

Shaping the Future of Europe

Hungary's Vision for the 2024 Presidency



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Hungarian Institute of International Affairs



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HUNGARY'S VISION OF A STRONG EUROPE

Gladden Pappin

The Hungarian presidency of the Council of the EU is a distinctive one. In recent years, Hungary has offered a unique vision of Europe—its structure and makeup, its way of combining political forces, and its role on the world stage. This vision has been motivated by a skepticism of Europe's trajectory in recent years, as well as of the understanding and strategic mindset found at the EU level. To critics, however, Hungary's viewpoint has been simply characterized as anti-European. But as Europe's crises have worsened, the Hungarian stance has come to be seen not as "anti-European" but as a different viewpoint on sources of and strategies needed for European success. Hungary's presidency is an opportunity to develop this distinctive view and show why it is a necessary contributor to European strength, while Hungary facilitates the operation of European institutions during these critical months.

In what follows, we will seek to illuminate the core elements of Hungary's vision for Europe—a "European alternative" based on its viewpoint and distinct recommendations. The program of this handbook follows that of the Hungarian presidency itself, but with the goal of making the motivations, considerations and recommendations of the Hungarian presidency easier to understand.

While Budapest and Brussels have been at odds in recent years, Hungary's presidency will be driven by European concerns—beginning with the continent's declining competitiveness and its struggle to define its interests and strategy on the global stage. With the rise of popular discontent in western Europe, it will only become more important to understand this alternative framing of European problems and the recipe for European success. To understand Hungary's point of view and the priorities of its presidency, it is helpful to take a step back to 2004, the year when Hungary joined the European Union as part of the so-called "big bang."

2024: THE EU IN LIGHT OF HUNGARY'S TWENTIETH ANNIVERSARY

Already by the end of the Communist era, Hungary had taken the lead among Central and Eastern European countries in terms of improving relations with what was then known as the European Community. After the regime change in Hungary, marking the end of Communist rule and the transition to a democratic system, there was broad consensus in both politics and society that accession to the European Union should be a priority of any new democratic government. After a long process of negotiations, accession was finally achieved in 2004, just a little over twenty years ago.

In many ways, the purposes of joining the European Union were simple. A postwar Europe wracked by war and division lacked peace and prosperity, and it was these that the European Union was intended to bring. Joining the EU brought enormous change to the lives of Hungarians. Hungarian citizens became free to work in any Member State and gained the ability to travel and study freely throughout the EU. Living standards improved, and cohesion policy measures were implemented for the purpose of helping new members catch up with the rest of the Union where necessary.

At the time of the 2004 enlargement, things were looking bright for the European Union. The EU became one of the largest single markets in the world. Economic integration—including policy integration, infrastructural integration, etc.—was poised to bring tangible results. GDP per capita rose significantly. And thanks to the economies of scale offered by the Union, industry, particularly industry in Central Europe, expanded significantly. As such a large market, the EU now often sets global standards, influencing business and trade even beyond its borders. And accessing (and influencing) EU markets has become key for countries around the world.

Membership also pointed toward the opportunity for coordination on common challenges, making it easier to undertake research and innovation, fight terrorism and crime, and tackle other cross-border issues. Joining the EU has even enabled Hungary to take on the role it often plays today, as a bridge between East and West, the EU and its neighbors in the Western Balkans, Central Asia, and other surrounding regions.

At the same time, however, there has been a drift within the mentality of European institutions—whether we call it mission creep or a tendency to see the roof but to forget the foundations. The core of this mission creep

has been to forget that nations are the principal drivers of European dynamism and diversity—not inconvenient obstacles in the way of a federalist vision.

Since 2010, Hungary has embarked on a path to build its strength on the basis of its national interests. As a result, Hungary resolved the chronic underemployment that used to plague it, delivered energy security to its citizens and built a strategy for economic growth that is rapidly paying dividends. This path has not always been to the liking of those in Brussels—and the politicized mindset toward Hungary has led to the harsher treatment of those who think that the future of Europe must be built on a sovereigntist basis. More gravely, the very mechanisms and tools that could be part of European strength have instead often been twisted to suit a political agenda and turned against sovereigntist countries like Hungary.

Hungary did not join the EU to give up its sovereignty. It joined to be part of a strong and stable union of sovereign nation-states, in which Member States can more easily achieve their goals. National sovereignty remains a driving force within Hungarian foreign policy decision-making. Today, there are competing visions for what the EU should look like. Some have tried to frame the debate as one between “pro-” and “anti-Europe” forces, but Hungary isn’t “anti-Europe”—it is offering a European alternative which in our view involves the true keys to European success.

EUROPE SEEN FROM BUDAPEST

Viewing the conflict between Brussels and Budapest as a battle between “pro” and “anti”-European forces—as if another Brexit were on the horizon—obscures the reality of how Hungary sees contemporary European developments. To be sure, Hungary has taken a contrary viewpoint on the wartime sanctions regimes as well as on EU decisions on migration, and some of Budapest’s sovereignty- and family-oriented domestic policies have drawn European criticism. The European Commission’s rule of law investigations have also held up the transfer of COVID recovery funds as well as regular EU funding (Strupczewski, 2022).

Hungary sees Europe as a continent whose current slate of policies has, often without adequate strategic foresight, been pursued to the detriment of European strength. European weakness is not something that benefits

Hungary. As the EU has drifted in a more centralized direction, with stronger emphasis on ideological conformity in domestic and foreign policy, its place in the world has become weaker. Now faced with a demographic crisis and societies increasingly disunited by migration, it is necessary to have a better strategic plan.

Hungary is not opposed to a larger EU, to a defensively strong EU or to an EU with well-defined geo-economic interests. On the contrary, Hungary's presidency is an opportunity to get to the heart of Europe's declining place on the world stage and reframe European priorities. The flagging competitiveness now driving popular discontent is, from this standpoint, only the most palpable symptom of misguided decisions in crucial areas from economic openness to migration to defense posture. In each of these areas, the viewpoint of the Hungarian presidency won't be "anti-European," but rather will highlight the problems of the current policy direction and the need for a different recipe for European success.

WHY HUNGARY WANTS A COMPETITIVE EU

Europe's struggle to remain competitive in the global economy has become all too palpable, for ordinary European citizens as well as European businesses. "A 'competitiveness crisis' is raising alarms for officials and business leaders in the European Union," reads a recent New York Times overview, "where investment, income and productivity are lagging" (Cohen, 2024). The EU's share of global exports has also been declining, falling 16 percent between 2016 and 2022, even before the Russo-Ukrainian war changed the global economy (Valero, 2024). Typical reasons advanced to explain Europe's decline include Europe's market fragmentation or regulatory environment. Detailed discussions are held within European institutions to analyze and study piecemeal solutions to Europe's competitiveness crisis. Meanwhile, large-scale decisions are undertaken without adequate preparation or discussion.

European economies have been particularly stagnant since energy sanctions dramatically raised input costs for many manufacturers, and energy price sensitivity is now a primary concern for industrial producers (Strategy&, 2024). Soaring energy costs have directly impacted European businesses as well as national budgets. The European Central Bank itself recently came to the conclusion that "energy supply issues"—that is, the loss of cheap energy due to sanctions—damaged "aggregate industrial

production” in Europe in 2022 (Chiacchio, 2023). When more money is needed just to keep the lights on, much less is available for industry, let alone complex R&D.

Yet the drive to separate the EU from geopolitical rivals has only gathered steam. Former ECB president Mario Draghi has been pushing for aggressive European trade actions against China (Arnold, 2024). Europe’s increasing trade war with China over electric vehicles is now opposed by German automakers (Kastner, 2024). European policymakers contemplating a potential Trump victory have also been considering possible trade actions that could be taken against the United States. But none of these will solve Europe’s underlying industrial deficiencies.

Here, then, are two divergent views of European competitive strength. In the regnant view, Europe has begun to disconnect economically from its perceived geopolitical rivals, even at the cost of steady deindustrialization. It focuses on green and digital transitions rather than industrial capacity. Its migratory doors remain open, while it hopes that tourism will save the continent. In this view, its strategic autonomy comes at the expense of connectivity, as a “foreign economic policy” places geopolitics first (Arnold, 2024). The federalist-internationalist view of European strength, if we may call it that, overlooks the continent’s need for inexpensive energy and a peaceful security environment, instead putting it on a war footing that is almost certain to lead to less, rather than more, strategic autonomy. This view also subordinates European security decision-making to the (often-shifting) interests of Europe’s principal security provider, the United States.

According to the other viewpoint, Hungary has been highlighting the distinct features of Europe’s economy that make it not only difficult but also undesirable to “decouple” the European economy on the basis of geopolitical pressures. The European Union is significantly more intertwined with global supply chains than the United States—with five times the import dependency of the United States, according to studies from the Hungarian Institute of International Affairs (Pilkington, 2024). Hungary’s view is not driven by affection for Europe’s great power rivals, but by a realistic evaluation of Europe’s situation. In this view, Europe must start with a recognition of its need for a highly interlinked geo-economic basis, combined with a peaceful and practical orientation toward its neighbors.

In this alternative approach, European strength can only come about through a strategy that prioritizes reindustrialization through low-cost energy and a favorable regulatory environment. Economic openness should be oriented

toward the goal of strengthening Europe’s position and ability to articulate its own interests—and not, by contrast, closing itself off on the basis of other powers’ rivalries. The following chapter by Philip Pilkington, senior research fellow at HIIA, analyzes the strategic failure of Europe’s energy policy.

During its presidency, Hungary plans to articulate a “New European Competitiveness Deal” that emphasizes a technology-neutral industrial strategy and the need for an open global economy. Rather than pushing the green transition at the expense of industry, the Hungarian approach would facilitate green investments but enable companies to make the best decisions.

At home, this framework is usually described as Hungary’s “connectivity” strategy—an attempt to harness a country’s role in international supply chains, draw inward industrial investment and trade on geo-economic strengths (Orbán, 2023). In an EU context, the Hungarian approach will emphasize the need to conclude the nine free trade agreements currently being negotiated, and the urgency of “avoiding the escalation of trade tensions.” It will also actively promote the use of EU-level tools to tackle the root causes of economic instability elsewhere in the world, as that often directly impacts Europe, as well.

HUNGARY’S VISION OF A STRATEGIC, SECURE EUROPE

Spelled out more broadly, Hungary envisions a European Union built on the strength of its member states, becoming a more competitive player in the multipolar world and increasingly able to take care of its defensive needs—including at the EU level. An industrially competitive Europe with proud countries can defend itself better, but also must articulate its own defense priorities. Hence, in addition to implementing the EU’s existing Strategic Compass in defense, Hungary will emphasize the need to strengthen Europe’s defense technological and industrial base.

It is true that, since the beginning of the Russian invasion of Ukraine, Hungary has displayed a distinct international stance in staying out of the conflict and not participating directly in military support of Ukraine, while condemning the invasion (MTI-Hungary Today, 2022). This stance comes not from pro-Russian sentiment, however—which is rare in Hungary—but from a view that battlefield solutions will be elusive (Horváth Kávai et al., 2022). From the beginning of the war, the Western and European responses have not been

based on long-term strategic expectations, but have taken a reactive stance, with a long series of financial and military commitments, as well as sanctions regimes, with little to no review mechanisms in place to determine whether the means used have been effective.

While Hungary has called for an immediate ceasefire and peace negotiations as the way forward, this divergence of viewpoint does not mean that Budapest downplays Europe's need for defensive strength. On the contrary, Hungary has recognized that Europe will be called upon to take care of more of its own defense and security needs in the years ahead, particularly as the United States rebalances its military emphases against an increasing set of global challenges.

On a strategic level, the Hungarian presidency will stress a variety of urgent security concerns, including the postwar rebuilding of Ukraine. Ever-present tensions within the Western Balkans also pose a danger for Europe, hence Hungary's particular emphasis on more rapid EU enlargement to include the six Western Balkan countries. Hungary also emphasizes the need for European rapprochement with Türkiye, given its significance to energy and regional security. Hungary's deep connections with Central Asia and the Gulf states will also boost the EU's recent strategies in those areas.

The EU has a strong role to play in securing these priorities, complementing NATO as the primary guarantor of its members' collective security. One step forward would be the establishment of an EU Rapid Deployment Capacity; the Hungarian presidency will continue to push in this direction, while also emphasizing the other frameworks for European-level cooperation, particularly around defense innovation and coordination.

From an international perspective, this vision amounts to one of a distinctly strategic Europe, based on a different evaluation of what strengthens European nations and can bring them together. European policies have sometimes been undertaken in a reactive way—as when “decoupling” became an imperative with little discussion or consultation at the political or national levels. The Hungarian presidency will be a time during which a strategic discussion of Europe's situation and goals can be undertaken.

The other priorities of the presidency can be understood in this light. The negative social and economic consequences of mass migration are clearer now than during the 2015 migration crisis, and global demographic challenges are now discussed widely. Both of these will figure largely in the

next six months, but from the standpoint of positively addressing the sources of migration and the toolkit for addressing demographic problems. Hungary's emphasis on cohesion policy, as well as farmer-oriented agricultural policy, is oriented toward making sure that member states and key citizen constituencies continue to benefit from Europe. The following chapters cover each of these.

