU level, a reduction of the European Parliament’s influence as legislative decision-maker, and the CJEU’s diminished power of judicial oversight. Such a tendency to executive discretion was, for instance, at the core of the EU’s reaction to the Eurozone crisis, when the European Council took centre stage and managed to adopt key policy measures - including the European Stability Mechanism (ESM) and the Stability and Growth Pact (SGP) - largely bypassing the European Commission and the European Parliament (Dinan 2012; Fabbrini 2013).

Besides the argument that the European Council - as the EU’s intergovernmental executive - becomes the leading institution in EU policymaking during adverse shocks, however, EP does not quite account for how this exactly plays out with respect to the EU’s two decision-making methods and the specific policy areas under strain. While discussing
the role of the European Council in times of crisis, EP largely neglects the very different institutional incentives and constraints surrounding the intergovernmental executive within the context of the supranational or the intergovernmental system. As NI itself argues, it is at least since the Maastricht Treaty that the European Council has played the role of exclusive decision-maker when acting beyond the framework of the Community method and within the realm of intergovernmental CSP. A question thus remains as to how the European Council is expected to exercise similar decision-making powers when it finds itself operating within the institutional boundaries of the supranational system, which provides supranational institutions - notably the Commission and Parliament - with legislative powers the European Council is explicitly denied (Art. 15 TEU).

This aspect is all the more relevant as, contrary to the expectations of NI, the recent COVID-19 pandemic has in fact prompted a markedly supranational reaction by the EU. To foster the rapid socio-economic recovery of the member states and secure the protection of the pandemic-boosted Union’s budget from illegal practices, the EU has adopted two major instruments with fiscal implications - the RRF and the GRC - through the supranational Community method (RRF Regulation 2021; GRC Regulation 2020).

Thus, two inter-related questions are raised: First, how did the legislative policymaking process play out? Second, what role did the European Council exercise in the establishment of the two instruments? To address such questions, we draw on a combination of NI and EP, and derive the following research hypothesis:

**RH: In times of emergency politics, consensus and deliberation become the guiding norms of European integration through the leading role of the European Council even in the context of supranational policymaking.**

We therefore expect to find evidence of consensus and deliberation dynamics, manifesting themselves through the leading role of the European Council, within decision-making processes in the realm of supranational law-making (i.e., OLP) in times of crisis. This hypothesis is empirically tested against the European Council’s role in the supranational legislative procedure leading to the establishment of the RRF and the GRC during the COVID-19 crisis. Specifically, in addition to its Treaty-based agenda-setting functions, we expect the European Council to exercise quasi-legislative decision-making powers in the definition of the two fiscal instruments following the European Commission’s legislative initiative and prior to the European Parliament’s and Council’s co-legislation (Figure 2).
If confirmed, the above hypothesis would turn NI’s paradox of ‘integration without supranational decision-making’ (Bickerton et al. 2015b) into the paradox of ‘intergovernmental integration within supranational decision-making’. Beyond the ambitions of the new intergovernmentalists, this would imply that, while post-Maastricht European integration does continue to take place both within the intergovernmental and the supranational institutional framework alike, the powers of the European Council as a decision-making body extend, during emergency circumstances, into the realm of legislative policymaking, thus limiting the role of other EU institutions. The deliberative and consensual logic of the intergovernmental system would thus come to inform the supranational OLP, and decisions taken in the framework of supranational law-making would increasingly result from unanimity voting among member state government representatives rather than from majority voting by legislative institutions (i.e. the Council and European Parliament).

The paper identifies two observable implications for the above RH: First, that in the context of supranational law-making in the selected case studies, the European Council takes part in legislative negotiations, amending the European Commission’s legislative proposal before the Council and the European Parliament can move ahead with the decision-making process. Second, that the European Council acts on the basis of consensus and deliberation, with the heads of state and government striking compromises on the legislative text by means of unanimity voting.
Method and data