Finally, Hungary has been an exceptionally strong advocate of the accession of the six Western Balkans countries to the European Union—more so than, for example, right-wing parties in western Europe that are skeptical of European enlargement. From Hungary's point of view, the arguments that call for better intra-EU connectivity in order to increase competitiveness apply all the more toward the integration of the Western Balkans. It's Hungary's desire for EU membership to remain attractive that drives its emphasis on merit-based expansion rather than geopolitical or politicized approaches.

Far from being “anti-EU,” then, Hungary views the enlargement of the EU as a strategic imperative, beginning with the Western Balkans and emphasizing the need for a credible and merit-based process. Positive perception of the EU has been weakening somewhat in these countries as the accession process has become long and drawn out. As Budapest has perceived the politicization of European institutions in recent years, it's perhaps no surprise that it's sensitive to this sentiment as it has arisen in the candidate countries, as well.

THE HUNGARIAN PRESIDENCY: EUROPEAN TOOLS FOR EUROPEAN ENDS

Each half-year, the country presiding over the Council of the EU must help facilitate debate and discussion at a European level. Hungary's approach outlines a way of using existing EU-level tools to pursue the goal of strengthening Europe's competitiveness and strategic position. Emphasizing the competence of member states isn't opposed to this process but reflects the view that Europe can only succeed when member states' sovereignty is respected and when European solutions are built upon that basis. All too often, short-circuiting Europe's national building blocks simply results in backlash.

At the core of Hungary's viewpoint is the belief that Europe has been drifting in an ever-weaker direction. Whereas the European Union was once competitive with the United States on the world stage, it is now struggling to

keep pace in a world increasingly defined by the competition between the United States and China. At home, declining access to cheap energy has imperiled European industry and made life harder for ordinary European citizens. Member states once characterized by strong national identities are now increasingly bifurcated into globally oriented metropolises and skeptical or disillusioned countryside.

The Hungarian “recipe” for Europe argues that policies based on the agreement of member states are likelier to be more resilient in the long term. Only a Europe that builds on its place at the intersection of global economic flows can foster the conditions for economic success, defensive strength and confident enlargement. But if Europe cannot open a strategic debate about its present and future, about its role in the world and the conditions for its success, it will be traveling down an increasingly perilous road. For those who want a strong Europe to emerge, an open discussion is becoming ever more urgent. Hungary’s distinctive presidency has already become an occasion for such discussions.

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RESTORING EUROPEAN COMPETITIVENESS

Philip Pilkington

The European Union's economic competitiveness has received much attention from both politicians and analysts. The Hungarian presidency has sought to make it a priority. While the causes are hotly debated, it is generally recognized that the European Union is suffering from a competitiveness crisis. The challenges that are typically highlighted include: regulatory burdens, poor productivity growth, fragmented financial markets, and low levels of public and private investment. Research and development has also been highlighted as an area in which the European Union lags behind its peers, most notably China but also the United States.

The situation in Europe has become so bad that some are discussing the prospect of deindustrialization of the continent. "Europe has a huge challenge and huge risk of deindustrialization," said Ilham Kadri, CEO of Solvay, a chemicals multinational based in Belgium, at the recent World Economic Forum in Davos. The tendency, however, is to focus on peripheral issues. For example, at the WEF Mr. Kadri complained about the fact that there was too much bureaucracy in Europe. But when talking to investors in earnings calls, he highlighted what was the most important component driving the competitiveness crisis—especially in his own industry of chemical manufacturing: high energy prices. "The European chemical market has been growing only weekly for about a decade. The significant increase in natural gas and electricity prices over the course of [2022] is putting pressure on chemical value chains," Kadri said during an earning call last October (Irwin-Hunt, 2023).

In the following chapter, we postulate that the true driver of Europe's competitiveness crisis—and the potential for a deindustrialization of the continent—is the high energy prices that have been brought about by the war in Ukraine and the sanctions and countersanctions associated with it. We make this case using extensive data to highlight the impact that high energy prices have had on both wages and the cost of manufacturing. Then

we turn our attention to the cause of the high energy prices themselves. We conclude that the only way for the European Union to regain its competitive edge and fend off deindustrialization is to once more gain access to cheap and reliable energy supplies.

FROM MICRO TO MACRO

Debates around competitiveness often tend to focus on microeconomic policy. A country is deemed competitive if the government regulates in such a way that businesses can develop. It is deemed uncompetitive if there are regulations in place that do not allow for business to grow and develop. Consideration also might be given to local infrastructure, not just in terms of transport but also in terms of availability of quality business services, for example. These microeconomic approaches to competitiveness implicitly assume that all else is equal; that is, that every country optimizes its resource usage and so the only variable component in the competitiveness equation is microeconomic in nature and the result of government regulation.

But the largest shocks to competitiveness are rarely regulatory. Rather they come when large exogenous events interfere with the basic structure of a country's economy. These shocks impact variables like wage costs, raw material costs, and energy costs. If such a shock hit the entire world economy at the same time, we might be able to assume—if it was evenly distributed—that it would not impact the relative competitiveness of any given country. But if it hits one country or region disproportionately then it will greatly impact that country or region's competitiveness—often in a way that renders discussions of the microeconomics of competitiveness completely redundant.

This is what has happened in Europe since the beginning of the Russo-Ukrainian war in February 2022. The war and the resulting sanctions and countersanctions have led to a major and rapid deterioration in European competitiveness, especially manufacturing competitiveness, as energy prices have risen and with them the European wage bill.

To understand the impact, we must first understand that most of the components involved in the cost of production—tooling cost, raw material cost, maintenance cost, and investment cost—are also associated

with the two more basic costs: energy and labor. Indeed, the only cost component that is truly independent of energy and labor inputs is the raw materials cost. Stripped down, the aggregate level of production in any given economy can be reduced to labor inputs, energy inputs, and raw materials inputs. If any of these are disturbed by an external or exogenous event, the country experiencing this event will experience a significant competitiveness crisis. We believe that this is what has happened in the European Union today.

THE COMPETITIVENESS CRISIS IN EUROPEAN WAGES

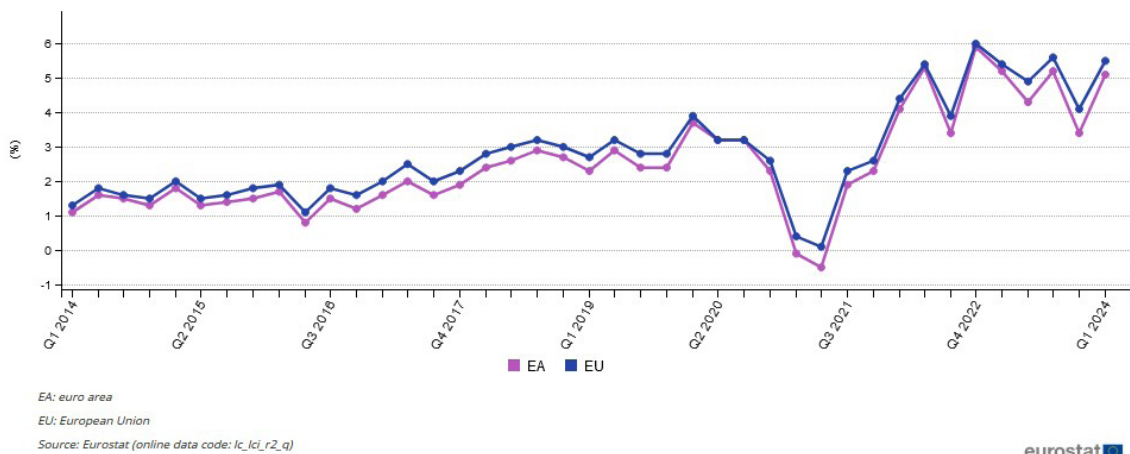
The recent inflation that we have seen in Europe is a stark reminder that a major component of competitiveness is wage costs. Business surveys show that wage costs compose up to 70 percent of the average company's total costs. All else being equal, if wage costs go up then a company only has two choices: slash profit margins or pass on the wage costs and become less competitive. Since profit margins are usually dictated by market competition, cutting them for any significant length of time and remaining in business is difficult.

This does not mean, however, that wages can never grow. If workers are producing more goods than before due to technological improvements or superior management and organization, then wages can increase and profit margins can be maintained. The entire pie gets bigger, and the company and the workers can take a share in this growth. For this reason, to measure the competitiveness of labor—which, recall, is the largest cost in business—economists use a measure called unit labor costs (ULCs). ULCs measure how much wages grow relative to worker productivity. If one country's ULCs are rising faster than another, this means that the country with the larger rise in ULCs is becoming less competitive in comparison to its rival.

When we look at ULCs in Europe, we see that they have seen a very large uptick in recent years. Since early 2022, we have seen quarterly increases in European ULCs of between 4 percent and 6 percent a year. This is substantially higher than we saw between 2014 and 2020, when quarterly ULC increases were between 1 percent and 3 percent. ULC growth in Europe has more than doubled in the past two years.

Figure 1

*Nominal Hourly Labor Costs in the European Union and the Euro Area
(Percent Change Compared to the Same Quarter of the Previous Year)*



eurostat

Note. From "Labour cost index - recent trends," by Eurostat, 2024, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Labour_cost_index_-_recent_trends. CC-BY 4.0.

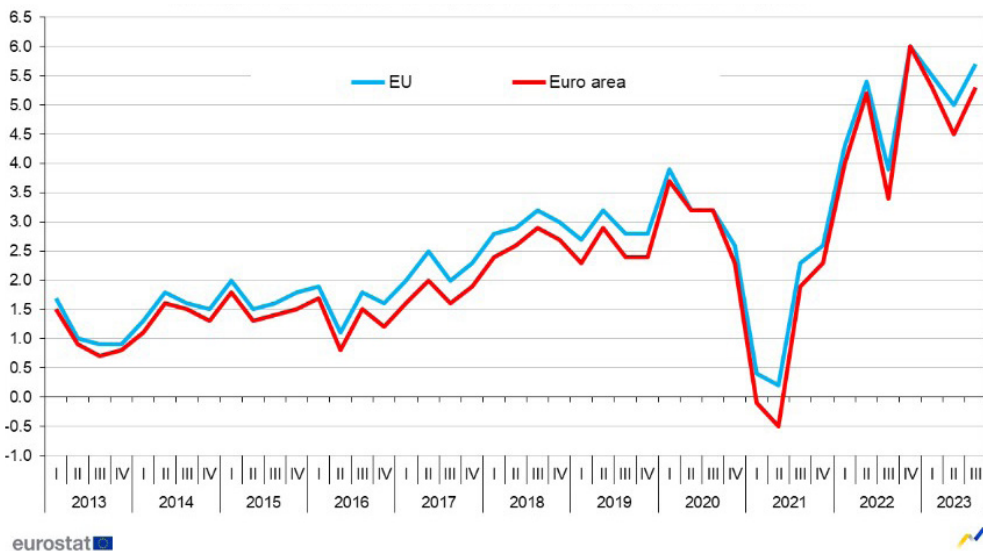
As already stated, ULC growth is only a concern from the point of view of competitiveness if it is rising in one economy faster than it is rising in another. We would be best placed comparing European ULCs with Chinese ULCs. This is because in the past few years, China has become a major competitor of Europe in everything from high-end consumer electronics to electric vehicles. If European ULCs are rising substantially faster than China's, we can say that Europe is losing ground to China competitively. We find that Chinese ULCs are notably lower than ULCs in Europe, and they are rising at an increasingly slower rate, especially since 2021. After a brief rebound following the large decline during the pandemic, the rate at which Chinese ULCs are rising has fallen by around 30 percent since 2021 (Trading View, 2024).

The Chinese economy has been experiencing deflation. This deflation seems to be arising from the capacity of Chinese businesses to rapidly cut prices for key items, most notably electric cars. Put differently, the difference in ULCs is mostly explained by an enormous rise in the productivity of Chinese workers, especially in the automotive sector. This presents an obvious problem for Europe: as Chinese labor becomes *more* competitive due to enormous productivity increases, European labor becomes *less* competitive. To understand why this is we must explore the roots of rising European ULCs.

ULCs can rise in two ways. Either productivity can fall faster than wages or wages can increase faster than productivity. In the EU, labor productivity has been rising since 1999 outside of two recessions: the large post-2008 recession and the mini recession brought on by the pandemic and the lockdowns. Since the pandemic, labor productivity has stalled somewhat, and between 2022 and 2023, it fell slightly—which was unprecedented for the EU outside of a recession. The reason for the decline in productivity is likely the decline in the European manufacturing sector that we will discuss in the next section. This decline in productivity does not explain the large rise in ULCs in Europe, however, because the decline in labor productivity in Europe in 2023 is not very large while the rise in ULCs is, and the acceleration in ULCs in Europe started in 2022 (Eurostat, 2024c).

Let us then turn to wages. The following chart shows the rise in hourly wages in the European Union and the Eurozone. When we compare this chart to the chart depicting ULCs, we see that they overlap almost perfectly. This shows that the main driver of the fall in European wage competitiveness is a large rise in the costs of labor.

Figure 2
Nominal Hourly Labor Costs in the European Union
(Percent Change Compared to the Same Quarter of the Previous Year)



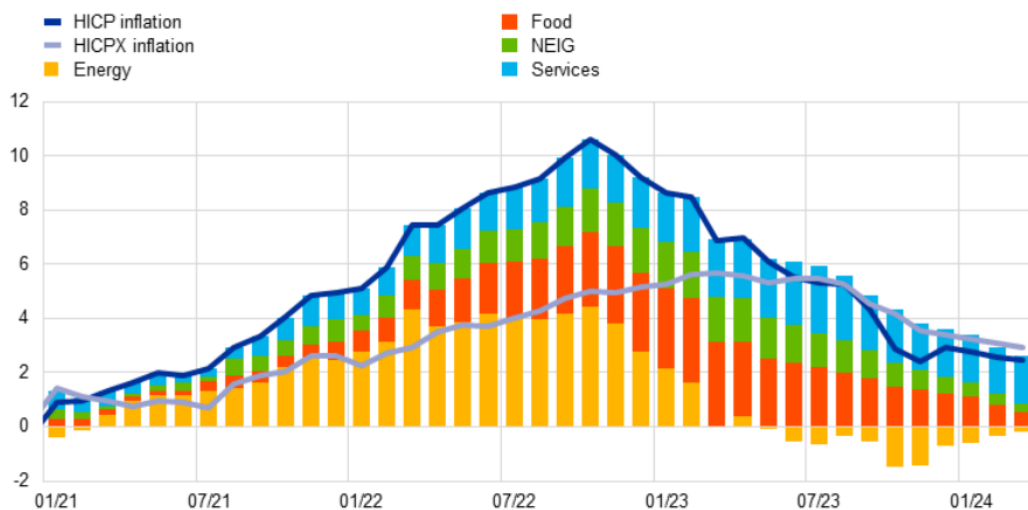
Note. From “Annual increase in labor costs at 5.3% in euro area,” by Eurostat, 2023, <https://ec.europa.eu/eurostat/documents/2995521/18133596/3-15122023-BP-EN.pdf/f5a6a8b7-0aca-98ce-2cab-b51e064c726c>. CC-BY 4.0.

The question then, is what drove this rise in wage costs? Sometimes, especially in times of full employment, workers band together and negotiate higher wages simply because they want higher wages. But this is not often the case. It is unusual to see a sharp uptick in wages that is simply the result of workers becoming greedy. The typical cause of an upsurge in wages is a large increase in the cost of living. Such an increase pushes workers *en masse* to demand higher pay from their employers so they can pay the higher bills that they face.

The following chart shows consumer price inflation in Europe in the period when wages and, with them, ULCs started to rise. The chart also shows the components of the consumer price index, which allows us to better understand what forces were driving costs upwards. Here we see a very clear story. The rise in energy prices is the source of the shock. Starting in mid-2022, food prices also start to rise, as energy prices feed into food prices due to, for example, fertilizer production being a very energy intensive industry. Services start to rise at this point, although much more gradually. This can be read as the general inflationary pressure being passed on to the wage-intensive services sector as the cost of living rises.

Figure 3

Headline Inflation in Europe and Its Main Components (Annual Percentage Changes)



Note. From "Economic, financial and monetary developments" in Economic Bulletin Issue 3/2024, by European Central Bank, 2024, <https://www.ecb.europa.eu/pub/pdf/ecbu/eb202403.en.pdf>. Copyright European Central Bank, 2024.

From the point of view of wages, this increase in the cost of living, passed on to the wage bills of companies and thereby reflected in higher ULCs, has rendered Europe permanently uncompetitive compared to countries like China when it comes to the wage bill. Later in the chapter, we will explore the dynamics that led to the increase in energy prices, but first let us turn to the competitiveness of the European manufacturing sector.

THE COMPETITIVENESS CRISIS IN EUROPEAN MANUFACTURING

When looking at wage competitiveness, we can only look at the rise or fall of wages. We cannot see the direct effects of wages on competitiveness directly. This is because, as we have seen, wages are only one component amongst many in the production process—although wages are the most important component. When it comes to the competitiveness of firms, however, especially that of manufacturing firms, we can see the effects immediately. When a sector like manufacturing becomes uncompetitive, so too do its products. These become too expensive for the marketplace and so production declines.

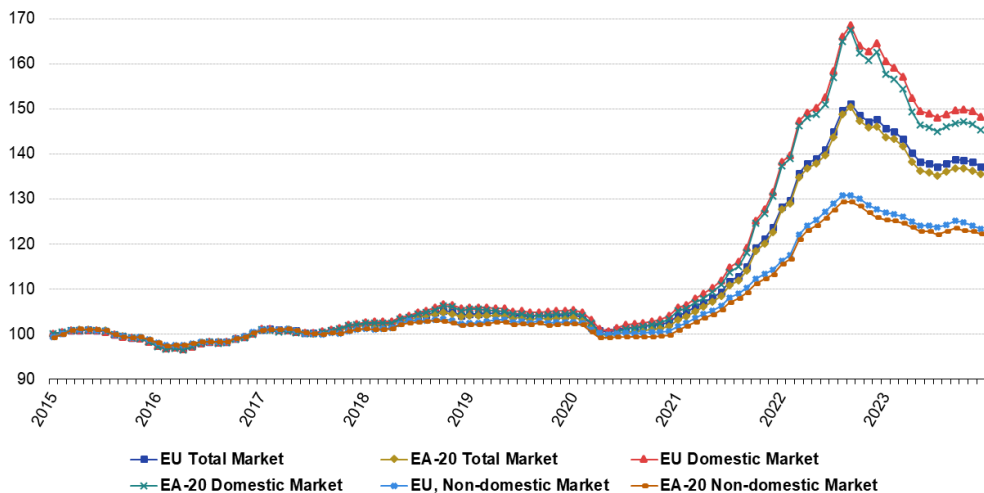
The first place to look for a decline in European manufacturing competitiveness, then, is in the output figures themselves. Industrial production was on an upward trend until 2022. Since 2023, however, production has been on a clear downward trend. Today, it remains around 5 percent lower than its peak—or 7 percent lower if we focus on the Eurozone—compared to the 2021 baseline (Eurostat, 2024f). Since there has not been a recession in Europe, we can infer from these numbers that European manufacturing is becoming increasingly uncompetitive. If European manufacturing becomes increasingly uncompetitive, Europe will continue to deindustrialize.

The most obvious first place to look to find evidence of the causes of this falling competitiveness is in prices. We have already looked at consumer prices in Europe, now let us turn our attention to producer prices, which are shown in the chart below. Here we see that between 2015 and 2021 producer prices were extremely stable in Europe. They then started to creep up in mid-2021 before exploding in 2022. At their peak toward the end of 2022, EU producer prices had risen 50 percent for the total market. Although they have fallen somewhat, they remain over 35 percent

higher than they were in early 2021. With input price increases like these, it is unsurprising that European industry has become uncompetitive and industrial production is falling.

Figure 4

Industrial Producer Prices on Domestic and Non-Domestic Markets



eurostat 

Note. From "Industrial producer price index overview," by Eurostat, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Industrial_producer_price_index_overview&oldid=644126. CC-BY 4.0.

We have already seen that the main cause of the rise in consumer prices was the rise in energy prices. Since manufacturing is even more intensive than consumer households, we can only assume that this sector was badly hit by the rise in energy prices. Excluding taxes, household prices have increased around 42 percent since the impact on energy prices. Meanwhile, for businesses, energy prices excluding taxes rose 125 percent (Eurostat, 2024b). Clearly the impact on business is enormously disproportionate, and while subsidies may help ease the pain, it is questionable how long these can be undertaken.

With impacts on energy prices like this, we would assume that the hit to businesses—especially industrial businesses—would be enormous. We have already seen the impact on European producer prices and on industrial

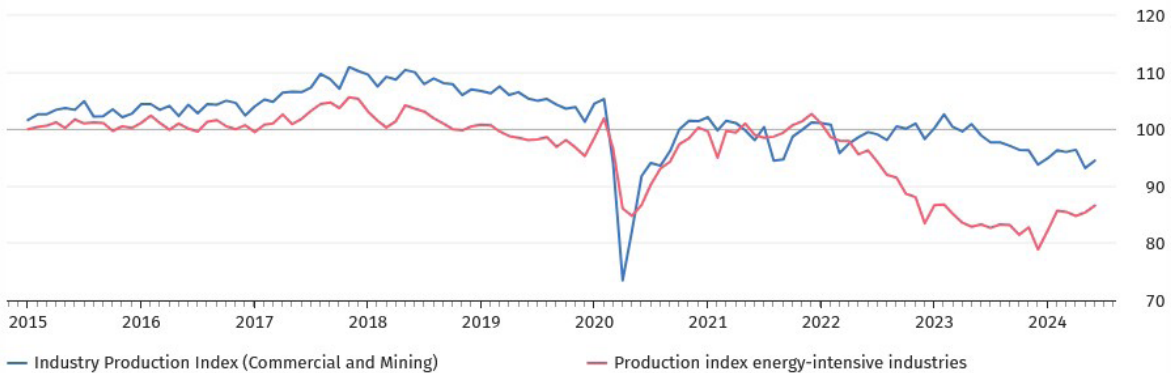
production, and these impacts have confirmed this intuition. But to better establish causation, it is also instructive to look at how businesses have been impacted by their level of energy intensity. If energy intensive businesses are feeling much more pain than businesses that are not energy intensive, this would be strong evidence in support of our hypothesis that the main issue regarding competitiveness in the EU today is energy. The following chart shows industrial production numbers for energy intensive and energy non-intensive businesses in Germany since 2015. The results are striking: Production in energy-intensive industries is down nearly 15 percent, while total industrial production is down less than 5 percent.

Figure 5

Total German Production and Production in Energy-Intensive Industries

Production development in energy-intensive industries

2015 - 100



Adjusted for seasonal using the X13JDemetra+ procedure. Indices of production for the manufacturing sector (EVAS-No. 42153).

Federal Statistical Office (Destatis), 2024

Note. From “Production in energy-intensive industries in Germany,” by the Federal Statistical Office, 2024, <https://www.destatis.de/DE/Themen/Branchen-Unternehmen/Industrie-Verarbeitendes-Gewerbe/produktionsindex-energieintensive-branchen.html>. Copyright Statistisches Bundesamt (Destatis), 2024.

Naturally, with this crisis of competitiveness driven by energy we would expect there to be some impact on trade. If industrial production is down due to a lack of competitiveness, then we should see other countries buying fewer European exports than they did before. Indeed, in 2021 and 2022, against a backdrop of high energy prices, the EU saw a massive rise in imports that far outstripped exports. This was due to high energy prices feeding into the EU’s

trade account. But as the high prices petered out, imports fell dramatically. At the same time, exports began to stagnate—presumably as European products became less competitive (Eurostat, 2024a).

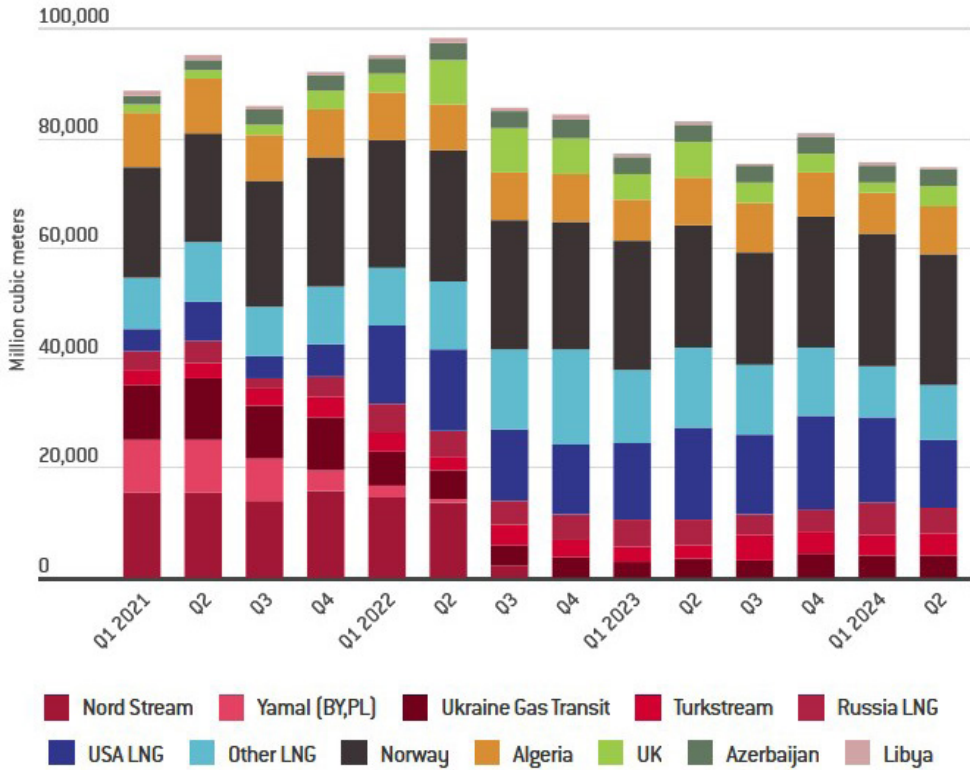
Now that we have established that the main issue when it comes to European competitiveness today is energy, it is worthwhile looking at the European energy market itself to see what is driving the structurally higher energy prices.