The analysis in this paper takes the form of a ‘structured, focused’ comparison (George and Bennett 2005) between the European Council’s role in two legislative negotiation tables – i.e., the policymaking process for the establishment of the RRF and the one leading to the adoption of the GRC as EU regulations. The comparison is ‘structured’ in that it investigates the same aspects across the two cases, asking the same questions and using the same data. It is ‘focused’ because it is driven by a specific research hypothesis and has a specific research objective. Following the logic of ‘theoretical replication’ (Yin 1994, 46), the method of ‘structured, focused’ comparison allows us to test the hypothesised theoretical mechanism to a single universe of cases to observe whether it holds in similar but different contexts. Despite their peculiarities, the selected cases are expected to be instances of the same phenomenon. They are, to this effect, ‘typical cases’ of the theoretical mechanism (Gerring 2017, 91–93). Typical cases are representative of a stable, cross-case relationship which is specified in a model or theoretical framework. The analytical purpose of typical cases is confirmatory, as they are employed to probe causal mechanisms or research hypotheses that can either confirm or disconfirm a given theory by resorting to within-case evidence (Seawright and Gerring 2008).

The two selected cases – the policymaking processes leading to the establishment of the RRF and the GRC respectively – both present the contextual condition of the theoretical framework (i.e. ‘emergency politics’) as the policymaking process took place during the EU’s response to the pandemic crisis, and are expected to provide empirical evidence in support of the RH that, ‘in times of emergency politics, consensus and deliberation become the guiding norms of European integration through the leading role of the European Council even within supranational policymaking’. This would mark a clear departure from supranational policymaking in normal times, where the European Council carries out but informal agenda-setting functions and is excluded from the exercise of legislative powers. The Artificial Intelligence Act (AIA) currently under the OLP offers a good illustration of that. After the European Council called for legislative action to ensure a well-functioning internal market for artificial intelligence systems, in April 2021 the European Commission elaborated the legislative proposal behind the AIA and submitted it to the Council and European Parliament for discussion. The Council adopted its common position on the act in December 2022, while the European Parliament agreed on amendments in June 2023. After exercising agenda-setting tasks, the European Council did not play any role in the decision-making process and the AIA will be adopted after the Council and European Parliament (as law-making institutions) find a common position on the act. In sum, outside of emergency circumstances, the European Council is limited to defining the EU’s overall political direction, traditionally by
adopting conclusions, and does not negotiate or adopt EU laws\(^1\).

This paper relies on both primary and secondary sources. Primary sources include the RRF and the GRC regulations, European Council’s Conclusions, statements of the President of the European Council and government leaders, European Commission’s legislative proposals, European Parliament’s resolutions, Council and Parliament’s inter-institutional agreements. Secondary sources comprise the relevant scholarly literature as well as newspaper articles and reports to ensure data triangulation.

The European Council and the establishment of the RRF

In the policymaking process behind the establishment of the RRF, by invoking a state of ‘emergency’, the European Council did not limit itself to agenda-setting functions, as the OLP prescribes, but exercised legislative decision-making powers. In particular, following the European Commission’s legislative proposal for the establishment of the RRF, addressed to the Council and European Parliament, the European Council centralised policymaking at the level of the heads of State and government, amending the specific content of the Commission’s proposal before the Council and Parliament could discuss and approve it.

The European Commission submitted the proposal for the establishment of the RRF as a regulation of the European Parliament and Council on 28 May 2020 (European Commission 2020a). Such a proposal came after much agenda-setting efforts were made by the European Council between March and April 2020 (Schramm and Wessels 2023), including the framing of the COVID-19 pandemic as a common external crisis of an unprecedented nature (European Council 2020a). At the European Council’s online meeting of 23 April, thanks to an intense preparatory work by Charles Michel’s team – including cabinet chief François Roux and Frédéric Bernard\(^2\) – as well as by Jeppe Tranholm-Mikkelsen\(^3\) and Jim Cloos\(^4\), the heads of State and government had eventually agreed to move forward together towards the establishment of a recovery fund ‘which is needed and urgent’, tasking the Commission to ‘urgently come up with a proposal that is commensurate with the challenge we are facing’ (European Council 2020b).