ENERGY MARKETS AND ENERGY PRICE STRUCTURE

While energy prices were rising in 2021 as the global economy reopened after the pandemic and lockdowns, this was always set to be a temporary effect. These higher energy prices would have eventually stabilized as the world economy and global energy markets settled into their normal, pre-pandemic path. The pandemic and the lockdowns left no structural barriers that would have resulted in higher global energy prices, and the impact of these events was a cyclical one that should have faded away after a brief period. It was the beginning of the Russo-Ukrainian war and the sanctions and countersanctions on Russia that established permanently higher European energy prices.

We can see this if we look at European natural gas imports and their sources. It is common knowledge that Europe relies heavily on natural gas for its electricity and general energy production. This is the result of a move away from what EU institutions see as “dirtier” sources of energy, like coal. In 1985, for example, around 9 percent of electricity in the European Union was generated using natural gas while around 21 percent was generated using coal. By 2022, these numbers had flipped, with around 19 percent generated using natural gas and around 9 percent generated using coal. The following chart shows the EU’s overall natural gas imports by source. As we can see, three interesting developments have taken place since the start of the Russo-Ukrainian war. First, natural gas imports from Russia via the Nord Stream pipeline have fallen to zero. Second, Liquefied Natural Gas (LNG) imports from the United States have increased dramatically. It should be noted that this LNG is far more expensive than the piped gas it has replaced—some estimates that LNG has a 40 percent premium compared to piped gas. Third, the overall amount of gas imported has fallen significantly.

Figure 6
EU Quarterly Imports by Source



Note. From "EU natural gas imports," by B. McWilliams, G. Sgaravatti, & G. Zachmann, Bruegel Datasets, 2024, <https://www.bruegel.org/publications/datasets/european-natural-gas-imports/>.

To better understand these dynamics, we have used this data to construct the following tables comparing various natural gas imports into the EU in the final quarter of 2021—just before Russia invaded Ukraine—to imports in the second quarter of 2024. A few dynamics stand out. First, LNG imports from the United States have more than doubled. Interestingly, imports of Russian LNG have increased by around a quarter—this is effectively the same gas that was bought from Russia via Nord Stream but is now being bought at a premium. American LNG imports have risen from around 6.5 percent of total gas imports to around 16.4 percent, and LNG overall has gone from about 22.2 percent of total gas imports to around 36.1 percent. Since this LNG is bought at a premium over natural gas, this accounts for

some of the rise in European energy prices. Overall, LNG imports have increased by around 32 percent, while non-LNG imports have decreased by around 33 percent.

Table 1
Natural Gas Imports into the EU (Millions of Cubic Meters)

	Q4 2021	Q2 2024	Percent (%) Change
LNG Imports	20363	26943	32.3%
U.S. Imports	5945	12275	106.5%
Russian Imports	3877	4809	24.0%
Other Source	10541	9859	-6.5%
Non-LNG Imports	71388	47764	-33.1%
Total Natural Gas Imports	91751	74707	-18.6%

Table 2
LNG as a Share of Total Natural Gas Imports into the EU

	Q4 2021	Q2 2024
LNG Imports	22.2%	36.1%
U.S. Imports	6.5%	16.4%
Russian Imports	4.2%	6.4%
Other Source	11.5%	13.2%

The decrease in total natural gas imports really stands out. Imports have fallen 18.6 percent since before the war. In other words, almost a fifth of European gas imports have been wiped out by the sanctions and

countersanctions. Even LNG, which is far more expensive than the piped gas it replaced, cannot fill the gap in the market here. The result is exactly what simple microeconomics would suggest: With a lack of natural gas at reasonable prices available to Europe, the price of energy has risen on a structural basis, and the amount of energy used has fallen. The latter is often referred to as “demand destruction” and is reflected in the dismal industrial production numbers we see in Europe today, especially in energy-intensive industries.

EUROPE’S EXISTENTIAL COMPETITIVENESS CRISIS

These findings raise an extremely important long-term question: What is the plan for Europe moving forward? Unless Europe can gain access to affordable energy and bring down energy costs to pre-war levels, the continent will remain uncompetitive on both a wage basis and a business cost basis, and industrial production will continue to fall. This is another way of saying that Europe will undergo a process of deindustrialization. At the beginning of the war, the plan appeared to be to replace Russian piped gas with LNG. Promoters of this plan—mostly tied to the American energy sector—claimed that if Europe imported more LNG, its price would fall as more investment flowed into the sector. This represented a basic misunderstanding of simple microeconomics. Competition and investment can drive down prices, but there are hard technological limits. LNG is more expensive than piped gas simply due to physical transport costs, not to mention the costs associated with compressing the gas into a liquid state in the first place. LNG prices were never going to come down sufficiently to compete with piped gas prices.

It has now been over two years since these promises were made. European energy prices remain high and European gas imports have fallen by nearly a fifth. No coherent plan has replaced the bet that competition and investment would drive down LNG prices. Indeed, it appears that the European Commission simply wants to avoid the question. But as we have seen, it is the only truly relevant question regarding competitiveness in Europe today. Without access to energy at a reasonable price, the European continent will continue to be plagued with economic stagnation and its industry will disappear. Eventually, the lack of exports will cause trade deficits that will have to be closed, meaning drastically lowering living

standards on the continent. The European Commission must immediately reevaluate its energy policy and consider any and all options available to regain access to affordable energy. It is no exaggeration to say that this is a truly existential question, both for the countries in the European Union and for the project of the European Union itself.

CONCLUSIONS FOR THE HUNGARIAN PRESIDENCY

The European Union's economy continues to have very strong points in its favor. The fact that it has a well-functioning common market with a combined GDP of over \$25 trillion and nearly 450 million consumers ensures that it will remain one of the world's most important economies in the coming years. The continent still has many advantages, including a highly developed business culture, a well-educated workforce and world-class infrastructure. Yet the continent is undergoing a process of deindustrialization due to high energy costs. This process has resulted in a large, consumer-oriented European economy that is struggling to grow—indeed, a deindustrialized Europe could see living standards fall significantly. The Hungarian presidency is well-placed to address this important, existential question.

In its presidency program, the Hungarian government specifically notes the impact of higher energy prices on European competitiveness:

In the current international context of multiple challenges, where Europe is lagging behind its global competitors, it is vital to improve the productivity and thus the competitiveness of the Union and its Member States, and to stimulate growth. It is in our common interest to address the effects of the difficult economic circumstances of the recent years, such as high inflation, increased public debt, *high energy prices* [emphasis added], fragmentation of international supply chains, or lower European productivity and slower economic growth compared to our competitors, and to put the EU economy back on an upward trajectory (“Programme of the Hungarian Presidency,” 2024, p. 4).

As our work has shown above, the energy question is not simply one among others. It is at the very core of the current competitiveness crisis that the European Union is facing. It is undoubtedly true that there are other issues

with European competitiveness—as the program notes—but none of these can be realistically addressed without first securing access to cheap reliable energy for the European economy.

Another core component of the strategy for the presidency is ensuring that Europe has an adequate and coherent security policy—one that places an emphasis on the European Defence Technological and Industrial Base (EDTIB). Energy policy is also integral to this goal. Without access to cheap and reliable energy, Europe will not be able to develop the industrial base needed to ensure that it can adequately cater to its own security needs.

Questions surrounding European energy policy appear to have been put on hold since the outbreak of the war in Ukraine. To move it forward, the adoption of a New European Competitiveness Deal is at the core of the presidency's efforts to strengthen European competitiveness. The Hungarian presidency is a perfect opportunity to make progress on finding solutions that will ensure the European economy maintains its status as a superpower into the twenty-first century.

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DEFENDING EUROPE

Péter Stepper

In the EU Council presidency role, the country in question always has considerable informal influence on affairs according to its own national position, so it is worth knowing the Hungarian position on the EU's security policy. Security and defense policy is not just one policy area among many, but the foundation of the whole of European integration history. Cooperation after the Second World War was motivated by military defense, with the European Coal and Steel Community defining national military industrial potential, thus reducing the risk of unilateral armament and the outbreak of wars in Europe (Dobrowiecki & Stepper, 2019). Since then, however, the European security environment has changed dramatically. Hungary will lead Europe at a time when our concept of security is rapidly changing, and we need responsible leaders to reconfigure our institutional toolbox to be ready to tackle new challenges.

2019 was a symbolic year for us. Hungary, together with other Central European countries, celebrated the thirtieth anniversary of regime change, the twentieth anniversary of NATO membership and the fifteenth anniversary of EU membership. These events have been the cornerstone of the foreign and security policy of the countries of our region over the past three decades. 2019 also marked the anniversary of Hungary's rejoining the "West." Today, Hungary is a full and equal member of the Western security architecture and alliance, which has given the country the opportunity to make its voice heard. In recent years, however, it has become clear that the institutions set up after the Second World War are unable to address new challenges. The dilemma is whether a liberal world order can deal with the challenges of our world today. The question should not, however, be whether the "new" members of the Western world, like Hungary, are liberal, but whether the political and security institutional structure we have developed can evolve and whether we will be able to deal with the parallel challenges that threaten our region and our alliance (Rada & Stepper, 2020).



Our changing world has brought new challenges, which have emerged in parallel and caused many headaches for politicians and policymakers. These challenges have called into question the legitimacy, or at least the effectiveness, of the existing security architecture—notwithstanding the real ambitions of U.S. President Donald Trump, who wants Europe to take on a greater responsibility for its security in the NATO alliance—and forced international actors to develop new solutions and responses. Well before the current war began, in the winters of 2006 and 2009, Ukraine and Russia failed to agree on gas supplies, leading Russia to shut off the gas taps. The crisis led to the creation of some kind of common energy policy, at least in terms of energy security. Obviously, we are generously overlooking here the fact that Germany, for example, built the Nord Stream pipeline, pursuing its own energy policy agenda while expecting smaller EU members to fall in line. The situation is similar with migration policy: EU Member States are not equally affected by the problem. The real problem was not the scale of the phenomenon, but the failure of the European Union to respond in a united way. While a new migration pact was eventually reached, the pact has serious shortcomings.

It is popular to portray European integration as a success story because, in many ways, it is. It has increased prosperity in many European countries and eliminated the risk of war in many former crisis zones. All in all, by 2022, a peaceful, prosperous area had been created from Poland to France. But this zone of peace was not created by the European Union itself but rather shaped by the leaders of nations after years of painstaking compromise, weighing the pros and cons of sharing national sovereignty with EU institutions. While some members clearly expect further deepening of integration and others expect more members to join in the future, the United Kingdom has opted to exit, showing that nothing in politics is final or a linear process: There are moments of crisis in the integration story.

The EU is currently going through a period of crisis in several stages, starting with the global economic crisis of 2008, closely followed by the Greek debt crisis. In 2015, the series continued with the refugee crisis (Stepper, 2018). The issue of forced migration into Europe, which has been growing ever since, still divides members. Meanwhile, the Brexit negotiations between 2016 and 2020 created a crisis of legitimacy for the European project. Many see these crises as obstacles on a path to a United States of Europe. Others, however, point to the importance of

intergovernmental negotiations. They argue that, after all, international organizations—including *sui generis* entities such as the EU—are only as legitimate as the Member States that make them up. The concept of a Europe of strong nations has been promoted by the Hungarian government since 2010, and it has defined the sovereigntist foreign policy approach envisioned in the Hungarian Nation Security Strategy, which has determined the Hungarian policy on the European Union and on European defense issues in particular (Stepper, 2020).

Russia's invasion of Ukraine at the end February 2022 brought war back to the European continent and raised the stakes for EU defense policy. The Hungarian government sees the ongoing and emerging conflicts around the world as clear evidence that Europe needs to significantly improve its defense capabilities, international crisis response and capacity. Defense policy has therefore been identified as one of the key priorities of the 2024 presidency of the Council of the EU.

COMMON SECURITY AND DEFENSE POLICY

The European Union, which was originally an intergovernmental economic organization, has gradually become a security organization and has acquired powers, which, in a growing number of areas, are now increasingly being used to demonstrate a more state-like attitude. The EU is increasingly treated as an equal partner by its external partners, particularly in international treaties and diplomatic relations. A glance at the number of representations accredited to the EU and the representations run by the EU reveals that the EU's diplomatic representation is the size of that of a major international power. This is true even though multilateral forms of cooperation in the international system are in decline (Molnár, 2019).