The Commission’s proposal for the establishment of the RRF constituted the first comprehensive scheme delineating the EU’s response to the socio-economic consequences of the pandemic crisis (Kassim 2023). As such, it defined the general features of the

2 Diplomatic adviser to Michel, replaced François Roux as Michel’s head of cabinet starting 12 June 2020.
3 Secretary-General of the Council of the European Union.
4 Deputy Director-General for General and Institutional Policy at the Council of the European Union.
recovery instrument – including its financing mechanism, size, composition and governance – and identified it as the flagship programme within NGEU. The proposal stipulated that the RRF would be financed through borrowing operations of the Union on the capital markets, thus leading to the emission of common European debt. In terms of size and composition, it provided that the RRF would amount to an unprecedented €603 billion, divided between €335 billion in the form of grants and €268 billion in the form of loans.

The Commission’s proposal also elucidated the governance mechanisms of the RRF, illustrating the decision-making powers of EU institutions over the activation and withdrawal of financial assistance vis-à-vis the member states. In this respect, the Commission’s scheme was ‘amongst the most imaginative and ambitious proposals it has ever published’ (Ludlow 2020, 8). It envisaged that the Commission itself would assess and decide on the National Recovery and Resilience Plans (NRRPs) and that the Council would suspend, on a proposal from the Commission, payments under the RRF in case of significant non-compliance. The European Commission thus provided itself with considerable decision-making powers and limited the Council’s role to the suspension of payments under the RRF when the Commission deemed it necessary (European Commission 2020a).

Soon after the Commission submitted its legislative proposal for the adoption of the RRF, the European Council was able to move the policymaking to the intergovernmental arena, securing a series of political compromises between the top political leaders before informal negotiations between the Commission, Council and the European Parliament known as ‘trilogue’⁵ could start (Zgaga et al. 2023). On the same day as the Commission’s plan came out, Charles Michel called on the bodies of the Council to start analysing the scheme, urging ‘all Member States to examine [it] swiftly’ and scheduling a regular European Council meeting for 19 June, with the aim of ‘reaching an agreement before the summer break’ (European Council 2020c). On 19 June, the heads gathered at Brussels to take stock of the progress made in the EU’s response to the pandemic crisis and discuss the Commission’s proposal. At the end of the meeting, Michel admitted that ‘it is necessary to continue to discuss’ (European Council 2020d) and convened an in-person summit for mid-July 2020 to reach a deal. He thus immediately started bilateral talks with the governments with the help of his closest associates, Jeppe Tranholm-Mikkelsen and his former-sherpa newly appointed cabinet chief, Frédéric Bernard.

The Commission’s proposal had in fact given rise to a confrontation within the European Council between two inter-state coalitions (Buti and Fabbrini 2022; Fabbrini and Capati 2023). The first coalition, led by France and Germany and including most of the countries from Southern Europe, largely endorsed the Commission’s scheme for the

establishment of the RRF. The second coalition, led by the Dutch government and comprising the self-defined ‘Frugal Four’ (the Netherlands, Austria, Denmark and Sweden), opposed the Commission’s proposal, especially in terms of the financing and governance of the recovery instrument (De La Porte and Jensen 2021; Fabbrini 2023). At the ambassadors’ meeting of 8 July, the Dutch Permanent Representative made clear that the Netherlands favoured unanimity voting in the Council on a Commission proposal for the approval of NRRPs and that the Dutch government would not accept financing the instrument through the emission of common European debt (Politico 2020).

On 10 July, one week ahead of a crucial European Council meeting, Michel summed up ongoing negotiations with the member states and presented a ‘negotiating box’ as the blueprint compromise for the recovery instrument (Ludlow 2020, 23). He suggested preserving the size of the RRF and the balance between grants and loans as per the Commission’s proposal, while giving concessions to the Frugal Four in terms of MFF-related rebates and the governance of the facility (Schelkle 2021). Specifically, Michel suggested that the NRRPs should be approved by the Council by qualified majority voting (QMV) on a Commission recommendation (European Council 2020e). Such a governance scheme was a half-way solution between the unanimity rule advocated by the Dutch-led coalition and the Commission’s proposal based on a limited role for the Council.