The aim of the common foreign and security policy is to transform the EU into a single political actor, speaking with a single voice, and gain greater political leverage in order to take on an active role in international relations and in both its own defense and that of its Member States. It is important to stress, however, that the EU's foreign policy does not interfere in the foreign policy positions of individual members. The search for consensus and joint action among Member States is an opportunity for

the EU to remain a key player in the international system. But this search for consensus can be hampered by differences between Member States on foreign policy, diverging interests and the search for the lowest common denominator in decision making. Although the idea of a common foreign policy was not included in the Treaties of Paris and Rome establishing the European Communities, the coordination of different foreign policy instruments such as enlargement policy, aid, trade policy, humanitarian aid, sanctions policy and crisis response has evolved steadily since the beginning of the integration process.

The *Common Foreign and Security Policy* (CFSP) is therefore only one instrument in the Union's system of external relations instruments. The EU is a kind of civil, normative or liberal power, in a Kaganian sense, seeking to contribute to strengthening stability—not only its own stability but also that of its environment—through mainly soft policies in the field of external relations and to the shift or extension of security in the more benign sense (Manners, 2002). Unlike the American liberal foreign policy, which is *ab ovo* interest-driven (realist), European foreign policy is more submissive (surrealist) and respects abstract concepts, such as the rules-based world order, rather than follows the interest of Member States (Rada & Stepper, 2023).

In 1992, the Maastricht Treaty created the EU with a pillar structure, the first pillar being the European Communities, the second the common foreign and security policy and the third justice and home affairs cooperation. The EU's common foreign and security policy was built on the European political cooperation that had been in place since the 1970s. Since then, with successive amendments to the EU Treaties, the institutional system and decision-making processes of the *Common Security and Defence Policy* (CSDP) have evolved. Learning from the tragic experience of the Balkan wars, the establishment of the institutional framework for a common security and defense policy began in the late 1990s. The Treaty of Nice in 2001 was an important milestone in the institutionalization process. With the integration of the Western European Union (WEU) into the EU, the European Security and Defence Policy (ESDP) was established, followed by the Common Security and Defence Policy in 2007 with the Lisbon Treaty. The first EU civilian and military crisis management operation was launched in the early 2000s (Molnár, 2019).

CHANGES INTRODUCED BY THE LISBON TREATY (2009–2020)

The Lisbon Treaty has brought about a major change in strengthening the instruments and institutions of foreign and security policy. The new amending treaty introduced the possibility of *Permanent Structured Cooperation* (PESCO) and the mutual assistance and solidarity clause. The name of the European Security and Defence Policy was changed to the Common Security and Defence Policy. The creation of a High Representative for Foreign Affairs and Security Policy in 2009, with a much broader responsibility than before, and the European External Action Service (EEAS) in 2010, were also important steps towards greater coherence between the external activities of the Council of the European Union and the European Commission (Molnár, 2019).

In CFSP decision-making processes, which are still intergovernmental—i.e. based on consensual agreements between member states—the European Council and the Foreign Affairs Council, a formation of the Council of the EU, play a key role. Brussels is represented in international relations by the President of the Commission, the President of the EEAS, the High Representative for Foreign Affairs and Security Policy and the EU's diplomatic body, the EEAS. The Commission exercises its right of initiative through the High Representative and together with the member states. The main instruments for decision making are the general guidelines set by the European Council and the decisions adopted by the European Council and the Council. Most decisions are taken by consensus (Molnár, 2019).

THE MAIN ACTORS WITHIN EU DEFENSE POLICY

Within EU defense policy, there are three primary actors to note. The European External Action Service (EEAS) operates under the authority of the EU High Representative for Foreign Affairs and Security Policy and is an autonomous body of the European Union. It is the EU's diplomatic body, composed of a central administration and the Union's delegations. The EEAS is responsible for supporting the High Representative for Foreign Affairs and Security Policy in the development and implementation of the EU's common foreign and security policy. It is responsible for maintaining diplomatic

relations and strategic partnerships with non-EU countries, cooperating with the diplomatic services of countries and international organizations. It also plays a key role in peacebuilding, security, EU development policy, humanitarian aid and crisis response, the fight against climate change and human rights (Molnár, 2018).

The High Representative chairs the Foreign Affairs Council and, as one of the vice presidents of the Commission, is also responsible for coordinating the Commission's external relations tasks. The High Representative's role is to facilitate the process of finding compromises between member states to develop a common EU position, negotiated in several steps and unanimously adopted by EU countries in bilateral and multilateral international fora. In other words, the High Representative complements, but does not replace, national diplomacy. In addition to traditional diplomatic tasks, the High Representative's role in the Commission means that they are responsible for coordinating the various foreign policy instruments (e.g. aid, trade, humanitarian aid and crisis management).

While the first High Representative, Catherine Ashton (2009–2014), focused on using her role for mediation, both Federica Mogherini (2014–2019) and Josep Borrell (2019–2024) focused on greater coordination of the EU's different instruments and strengthening strategic thinking on foreign policy and security matters. The work of the current High Representative so far has highlighted weaknesses in the CFSP area due to a lack of coordination between Member States.

The European Commission (EC) has a limited role in the CFSP, covering only part of the EU's external relations. It can play an important role mainly through aid and development policy. Compared to other policy areas, in the CFSP area, the Commission only has the right of initiative through the High Representative, who is also Vice-President of the EC, and does not exercise significant executive powers (Arató & Koller, 2019).

The decision-making process is still characterized primarily by intergovernmentalism, the search for consensus and thus for the lowest common denominator. The decisions negotiated in the CFSP area, however, correspond to the common position of the elected Heads of State or Government of all the Member States. Accordingly, the ability and potential of each Member State to act as an advocate depends on its ability to mobilize and persuade the leaders of the other Member States in accordance with

its own foreign policy objectives. In this context, the EU's leading Member States are also only "first among equals." Smaller EU Member States can block common foreign policy action, whether that be the military intervention preferred by France or the softer foreign policy instruments, like sanctions, preferred by Germany.

Despite the fact that the governmental public is still dominant in the CFSP and within it in the CSDP area, the Commission's role has been growing steadily in recent years. In March 2015, the Russian aggression in Ukraine and the deteriorating security environment led EC President Jean-Claude Juncker to call for an EU army. Although this army did not materialize, since 2016 the Commission's role has been strengthened not only in areas traditionally associated with EU external action and human security, but also in the Common Security and Defence Policy. For example, the European Defence Fund (EDF) was established in 2017 on the basis of the European Defence Action Plan (EDAP) prepared by the European Commission. The EDF coordinates and complements Member States' investments in defense research, prototyping and the acquisition of defense equipment and technologies. Its importance lies in the fact that it allows, for the first time, the financing of military expenditure from the EU budget.

The Commission has also developed a proposal on the need to introduce *qualified majority voting* (QMV). It identified three specific areas in which QMV could be applied: human rights displacements, EU sanctions, and the launch of civilian missions. Its adoption was strongly opposed by sovereign governments, including Hungary and Poland (Koenig, 2022). The European Parliament supported the proposal, but no decision was taken at the level of the Council.

The EC representative also participates as an observer in the Political and Security Committee (PSC) meetings and may put forward proposals. In the budgetary field, the Commission has long played a key role, not only in proposing the EU's Multiannual Financial Framework (MFF), but also in implementing the CSDP budget, which was roughly about €300–400 million per year in the 2014–2020 MFF (Dobрева & Cîrlig, 2016). In September 2019, the new President of the European Commission, Ursula von der Leyen, announced the creation of a "geopolitical committee" in a so-called mission letter to Josep Borrell (von der Leyen, 2019). Without offering a concrete definition, she stressed the importance of linking the internal and external aspects of different policies.

HUNGARIAN PRESIDENCY OF THE COUNCIL OF THE EUROPEAN UNION (2024) AND THE CFSP

Hungary will take over the Council presidency from Belgium on July 1, 2024, until the next trio of presidencies takes over from January. In terms of broader foreign policy issues, Hungary will remain a strong supporter of EU enlargement, especially in the direction of the Western Balkans (Dobrowiecki & Stepper, 2021). Even though some partnership programs of the EU look like they are doomed to failure, most probably Hungary will continue to support the diplomatic efforts, primarily from Poland, to keep the Eastern Partnership alive, even if the war in Ukraine completely destroyed the good relations with Belarus and increased political tensions among pro-Russian and pro-EU parties in Moldova and Georgia (Dobrowiecki & Stepper, 2020).

According to the Hungarian government, the ongoing and emerging conflicts on the continent and around the world clearly demonstrate that Europe needs to significantly improve its defense capabilities, international crisis response and capacity. Hungary argues that the European Union must play a greater role in guaranteeing its own security, strengthening its resilience and capacity to act. In addition to the implementation of the Strategic Compass, which defines the main directions of EU defense policy, Budapest will place particular emphasis on strengthening the European defense industrial and technological base, including defense innovation and enhancing defense procurement cooperation between Member States. Strengthening European security and defense has become a priority in the context of the steadily deteriorating security situation in Europe over the last decade, strategic competition and increasingly complex security challenges. According to Budapest, the EU must assume greater responsibility for its own security and defense ("Programme of the Hungarian Presidency," 2024). Discussions about European sovereignty in defense, which increases European strategy autonomy are very welcome in Hungary (Fiott, 2018).

Budapest intends to focus on three main pillars in the field of common security and defense policy: strengthening the EU's military response and crisis management capabilities, increasing the effectiveness of European military capability development, and strengthening the European Defence Technological and Industrial Base and promoting defense innovation

(“Programme of the Hungarian Presidency,” 2024). Key elements of enhancing the EU’s military response capability and strengthening its crisis management capacities are the EU Rapid Reaction Capability (EU RDC) and the establishment of the related command and control system. The Hungarian presidency also attaches importance to, and intends to support, the regular organization of joint exercises by providing a national live-fire exercise, as they promote interoperability between the forces of the members and improve the decision-making mechanism (“Programme of the Hungarian Presidency,” 2024). In the current security situation, guaranteeing stability in the Western Balkans and the Sahel region and supporting these regions through EU military missions, as well as maintaining security-focused dialogue and cooperation and through the channels of the European Peace Facility, are among the priorities of the Hungarian presidency. It is important for Hungary that civilian missions also consider the areas of minority protection and cultural heritage protection in their overall activities. The presidency’s priority is also to increase the sustainability of the *European Peace Facility* (EPF), to maintain the global balance and to complete the review of the EPF (“Programme of the Hungarian Presidency,” 2024).

Hungarian foreign policy has repeatedly stated that the EU can only be a credible security actor if it has the military capabilities to match its level of ambition. To increase the effectiveness of capability development, we must exploit the maximum potential of existing EU defense initiatives. Therefore, the Hungarian presidency has made a strong commitment to promoting strategic thinking on the future of PESCO and to contributing to the PESCO Strategic Review, the second decision-making phase of which will take place during the Hungarian presidency. In addition, if the ongoing review of the functioning and tasks of the *European Defence Agency* (EDA) leads to a revision of the Council Decision on the Agency during the Hungarian presidency, Budapest most probably will also support this (“Programme of the Hungarian Presidency,” 2024).

The EU’s efforts to promote defense research, development and innovation and to increase defense industrial capabilities have been successful, and their consistent continuation is a priority for the Hungarian presidency. To this end, Hungary wants to promote reflection on the future of the European Defence Fund (EDF) and contribute to the strengthening of the European Defence Technological and Industrial Base. Our presidency thus intends to pay particular attention to the consistent pursuit of the objectives set out in the *European Defence Industrial Strategy* (EDIS), regarding the

expansion of financing opportunities, the expansion of production capacities, the enhancement of security of supply and the early production of research, development and innovation results. Upcoming legislative tasks related to the *European Defence Industrial Programme* (EDIP) will also be taken care of by the presidency (“Programme of the Hungarian Presidency,” 2024).

The EU’s bilateral security and defense partnerships could be developed further and, most probably, Hungary will put more emphasis on deepening EU–NATO cooperation despite the clear political limitations caused by the Turkish red lines due to Cyprus (Rada & Stepper, 2019).

CONCLUSION

There are many visions for European defense: building a European army, strengthening European sovereignty, increasing strategic autonomy. Member states are united in diversity as they say, so most probably the future of EU CSDP will be built on this traditional motto. Our strategic cultures differ, as do the sizes of our armies and the productivity of our defense industrial sectors. However, the shifting geopolitical environment makes it impossible to ignore the urgent need for increasing Europe’s own defense capabilities. Partnerships are just as important for maintaining the economic achievements of Europe. From the Hungarian perspective, the EU indeed needs to be “geopolitical” and use the new concept of European Political Community wisely, to quicken the enlargement process without compromising the values we all stand for.

The sustainability of new defense projects will be key, because the lack of proper budgetary sources is evident, despite the much-anticipated recent improvements. A significant number of resources were allocated by the EPF to help Ukraine, while European industry cannot ramp up the ammunition production in its own factories. The EU needs to address both issues at the same time, and an immediate ceasefire and peace negotiations would ease the pressure on the Members States and would give them time to continue building their national defense industry in a sustainable way.

Crisis management operations are just as important now as they were in past decades, even if public attention is significantly less. It will be a huge challenge to prevent the security situation from deteriorating in the Sahel region, which could become a hotbed of instability for Europe in the coming years.