It was on this basis that the key European Council meeting took place on 17-21 July. While constituting an attempt to keep everyone around the negotiating table, Michel’s proposal was the subject of further intense discussions among the heads of State and government (Capati 2023). The size and composition of the instrument were negotiated jointly. The member states agreed to enlarge the size of the RRF from €603 billion to €672.5 billion but reduced the grants component (down to €312.5 billion) in favour of the loans component (up to €360 billion). In terms of governance, as a further concession to the Frugal Four, the governments agreed on the introduction of an ‘emergency brake’ whereby any member state could ask the European Council to discuss the NRRPs, though without veto powers, before the Commission could authorise the disbursement of financial assistance (European Council 2020e). The European Parliament was left with no formal role in the governance of the RRF. Indeed, the EP was excluded from the procedures for both the activation and the suspension of financial assistance. In sum, after four nights of heated discussions, the members of the European Council were able to strike a final deal on the size, composition and governance of the RRF, and adopted Conclusions including a revised version of the Commission proposal for approval by the Council and European Parliament (de la Porte and Jensen 2021; European Council 2020f).

On 23 July, the European Parliament came up with a resolution on the European Council’s Conclusions, stating that such Conclusions ‘represent no more than a political agree-
ment between the Heads’ and stressing that ‘the Parliament will not rubber-stamp a fact accompli’. The Parliament criticised the European Council position on the governance of the facility, ‘which moves away from the Community method and endorses an intergovernmental approach’ (European Parliament 2020a) and deplored the reduction of the grant component, asking the European Council to re-open negotiations (Drachenberg 2020). Under pressure from Ursula von der Leyen and in exchange for concessions on other NGEU instruments (such as increased resources for Horizon Europe, EU4Health and Erasmus+), however, the Parliament eventually gave its consent to the governance scheme decided at the European Council meeting of 17-21 July (as the OLP requires).

In the establishment of the RRF, the European Council thus exerted major decision-making powers. In particular, it was able to interfere with the legislative process for the design of the financial recovery instrument, thus exercising competences formally reserved for other EU institutions (Schramm and Wessels 2023). After the European Commission submitted the legislative proposal for the establishment of the RRF, the European Council was able to shift decision-making to intergovernmental settings and modify the Commission’s proposal before the European Parliament and Council could discuss and approve it. Operating on the basis of consensus and deliberation, the European Council’s amendments to the Commission’s scheme were of a very substantive nature, concerning the RRF’s financial capacity, the nature of funding, and the governance mechanisms for the activation and suspension of financial assistance. Those modifications served as a red line for the subsequent legislative discussions between the Council and European Parliament leading up to the establishment of the RRF. When assessed against the European Council’s role in the establishment of the RRF, RH is thus confirmed.

The same policymaking pattern also emerged with respect to the European Council’s role in the establishment of the GRC for the protection of the Union’s budget, the so-called ‘rule of law regulation’. Beyond carrying out agenda-setting functions, the European Council intervened in the legislative process by securing a series of political compromises at the level of the heads of State and government before the Council and Parliament could move ahead with their legislative negotiations.

Following the deterioration of democratic standards including the separation of powers, independence of the judiciary and freedom of the press in countries such as Hungary and Poland (Pech and Scheppele 2017), the European Commission proposed, back in May 2018, a regulation to protect the Union’s budget ‘in case of generalised deficiencies...
as regards the rule of law in the Member States’ (European Commission 2018). The proposal came after repeated calls by the European Parliament to the other EU institutions for the protection of democracy in light of ‘serious risks of breaches’ and ‘threats’ from within (European Parliament 2016; 2018). While Hungary and Poland publicly opposed the Commission’s proposal, most other member states and the European Parliament expressed clear support (Fisicaro 2019; Zgaga et al. 2023). However, due to the numerous amendments proposed by the European Parliament (2018) to reinforce the mechanism envisaged by the Commission, as well as the negative opinion expressed by the Council’s Legal Services on the compatibility of the Commission’s legislative scheme with the Treaties (Council of the EU 2018), the negotiations for the introduction of a conditionality system to protect EU funds only resumed in the context of the pandemic outbreak, when the EU was preparing to set up an unprecedented fiscal capacity of approximately €750 billion (Fromont and Van Waeyenberge 2021).