Hopefully, the Member States and the EU institutions will find the right balance to tackle the aforementioned challenges. During the presidency period in the second half of 2024, Hungary can advance the current legislative processes. The presidency comes at a time when the European security environment is rapidly changing, and we need strong leaders willing to have critical discussions to reconfigure our institutional toolbox to be ready to tackle new challenges.

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A CONSISTENT AND MERIT-BASED ENLARGEMENT POLICY

**Julianna Ármás, Péter Pál Kránitz,
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One of the top priorities of the Hungarian EU presidency is ensuring a consistent and merit-based enlargement policy. In fact, it has set the goal to go down in history as the most pro-enlargement presidency of all time. The government has long been an outspoken advocate for enlargement and considers it one of the most successful policies of the European Union. To maintain the policy's momentum, however, it is essential to keep it balanced and credible ("Programme of the Hungarian Presidency," 2024).

The Community cannot be complete without the accession of the six Western Balkan countries, which is why the Western Balkans has been seen as the primary direction for enlargement, with the EU long engaged in ensuring its European integration. The region's integration benefits the EU not only in security and geopolitical terms but also in terms of untapped economic potential. Further accession of the Eastern Partnership countries aspiring for membership—that is Ukraine, Moldova, Georgia, and most recently Armenia—would significantly strengthen the EU, expanding its access to human and natural resources. The presidency is moving the enlargement process forward in line with the revised methodology of 2020 set forth by Olivér Várhelyi, EU Commissioner for Neighbourhood and Enlargement at the time, based on the reports of the European Commission, while also taking into account the European Union's capacity to absorb new members ("Programme of the Hungarian Presidency," 2024).

EU ENLARGEMENT AT A CROSSROADS

A credible enlargement policy is a geostrategic investment in Europe's peace, stability, security and prosperity. A strong and stable European neighborhood is a key priority for the European Union, and the Hungarian presidency



considers enlargement one of the most powerful tools for achieving this. The geopolitical significance of enlargement was highlighted by the Russian invasion of Ukraine in 2022, after which the European Council recognized its role in enhancing European security and therefore granted Ukraine, Moldova, Bosnia and Herzegovina, and Georgia candidate status (Directorate-General for Neighbourhood and Enlargement Negotiations [DG NEAR], 2023b). It should be noted, however, that while enlargement is back on the EU's agenda, this is due to the recent geopolitical reality of Europe, rather than a consistent enlargement policy whereby the Community would prioritize the Western Balkans over the Associated Trio.

It is undesirable for enlargement policy to be taken hostage by EU members' own interests and corrupted into a means to interfere in candidate states' sovereignty and domestic affairs. The Hungarian presidency strives for a merit-based approach, focusing on the actual performance and regional realities of candidate countries rather than double standards in applying accession criteria and submitting candidate states' fundamental economic and security needs to the geopolitical goals of great powers. Thus, Hungary continues to see the fulfillment of the Copenhagen criteria as a condition for accession, namely institutional stability guaranteeing democracy, the rule of law and human rights, the protection and respect of minority rights, a functioning and competitive market economy, and the capacity to adopt EU aqis and thus to fulfill the political and economic objectives of the Union ("Accession criteria").

While enlargement policy is considered one of the EU's most successful policies, never has so much time passed between two rounds of enlargement, with the last accession that of Croatia in 2013. The reason for this is multifaceted. The EU has essentially found itself in a series of crises—financial crises, the migration crisis, Brexit, the war in Ukraine, energy and supply chain challenges—which has meant that engagement with the candidate countries has taken a back seat. At the same time, the Community's so-called enlargement fatigue has affected the attitude of the candidate countries, calling into question reciprocity on both sides. As a result, reform efforts have slowed and even stalled.

What has perhaps stalled enlargement the most is the EU reform versus enlargement debate among EU members. As cliché as it may seem, deepening the EU has always gone hand in hand with enlargement, with the adoption of the Amsterdam and Nice treaties before the 2004 "big bang" as good examples.

The EU now has 27 Member States, with the result that there are many more ideological fault lines between members, with a proportional reduction in the possibility of reaching consensus. It should be noted that the need to reform the EU is not new, and its timeliness is not directly caused by the failure of enlargement policy, nor is it explicitly intended to speed up the enlargement process. The need for reform was first formulated at the Conference on the Future of Europe initiated by French President Emmanuel Macron, with the central questions being the possible deepening of integration—a more federal Europe versus a Europe of sovereign nations—and the need to make the EU more effective and proactive as a global power. This led to the debate on qualified majority voting (QMV) in the field of common foreign and security policy, but the majority of Member States reject a complete transition to QMV as it would mean a loss of sovereignty. In essence, the conclusion of reform agendas that dissect the functioning of the EU is that its ability to function effectively is in doubt and will only decrease with the enlargement of not only the Western Balkan six, but Ukraine as well, which cannot join a properly functioning Community in its current form. Current political interests suggest that there will be reform before enlargement, but it is unclear whether reform is possible in the current political situation, with the present stalemate. It should be underlined that enlargement of the Western Balkans could be achieved without internal reform, but the larger EU Member States (e.g., France) are voting in favor of reform before enlargement (Zweers et al., 2024).

THE WESTERN BALKANS AS THE PRIMARY DIRECTION OF ENLARGEMENT

It has been 21 years since the famous—now infamous—Thessaloniki promise to give the Western Balkans an EU perspective, underlining the Balkans' future within the European Union (European Commission, 2003). In that time, only Croatia managed to join the EU as a full-fledged member, while the accession of the other (potential) candidate countries—Albania, Bosnia and Herzegovina, North Macedonia, Kosovo, Montenegro and Serbia—has slowed, as illustrated by the slower progress on accession chapters. Perhaps the most extreme example is the situation of North Macedonia: The country applied for candidate status in 2004, the earliest after Croatia, and was granted candidate status in 2005, but the European Council did not approve

the start of accession negotiations until 2022—which still does not mean that accession negotiations will actually start (European Commission, 2024a). This is the result of vetoes by members in the wake of bilateral conflicts, with Greece for many years opposing EU membership over the Greek–Macedonian name dispute and, once the Prespa agreement was ratified, Bulgaria vetoing over Macedonian identity and history. North Macedonia was not the only candidate to receive vetoes: The Netherlands and France also issued famous vetoes on the progress of countries when their accession was linked, citing rule of law shortcomings, which also affected the dynamics of enlargement.

The situation of the other (potential) EU candidate countries in the Western Balkans is less extreme, but not particularly different from the Macedonian example. With the exception of Bosnia and Herzegovina and Kosovo, the others had been granted candidate status by 2014, but the group was split and the region lagged behind the two frontrunners: Montenegro and Serbia. As we have already mentioned, the war in Ukraine brought tangible change in the EU integration of the Western Balkans, with small—and some larger—steps taken towards the accession of almost all countries. Albania and North Macedonia have been given the green light to start accession negotiations and hold their first intergovernmental conferences (DG NEAR, 2022). Bosnia and Herzegovina became a candidate country in December 2022—later than Ukraine—and the European Council voted to open accession negotiations in March 2024 (European Commission, 2024b). Kosovo’s application to gain candidacy was symbolic, but perhaps more important was the guarantee of the country’s long-delayed visa liberalization, which allows the country’s citizens to travel to the EU without a visa since January 1, 2024. In the case of Montenegro, which has been struggling with government crises for a long time, there has been no room for small steps. There was a sharp turn in autumn 2023 with the government led by Milojko Spajić. The new government’s firm objective is to conclude accession negotiations by 2027, and the country is on track to achieve this and obtain an Interim Benchmark Assessment Report (IBAR) for Chapters 23 and 24, which caused a long period of stalemate (Popović, 2024). Serbia is currently one of the Gordian knots of the Western Balkans. The EU has not opened any new clusters with the former frontrunner since December 2021, and the slowdown is strongly interconnected with Serbia’s position on Ukraine, being the only Western Balkan country to not join the EU sanctions against Russia. With no change in alignment with the EU’s foreign and security policy expected, the prospects for progress for Belgrade have not just stagnated, but rather deteriorated.

Rather than addressing each of the Western Balkan countries individually, we will look at the situation along the lines of the factors that have most influenced, and often hindered, the region's accession to the EU, highlighting the consequences of enlargement fatigue and the reform efforts already described. The experience of the accession of the Central and Eastern European countries brought to the fore rule of law and institutional development expectations, which are monitored by interim benchmarks requiring unanimity from the European Council, which slow down the process dramatically, as the example of Montenegro illustrates. The challenge is linked both to enlargement fatigue and to the debate on the future of the EU. The unanimous adoption of all opening, intermediate and closing benchmarks gives member states a number of opportunities to block proceedings, the value of which in terms of sending a message to candidate countries is worth reflecting on (Németh & Orosz, 2023). The fading credibility of the enlargement process is not only visible at the political level, but also in society at large, reflected in growing Euroskepticism. It is worrying that skepticism towards the EU is growing, especially among younger generations in the Western Balkans ("Balkan Barometer," 2023).

The Western Balkan region is well known for its traditional bilateral conflicts, which also hinder the progress of the accession process. Unresolved issues can be divided into two groups: challenges when a candidate country is in dispute with an EU member state and tensions between the candidate countries themselves. Perhaps the best-known dispute with an EU member state was the Greek-Macedonian name dispute, which was soon replaced by a dispute with Bulgaria. The returning Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (*Внатрешна македонска револуционерна организација – Демократска партија за македонско национално единство*, VMRO-DPMNE) strongly criticized the Prespa Agreement after entering the government following presidential and parliamentary elections in the spring of 2024, but it is not expected to revive the dispute with Greece and may even come closer to ending tensions with Bulgaria, but this will require internal and external pressure (Keranov & Metodieva, 2024). Less often in the spotlight is the current spat between Greece and Albania over the arrest of an Albanian mayor belonging to the Greek minority, with Athens threatening to use the veto as a handy tool for pressure (Taylor & Michalopoulos, 2024).

Yet the best-known bilateral conflict in the Balkans is the Kosovo issue. Although the EU has been acting as a facilitator since 2011 to bring the parties closer to a solution through the Belgrade–Pristina Dialogue, the normalization process is more frozen than dynamic. Political will on the part of Belgrade and Pristina is required to bring the dispute to an end, and as long as the leadership has more interest in maintaining the conflict than in resolving it, no cardinal change can be expected. The situation is not helped by the fact that Serbia’s Chapter 35 now includes the “Agreement on the path to normalization between Kosovo and Serbia” accepted in Brussels and Ohrid in 2023, under which Belgrade cannot block Kosovo’s integration into international organizations while Pristina moves towards the establishment of the Association of Serb Municipalities (*Zajednica srpskih opština*, ZSO; *Asociacioni i Komunave Serbe*, AKS). The stalemate was essentially preserved by the dispute over Kosovo’s membership of the Council of Europe, where Serbia voted against the young country’s admission, making clear its unchanged position on Kosovo (Taylor, 2024).

Along with these challenges, the conclusion is that the EU’s normative power in the region is diminishing as the prospect of EU membership becomes increasingly distant. This has further consequences, such as the growing presence and influence of external actors—China, Turkey, and the Gulf States—which are represented not only economically but also politically. Hungary has an interest in a united, pro-European Western Balkans, as it cannot afford the risk of instability in its southern neighborhood. The room for maneuver is much more limited than during the earlier presidency in 2011, however, as none of the Western Balkan countries are in a position to achieve spectacular success in the next six months. Hungary must instead continue to support consistent enlargement policy through small steps.

CHALLENGES AND PROSPECTS FOR THE ASSOCIATED TRIO

Hungary has long been an outspoken supporter of EU enlargement towards the Eastern Partnership countries, too, and the presidency aims at championing the process. Meaningful accession talks with Ukraine, Moldova and Georgia are, however, hampered by serious challenges such as military conflicts,

insufficient alignment with the Copenhagen criteria, and an enlargement policy that is being held hostage to the geopolitical struggle of great powers and certain EU members' foreign policy agendas.

Hungary supports the right and the fight of the three candidate states to restore their territorial integrity and sovereignty through peaceful means. Although the Cyprus model may provide legal frameworks for the accession of candidates with disputed territories, accession of a country that is fighting a full-scale war on its territory means exporting the conflict to the economic-political bloc and is therefore undesirable. An established and secure framework for ceasefire should be set as a criterion for accession. Candidate states' fight against corruption and striving for the rule of law and human and minority rights are considered by the Hungarian presidency as other key premises for meaningful accession talks.

The question of Ukraine's accession to the European Union has become more than a mere foreign policy strategy. It has become a civilizational choice and a key foundation of national identity following the Orange Revolution of 2004 and the Revolution of Dignity in 2013–2014. Ukraine applied for EU membership soon after Russia invaded its territory in February 2022. The application was supported by the European Parliament, the European Commission and the European Council, and Ukraine was granted EU candidate status on June 23. On December 14, 2023, the Council of the European Union decided to open negotiations on Ukraine's accession, and in June 2024, negotiations kicked off in Luxembourg (Myso, 2024).

Hungary's commitment to NATO and the EU means that it supports Ukraine in all EU integration processes, maintains high-level bilateral economic cooperation and does not deviate from EU and NATO guidelines on strategic geopolitical issues of major importance. On the other hand, Hungary is also bound by its constitutional obligation to stand up for the rights of the Hungarian community in Transcarpathia in Western Ukraine. According to Hungary's National Security Strategy (Government decree no. 1163/2020), Hungary has an interest in a strong, democratic, stable and economically developing Ukraine and in balanced bilateral relations. Accordingly, Hungary does not wish to put obstacles in the way of Ukraine's European path. At the same time, the EU integration of individual candidate countries should be based primarily on realistic achievements and not solely on momentary political grounds, taking into account current geostrategic interests.



Ukraine is paying the highest price for its commitment to its European integration course, but whether the country and the EU itself are ready for its accession remains a question. Ukraine is indeed making considerable efforts to meet the accession criteria, but in a country at war it is very difficult to properly measure the results. A series of economic reforms have brought Kyiv closer to European levels, but despite these, the Ukrainian economy continues to face very serious challenges, with agricultural exports remaining one of the largest sources of income. The situation is similar in terms of the implementation of legislative and administrative criteria, where Ukraine has reached a number of achievements, such as the decentralization of power and judicial reforms, but full compliance is still a long way off, as the latter is a complex process.

The most complex issue is meeting the political criteria. Taking these into account, Ukraine has adopted a number of laws and regulations aimed at promoting democracy and the rule of law and reducing corruption. War and national security considerations, however, make it very difficult to assess these effectively, as the state of war makes democratic institutions such as the freedom of the press, freedom of expression and political diversity difficult to achieve, and the erosion of these standards is a consequence of the war. From the Hungarian point of view, one of the biggest problems is the issue of the linguistic rights of national communities, which was a serious factor in the conflict between Budapest and Kyiv. In December 2023, Ukraine amended some of its laws to give national communities broader rights to use their languages in education and the media. To assess these measures, the parties held a bilateral meeting in January 2024, but as of August 2024, discussions are still ongoing between Budapest and Kyiv (Presidential Office of Ukraine, 2024).

The key question for Ukraine is whether, in the current complex geopolitical context, the principle of merit-based integration can be overridden if the political interest that currently justifies it so requires. Hungary, as before, is currently interested in Ukraine's integration into the EU, but Ukraine must be ready to meet the criteria to enter the EU, and the EU must be ready to welcome Ukraine.

Just like Ukraine's, the Hungarian presidency supports Moldova's territorial integrity, sovereignty, and accession to the European Union. The country applied for EU membership after the Russian aggression in Ukraine in March 2022 and was granted EU candidate status in June the same year.

Its accession process has so far been tied to Ukraine's—the EU's decision to open negotiation talks with Moldova was made together with the decision to open talks with Ukraine in December 2023, with actual negotiations kicking off parallel to Ukraine's in June 2024. Though there have been no delays yet with regards to the accession path of these two candidates, Hungary opposes binding together two or more candidates' accession processes for fears it may create setbacks for one or the other. Moldova should advance at its own pace, possibly even preceding Ukraine.

The Hungarian presidency believes that a democratic, functional and pluralistic political system with respect to the rule of law should be carefully maintained, and the irreversible concentration of power referencing the war should be avoided in Moldova. It is crucial for Chișinău to secure the actual inclusion of civil society into decision making, to ensure substantial pluralism of media and to carry out a reform of the judicial system according to the rule of law. It is also of key importance to carry out a reform of the handling of public funds and the fight against organized crime and money laundering to eliminate the political and public notions of corruption—the “theft of the century,” the organized robbery of Moldovan banks, must not happen again.

Just as in the case of Ukraine, it is essential for Moldova to protect human and national minority rights by protecting Moldova's multiethnic society's status quo and maintaining national identities, linguistic and cultural diversity, and the freedom of religion. Promoting the social wellbeing of national minorities and supporting integration, however, cannot mean the encouragement of—or coercion into—assimilation. Promoting national minorities' role in political decision making, respecting the existing rights of national minorities, and, among other things, respecting the territorial autonomy of Gagauzia are of key importance, particularly since the last is included in the country's constitution and in a special law.

Accession to the EU will not necessarily set back conflict resolution in Transnistria and could even enhance it. The Cyprus model may serve as a framework for peaceful negotiations given that the special status of the territory as an inalienable part of Moldova is guaranteed, as defined in the Organization for Security and Co-operation in Europe (OSCE) negotiation format.

Georgia's accession path is an example of how certain European states' own foreign political agendas might derail enlargement policy, a common European goal with strategic importance. The Caucasian state, too, applied

for EU membership in March 2022. The Commission assessed it in record speed, just under three months, giving Georgia a European perspective in June 2022. The Commission's Opinion outlined twelve priorities for Georgia to implement in order to gain candidate status. Although the Georgian government successfully carried out all the proposals, it was denied candidate status by the Council of the European Union in December 2022 to put political pressure on a government reluctant to give up more of its sovereignty and conservative values for the sake of European integration (DG NEAR, 2023a). The move was condemned by Hungary.

Although Georgia was eventually granted candidate status in December 2023, six months later the German government effectively froze its accession path in retaliation for the Georgian parliament's adoption of the Law on Transparency of Foreign Influence. Although the law was created in the spirit of transparency, a fundamental democratic value, the EU has harshly criticized it for being anti-democratic. The law requires NGOs and media outlets to publish a financial declaration and register themselves on a list if more than 20 percent of their budget is supplied by foreign sources. It was opposed by, most notably, countries that supplied most of the funds to the Georgian media and civil society: Germany and the United States ("Law of Georgia," 2024). Hungary instead considers foreign interference in the domestic affairs of candidates or members, such as legislation on civil society or media, undemocratic and has therefore opposed any collective steps taken by the EU to sanction Georgia for its law on transparency.

Germany's veto of Georgia's accession sets a dangerous precedent for member interference in domestic affairs and the sovereignty of candidate states, and it risks damaging the enlargement policy's credibility and equity. The Hungarian presidency is set to take substantial steps in favor of Georgia's accession path, and unless Germany's foreign policy takes a different turn, it will use all possible means to further Georgia's EU integration through the Eastern Partnership program or the European Political Community.

CONCLUSION

The Hungarian presidency is all set to become one of the most pro-enlargement presidencies. It will strive to deconstruct artificial obstructions placed by certain members in the way of accession talks and fight the

hypocrisy and double standards that have taken the EU's enlargement policy hostage. The Hungarian presidency wants to move forward with most of the candidate countries, meaning to open new accession chapters for Serbia, close as many as possible with Montenegro, and lay the ground for the second intergovernmental conference in Albania and North Macedonia, while aiming to see the start of genuine negotiations with Bosnia and Herzegovina and Georgia, too (Ördög, 2024).

There is no question of emphasizing a consistent and merit-based enlargement policy, but the policy must also be in line with geopolitical realities. This means not only moving towards the Associated Trio, but also recognizing and acting against the EU's competitors in its sphere of interest. This is particularly true for the Western Balkans, where it is essential to regain trust. One good way to do this is to lobby for a gradual integration, whereby we start to formally and informally bring candidate countries into the EU, while sending an important signal that we are also counting on them as full-fledged members.

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REGULATING MIGRATION

Lillian Zsófia Aronson

As crises continue to emerge around the world, the European Union must be prepared to deal with migration flows from nearby regions, especially since migration flows worldwide are projected to increase in the upcoming decades. Reducing the number of illegal and unregulated entries into the EU through a comprehensive approach targeting the root causes of irregular migration, while also strengthening both external border controls and legal pathways for migration, will be key for managing these flows in a sustainable manner. While the rotating presidency of the Council of the European Union offers only modest opportunities to influence EU migration policy, Hungary can use the opportunity to facilitate critical discussions on the topic. The presidency agenda identifies several specific ways to promote progress on better regulating migration.

To an extent, regulated migration may be an asset for improving European competitiveness and cementing Europe's place in the evolving geopolitical landscape. Even in Hungary, government officials have estimated that the country will need half a million foreign workers in the coming years to fill gaps in the workforce (Marsai, 2023). While the EU has underlined the importance of migration for the short-term alleviation of technical inadequacies and demographic challenges within the labor market, migration is not a long-term solution to the problems facing the Union.

Without the power to determine who enters the EU, and effective processes for integrating accepted individuals, there is the potential for disorder and political instability. In Sweden, for example, which took in the highest number of migrants per capita in 2015, the failure to properly integrate migrants fueled gang violence and crime. While the majority of migrants in the country never committed crime, individuals with two non-native parents were still more than three times more likely to be

implicated. The government response required “overhauling policy across the board to restore safety and security in Sweden” (Ministry for Foreign Affairs, 2023).

Migration also has a geostrategic significance. The threat of the weaponization of migration has been highlighted in recent years, with European leaders accusing Minsk and Moscow of state-sponsored illegal migration. Minsk was accused of enticing thousands of migrants from Iraq, Syria, and Afghanistan to Belarus and then using armed security forces to escort them to the border for the purpose of political destabilization in EU border states (Council of the European Union, 2021). Now, some have suggested that the weaponization of migrants has become an integral part of Moscow’s current war effort (van Rij, 2024).

RECENT WAVES OF MIGRATION

Migration is certainly not new to Europe, although it seems to be expanding and diversifying. Since the end of the Second World War, key drivers of migration have included the recruitment of cheap labor from abroad to fuel industrialization and fill labor shortages in agriculture, cleaning, and similar sectors; wars of independence in former colonial territories and postcolonial instability; the Yugoslav wars and the disintegration of the Soviet Union; the wars launched in Afghanistan and Iraq; and, most recently, the Arab Spring and the resulting civil wars still enduring in some countries. Initially, the waves were overwhelmingly movements from southern Europe to the northwest, but migration slowly began to increasingly take the form of movements from neighboring regions like North Africa and beyond (Van Mol & de Valk, 2016).

In Hungary, notable waves of migration came from Transylvania and the former German Democratic Republic (East Germany) during regime change and from Yugoslavia during the Yugoslav wars. These waves were relatively small—generally tens of thousands of individuals each—and the migrants came from nearby regions, often with Hungarian backgrounds (Marsai, 2023).

Migration was not one of the priority areas of the first Hungarian presidency in 2011 because migration did not seem to be a widespread issue at the time. The so-called Arab Spring had begun mere days before the presidency, when Tunisian street vendor Mohammed Bouazizi set himself on fire in protest against the police. The seemingly small incident, however, set in motion a series of events that eventually resulted in regime change in Tunisia and later other countries

including Libya and Egypt. As the protests spread, some were successfully repressed—in Bahrain, for example—while others resulted in civil wars and instability that continues today—Syria, Yemen, and Libya being notable cases.

In Syria alone, 13.8 million individuals were forcibly displaced (The UN Refugee Agency, 2024). While most Syrians who left Syria initially went to Türkiye and other neighboring countries, as the war dragged on, many eventually began making their way to Europe, along with migrants from Afghanistan, Iraq, Eritrea, and other countries. By 2013, migration into Europe started to increase significantly, reaching a peak in 2015.

At the height of the crisis in 2015, a record 1.2 million individuals applied for asylum in the European Union, mainly Syrians fleeing conflict in their country (Eurostat, 2024). Hungary was particularly affected, due to its key position along the Western Balkans route, which became increasingly popular as the migration crisis dragged on. The number of asylum applications submitted in Hungary rose exponentially, from 2,157 in 2012 to 18,900 in 2013, 42,777 in 2014, and 177,000 in just the first eight months of 2015 (Marsai, 2023). The country received the highest number of per capita first-time asylum applications that year, which put a significant strain on its authorities (Pew Research Center, 2016). Understandably, managing migration became a hot topic on the Hungarian agenda. And it remains on the agenda, as irregular migration pressures on Hungary's southern borders have not decreased significantly in the decade since.

In 2022, the war in Ukraine sparked another wave of migration, with more than 4 million Ukrainians registering for temporary protection in the European Union to date. About half of these individuals registered in Germany and Poland (General Secretariat of the Council, 2024). Hungary, too, welcomed Ukrainians fleeing the conflict, as hundreds of thousands crossed the border in the first few months, although many moved on from Hungary to other parts of the EU.