In February 2020, Charles Michel presented an initial draft compromise amending the Commission’s proposal in terms of both the scope and governance of the GRC. As for the scope, the President of the European Council suggested limiting the applicability of the conditionality system to ‘rule of law deficiencies that affect the budget or the EU financial interests in a sufficiently direct way’, so that the regulation could get the necessary pass from the Council’s Legal Services (Baraggia and Bonelli 2022, 137). In terms of governance, Michel’s proposal envisaged switching to ordinary QMV in the Council in lieu of the reversed qualified majority voting (RQMV) mechanism originally put forward by the Commission. Despite contravening the European Parliament’s demands, Michel’s draft compromise was necessary to win political resistance from those member states concerned with the extensive decision-making powers the Commission would have to enforce protection of the rule of law under a RQMV system (Baraggia and Bonelli 2022).

The Commission’s legislative proposal for the establishment of the GRC and Michel’s revised plan were the object of heated discussions among the top political leaders at the European Council meeting of July 2020. This time, the dividing line on the GRC was between the so-called ‘Visegrád Group’ - most notably Hungary and Poland, but also the Czech Republic and Slovakia - and the rest of the EU (Fabbrini 2023). Indeed, while most EU member states favoured the introduction of a GRC for protecting the EU budget, including an extension to the new financial instruments being negotiated within NGEU, the Visegrád members unsurprisingly feared this could undermine the activation of funding for their recovery programmes, hence voiced opposition. Thanks to the diplomatic efforts by German Chancellor Angela Merkel and to an intense preparatory work by the German Presidency at the General Secretariat of the Council ahead of the meeting (Baraggia and Bonelli 2022), the heads of State and government were able to find a provisional agreement whereby a ‘regime of conditionality to protect the budget and Next Generation EU will be introduced’ (European Council 2020f, 16). As per
Michel’s draft compromise on the governance of the instrument, the European Council also formalised that ‘the Commission will propose measures in case of breaches [of the rule of law] for adoption by the Council by qualified majority’ (European Council 2020f, 16), thus subverting the original Commission’s scheme.

The Conclusions to the European Council meeting of July adopted language vague enough to satisfy all members (Anghel and Drachenberg 2020). In a joint press conference at the end of negotiations, Hungarian Prime Minister Viktor Orban and Polish Prime Minister Mateusz Morawiecki even claimed there would be ‘no direct conditionality between the so-called rule of law and the funds’6. On the contrary, leaders from the rest of the EU hailed the compromise as a significant step forward in rule of law protection across the Union, with Michel reassuring that ‘we have taken the view that the rule of law, governance, and our common values must be at the heart of what we do, and they are also at the heart of the decisions we are taking today’ (European Council 2020g).

The complexity of reaching an agreement on the GRC was reflected in a final sentence of the Conclusions stating that ‘the European Council will revert rapidly to the matter’ (European Council 2020f, 16). This highlighted the need for further discussions among government representatives before the Council and Parliament could step into the legislative process.

The aforementioned resolution by the European Parliament of 23 July, taking stock of the European Council’s Conclusions, criticised the political compromise reached by the heads of State and government on the GRC in a way that is worth quoting in full:

[The European Parliament] strongly regrets the fact that the European Council significantly weakened the efforts of the Commission and Parliament to uphold the rule of law, fundamental rights and democracy in the framework of the MFF and the Next Generation EU (NGEU) instrument; reconfirms its demand to complete the co-legislator’s work on the Commission’s proposed mechanism to protect the EU budget where there is a systemic threat to the values enshrined in Article 2 of the TEU, and where the financial interests of the Union are at stake; stresses that, to be effective, this mechanism should be activated by a reverse qualified majority; underlines that this mechanism must not affect the obligation of government entities or of Member States to make payments to final beneficiaries or recipients; underlines that the Rule of Law Regulation will be adopted by co-decision (European Parliament 2020a, 3).

In sum, the European Parliament condemned the European Council’s Conclusions for weakening the GRC with respect to the Commission’s proposal, both in terms of its scope (i.e., the relation between the EU financial interests and the rule of law as such)

and governance (i.e., the use of QMV in the Council rather than RQMV). The Parliament thus reiterated that the GRC regulation would eventually be approved through co-decision (i.e., the OLP), de facto inviting the European Council to step aside and allow the members of Parliament and Council to decide on the basis of the original Commission’s proposal (Fasone 2022). However, following concessions on the financial capacity of other NGEU instrument in the EU’s response to the COVID-19 crisis, and under unprecedented political pressure to deliver in a time of exceptional emergency, the European Parliament eventually gave its consent to the European Council’s Conclusions of July. This led, on 5 November, to the signing of an interinstitutional agreement on the GRC between the Council and the European Parliament which reflected the political guidance provided by the European Council in terms of both the scope and the governance of the instrument.

Before the European Parliament and Council could finalise work on the adoption of the rule of law regulation, the continued opposition to the GRC by Hungary and Poland and their threats to veto the Multiannual Financial Framework (MFF) and NGEU necessitated yet another European Council meeting. On 10-11 December, the heads thus met again in Brussels and reached a deal based on the identification of a series of strict conditions for the applicability of the GRC, including respect for the different national identities and constitutional traditions of the member states, as well as the presence of a clear and direct link between rule of law breaches and the financial interests of the EU (European Council 2020h). The government representatives also tasked the European Commission to come up with additional guidelines on how it will apply the GRC, and invited the Commission to refrain from adopting measures under the regulation until those guidelines were finalised.

In a joint statement with Poland’s Mateusz Morawiecki at the end of the meeting, Hungarian PM Viktor Orban welcomed the agreement and argued that ‘the European Council Conclusions are the strongest possible instrument in the EU, even stronger than regulations’ (Anghel and Drachenberg 2020, as cited in Zgaga et al. 2023) and that the European Council is the ‘power centre of the EU’ as ‘nobody can circumvent the will of the elected governments of any nation, not even the European Parliament nor the Commission, nobody’ (Orban 2020, emphasis added). On 17 December, after approving the GRC regulation as further modified by the European Council, the European Parliament had to recall that ‘the European Council should not exercise legislative functions’ and that ‘any political declaration of the European Council cannot be deemed to represent an interpretation of legislation’ (European Parliament 2020b, 16). However, the Parliament eventually decided not to sue the European Council before the CJEU following an informed opinion of its legal service (Alemanno 2021).
In the establishment of the GRC, and operating on the basis of consensus and deliberation, the European Council thus acted as a quasi-legislative decision-maker at several stages of the policymaking process. First, following the Commission’s proposal dating back to May 2018, Charles Michel - in his capacity as President of the European Council - reopened discussions on the establishment of a rule of law regulation in the context of the pandemic crisis, proposing changes to the Commission’s scheme with respect to both its scope and governance. Second, the European Council met in July 2020 and found a provisional agreement on a revised version of the Commission’s proposal for the establishment of the GRC before the European Parliament and Council could start legislative negotiations. Third, after an interinstitutional agreement between the European Parliament and Council was reached in November, the European Council met again in December to work out some outstanding issues related to the instrument for which Hungary and Poland had threatened to veto the MFF along with the NGEU. Overall, the European Council’s intervention in legislative decision-making on the GRC was very substantial as it was able to make politically binding amendments to both the original Commission’s proposal and to the subsequent legislative agreement between the European Parliament and Council. The GRC was finally adopted by the Parliament and Council without further discussion on 16 December, just five days after the heads’ meeting. Thus, when tested against the European Council’s role in the establishment of the GRC, HR is confirmed.

Discussion

As the policymaking process leading up to the establishment of both the RRF and the GRC shows, the European Council’s role in EU supranational law-making during the unprecedented emergency engendered by COVID-19 departed from the normal functioning of the OLP in at least three respects. First, the European Council exploited the informal agenda-setting powers it generally exercises through the adoption of Conclusions to influence the specific policy measures the EU would adopt to address the socio-economic consequences of the crisis. Following the outbreak of COVID-19, not only did the European Council advance an interpretation of the pandemic crisis as a common external shock that required a joint response at the EU level rather than several differentiated policy measures at the member state level, thus determining the ‘general political direction’ of the Union, but it also came up with quite detailed instructions for the European Commission on how to elaborate the legislative proposal for the RRF and the GRC.

Second, following the submission of the European Commission’s proposal for the establishment of the RRF and the GRC, the European Council exercised legislative decision-making powers beyond OLP provisions, as the heads of State and government
secured a series of political compromises on key aspects of the proposal before the European Parliament and Council could move ahead with the legislative process. In particular, the European Council met in ‘extraordinary’ or ‘special’ meetings and made amendments to the Commission’s proposal for the establishment of the RRF and the GRC with no legal basis in the Treaties. Third, such an unconventional decision-making role of the European Council significantly affected, in turn, the European Parliament and the Council. While retaining their formal decision-making powers, the Council and European Parliament operated within the boundaries traced by the European Council, de facto acting more like implementing institutions than actual decision-makers. The two legislative bodies fully incorporated into the final RRF and GRC’s regulations the political agreements negotiated by the heads of State and government within the European Council, and finalised the adoption of the two fiscal instruments only dealing with outstanding issues of minor importance.

As a consequence of such an unconventional leading role of the European Council in supranational policymaking, decisions taken under the OLP in emergency times have increasingly followed a deliberative logic and been the result of unanimity rather than majority voting, as the Treaties prescribe instead. Overall, this is quite a remarkable deviation from supranational policymaking in normal times. It implies that, under emergency circumstances, the European Council is able to borrow the decision-making role it exercises within the realm of the intergovernmental governance system - where no legislation is adopted - and turn itself into a veritable decision-making body in supranational law-making, where top-level political leaders are expected to carry out but informal agenda-setting functions and are excluded from the exercise of legislative powers.

Conclusion

This paper has argued that the proliferation of policy deliberation as a decision-making norm, which has become salient in CSP policy areas since the Maastricht Treaty, also becomes a key feature of supranational decision-making in the context of emergency politics through the leading role of the European Council. To that effect, the COVID-19 pandemic was perceived and dealt with, at the EU level, as a Chefsache - a matter for the European Council. Examining the EU’s fiscal response to the pandemic crisis, the paper has shown that, in addition to its agenda-setting functions under the OLP, the European Council was able to exercise legislative decision-making powers beyond the letter of the Treaties. In particular, following the Commission’s legislative proposal for the establishment of the RRF and the GRC, the European Council brought supranational policymaking into the framework of consensual intergovernmental bargaining. Members of the European Council thus gathered behind closed doors and, acting on the basis of consensus and deliberation, secured a series of political compromises at the highest
political level on the specific content of the RRF and GRC. In the published Conclusions to their meetings, they made amendments to the Commission’s original proposal that constituted a sort of red line for subsequent legislative negotiations between the Council and the European Parliament. While formally retaining their decision-making powers under the OLP, these latter were limited by the European Council’s leading role and acted more like implementing bodies rather than actual decision-makers.

This paper makes both a theoretical and an empirical contribution. Theoretically, it sheds light on the added value of combining two distinct approaches to the study of the European Council, namely ‘new intergovernmentalism’ and ‘emergency politics’. Contrary to the expectations of the new intergovernmentalists, we show that post-Maastricht European integration does continue to take place through both the supranational and the intergovernmental method alike, and that intergovernmental consensus-seeking and deliberation practices extend into the realm of supranational law-making in times of crisis. The paper then qualifies the EP’s claim that the European Council exercises a central decision-making role in emergency circumstances by theorising how that is expected to play out within the institutional constraints of the supranational OLP. Empirically, the paper zooms in on the leading role of the European Council in the legislative process for the establishment of the RRF and the GRC, and shows that the mode of fiscal governance that prevailed in the EU’s response to the COVID-19 pandemic was one of ‘intergovernmental integration within supranational policymaking’.

Further comparative research on crisis responses within the EU is needed to establish whether this governance mode is of a temporary or permanent nature, and whether it applies beyond the scope of fiscal integration. This would involve examining how different crises, such as economic downturns, security threats, or environmental challenges, shape policymaking dynamics between supranational and intergovernmental approaches, with the potential to uncover patterns of crisis response strategies and their implications for European integration. In addition, as the European Council emerged as a leading decision-making institution in the supranational system during the COVID-19 pandemic, future research could explore the effects of that development on inter-institutional accountability, transparency, and democratic legitimacy.
References


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