THE CASE FOR REFORM

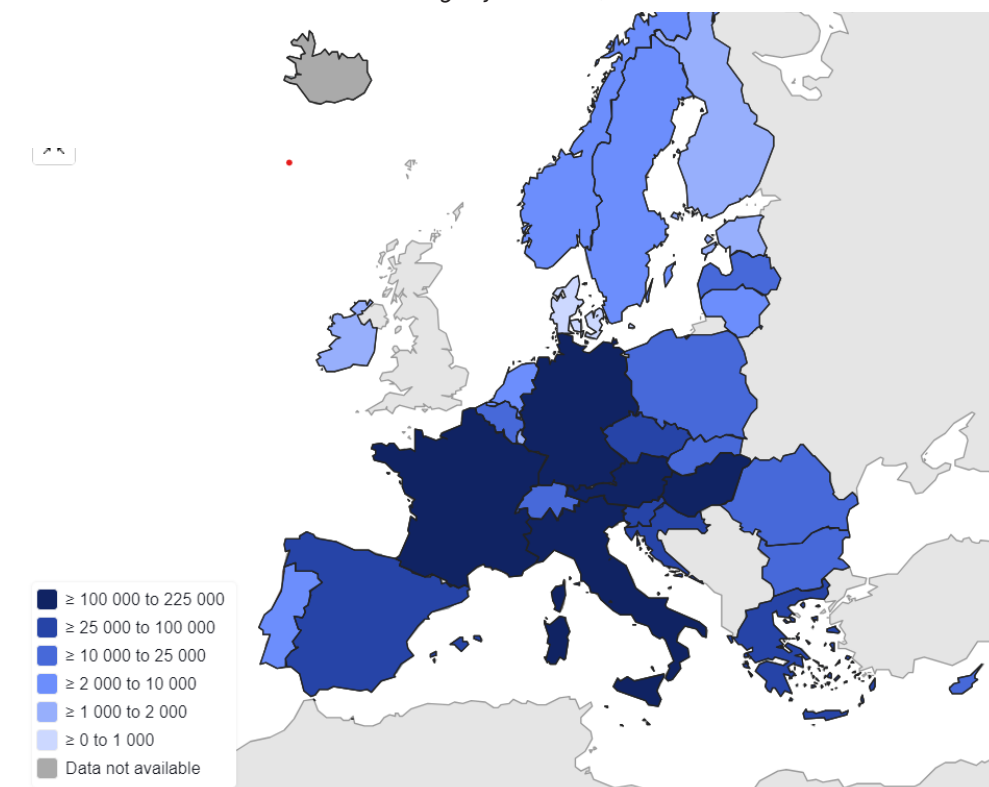
The 1951 Geneva Convention on the protection of refugees enshrines asylum as a fundamental right and an international obligation for countries. To regulate the asylum process within the EU, the Common European Asylum System (CEAS) was established in 1999, overseen by the European Union Agency for Asylum since January 2022 (European Commission, n.d.). In 2022 alone, EU countries collectively granted 311,000 asylum seekers refugee status (Eurostat, 2024).

While protecting the right to asylum is important, Hungarian officials have questioned the existing system in the EU. One critique has focused on the fact that migrants, even when fleeing their home countries as genuine refugees, often pass through numerous safe third countries that could have provided them adequate protection. Another major point of contention has been the processing of asylum claims within the borders of the EU, given that it incentivizes illegal entry, and the vast majority of asylum seekers who enter illegally and later have their claims rejected do not leave the EU afterwards.

In 2022, more than one million individuals were found to be illegally present in the European Union. Of all EU members, Hungary reported the largest number of individuals found illegally present—223,000 individuals, representing nearly one-fifth of the EU total (Eurostat, 2024).

Figure 1

Non-EU Citizens Found to be Illegally Present, 2022 (Number of Individuals)



Note. From "Migration and asylum in Europe – 2023 edition," by Eurostat, 2024, <https://ec.europa.eu/eurostat/web/interactive-publications/migration-2023>. CC-BY 4.0.

The rise in irregular migration has spurred human smuggling and created dangerous conditions for asylum seekers and other migrants, with many dying on treacherous journeys into the EU. In 2023, 4,114 individuals died or went missing while trying to enter Europe (Displacement Tracking Matrix, 2024). Even once in the EU, the employment of migrants residing illegally can create conditions enabling exploitation and human rights violations. Without proper oversight and regulation, it is also difficult to support the integration of those in need of protection. Uncontrolled waves of migration can also put significant pressures on receiving states.

The concerns of Hungarians have been frequently dismissed as mere xenophobia. The majority of Hungarian society, however, is willing to accept political refugees if circumstances allow, with no significant distinction between Chinese, Arab, Russian, Turkish, or Nigerian individuals (Janik et al., 2022). There seems to be more to the story.

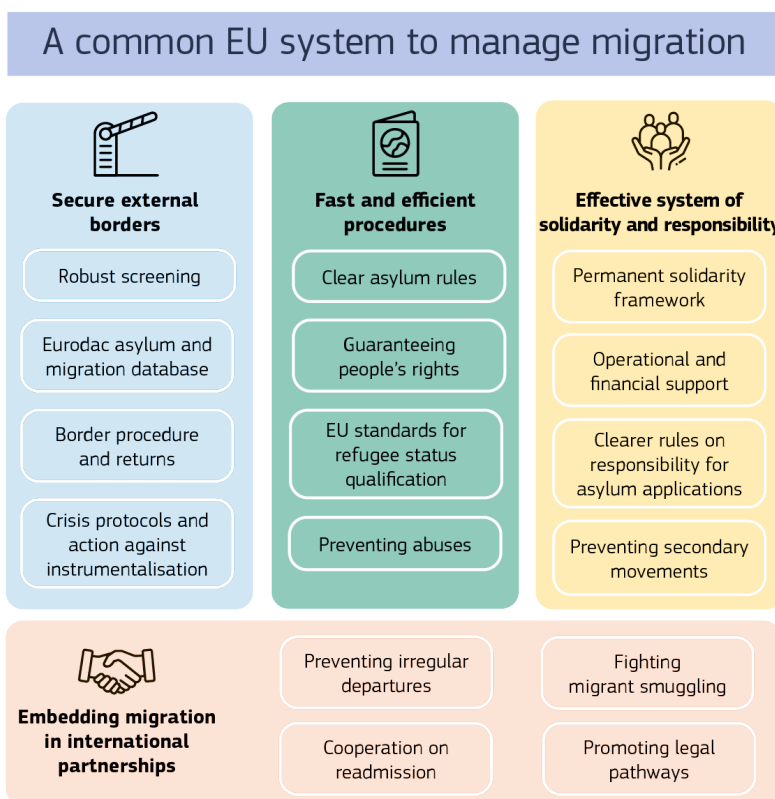
Of course, debates about migration have been happening throughout the EU, not just in Hungary. While there has been agreement on the fact that something must be done, everyone seems to have a different opinion on how to make migration policy effective.

In 2016, the Commission proposed a reception conditions directive, a qualification regulation, and an EU resettlement framework. Four years later, in 2020, the Commission followed up with the proposal of the New Pact on Migration and Asylum, consisting of five laws establishing new regulations on the asylum procedure, asylum and migration management, Eurodac, the screening process, and crisis management (European Commission, 2020). The European Parliament and the Council only managed to reach an agreement in December 2023. The Parliament narrowly approving the reforms the following April, followed by the Council's adoption in May, despite Hungary and Poland voting against the entire pact and Austria voting against the crisis regulation (Council of the European Union, 2024). Now, member states have two years to implement the laws that were passed.

The migration pact focuses on four pillars: secure external borders, fast and efficient procedures, an effective system of solidarity and responsibility, and international partnerships. To secure external borders, it introduces a new screening process, upgrades the existing Eurodac database, strengthens the role of Frontex in managing borders, and provides uniform rules for registering irregular migrants. In terms of fast and efficient procedures,

it introduces clearer asylum rules, expands information sharing among countries, introduces new digital tools to speed up the processing system, and updates standards on the living conditions of asylum seekers. The solidarity and responsibility pillar focuses on clearer rules on responsibility, a framework for relocations, some operational and financial support to member states, and measures aimed at preventing secondary movements once asylum seekers have applied in their country of first entry. Finally, the goal with international partnerships is to stop human smuggling into the EU, prevent irregular departures into priority destinations like the UK, cooperate on migrant return and readmission, and promote legal pathways for entering the EU (European Commission, 2024).

Figure 2
Pillars of the Pact on Migration and Asylum



Note. From "Pact on Migration and Asylum," by the European Commission, 2024, https://home-affairs.ec.europa.eu/policies/migration-and-asylum/pact-migration-and-asylum_en. CC-BY 4.0.

While the pact may be a step in the right direction, it is insufficient, and there are concerns that it could be used to infringe upon members' sovereignty. Hungary, alongside Poland, voted against the entire migration pact, primarily due to opposition to the mandatory solidarity measures, which it fears will be used to force it to accept illegal migrants against its will, including individuals who do not meet the conditions to receive refugee status and whom Hungary may not have the capacity to accept. While Austria did not vote against the entire pact, it did vote against the pact's crisis regulation, which would trigger these solidary measures. Slovakia and Czechia, meanwhile, chose to abstain from the vote.

In response to the shortcomings of the migration pact, the Hungarian government has implemented its own migration policies, requiring asylum seekers to submit their applications outside of Hungary and wait until they are approved before entering. Its measures, however, were declared unconstitutional by European courts in 2020, and in June 2024 the European Court of Justice fined Hungary €200 million for failing to follow EU law, with an additional penalty of €1 million per day until it changes its policies (Case C-123/22).

THE 2024 HUNGARIAN PRESIDENCY AGENDA

The presidency program published at the end of June highlights illegal migration as a key challenge facing both the European Union as a whole and individual Member States, particularly those along the EU's external borders. While the role of the rotating presidency is limited, the program outlines several measures it intends to promote to tackle both the push and pull factors of illegal migration into the European Union, including measures to both address the root causes of illegal migration and manage it once migrants have reached the border.

The main focus is on cooperation with partners, especially key countries of origin and transit. Among these partners, the program names Türkiye, the members of the Southern Neighbourhood (Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine¹, Syria and Tunisia), and the countries of the wider Sahel region, particularly Mauritania, Senegal, and Chad

¹ The European Union uses this designation, but it should not be construed as EU recognition of a State of Palestine, given the variation in the individual positions of Member States on the issue.

(“Programme of the Hungarian Presidency,” 2024). Cooperation with these partners is already ongoing, with the Operational Coordination Mechanism for the External Dimension of Migration (MOCADDEM) set up in 2022 to improve its coordination. Hungary, however, is in an advantageous position to promote expanded cooperation due to its excellent relations with many of the countries in question.

The need to curb human smuggling and illegal entries into the EU is also highlighted. The program calls for innovative solutions for asylum, the need for more EU funding for external border protections, and policies to ensure effective returns (“Programme of the Hungarian Presidency,” 2024). The presidency will chair a number of meetings on these topics. There was already an Informal meeting of the Strategic Committee on Immigration, Frontiers and Asylum (SCIFA) in early July, and the one hundred and first meeting of the Frontex management board in Budapest is coming up soon.

The presidency program does not mention the migration pact specifically. The Hungarian presidency, however, follows the Spanish presidency in the second half of 2023 and the Belgian presidency in the first half of 2024, with these three presidencies making up the current “trio.” In the joint trio program published last year, the need to continue work on reforming the CEAS and the Pact on Migration and Asylum is featured (Council of the European Union, 2023).

Addressing the Root Causes of Irregular Migration

Tackling migration starts with addressing the root causes of illegal entries, so that people do not need to uproot their lives and make the long journey into the EU, often in dangerous ways. Development assistance, for one, can contribute to building economic opportunities locally and lifting individuals out of poverty. The EU is already the largest provider of development assistance in the world (European Commission, 2020). Still, there is room for innovations to make this development aid more effective for the communities it serves.

To expand its own development aid efforts, the Hungarian government established the Hungary Helps program in 2017. Eight years later, Hungary Helps programs now span fifty-five countries in Europe, the Middle East, and North Africa and more than two million individuals—no small feat for a

Central European country of less than ten million people (“The Hungary Helps Program,” 2024). Hungary Helps is now the main coordinator of Hungarian international development aid abroad.

There is also a security component to addressing instability in key countries of origin and transit, and, through the Common Security and Defence Policy (CSDP), the EU is already working on this. In particular, CSDP missions play an important role in disrupting smuggling networks. As such, the recent end of the European Union Capacity Building Mission in Niger (EUCAP Sahel Niger) following the coup last year is concerning in that it prevents some of this smuggling network-disrupting work from happening. Other missions, like the EU Border Assistance Mission in Libya (EUBAM) and the European Union Naval Force Mediterranean Operation Irini (EUNAVFOR MED IRINI), however, continue to operate in this area (European Commission, 2020).

Hungary, in response to an invitation by the president of Chad and the Hungarian parliament’s approval in November, is currently preparing to station 200 troops in Chad as part of a peacekeeping mission until the end of 2025 (Hungarian Defence Forces, 2023). The troops are meant to perform advisory and support tasks to help in the fight against terrorism and instability in the country, which have become drivers of migration, fueling further instability in the Sahel region and beyond. Within the frameworks of NATO and EU missions, Hungary has also been involved in Kosovo, Bosnia and Herzegovina, Afghanistan, Iraq, Mali, and other missions.

There is also a role for funding for expanding the capacity to host refugees in countries near top countries of origin. In May, the EU pledged a further €7.5 billion to support the integration of Syrian refugees in Türkiye, followed by a pledge of €1 billion for Lebanon in June. The pledges received some criticism, however, as not all pledged aid is always disbursed, and aid organizations are calling for more sustainable, long-term solutions rather than short-term fixes solely designed to keep migrants away from EU borders (Genç & Baroud, 2024). Clearly, there is still room for improvement in the way EU funds are used to tackle the root causes of irregular migration.

Protecting EU Borders

Reducing irregular migration also requires strengthening external EU borders to prevent individuals from entering the EU illegally without proper authorization. In this regard, Hungary has pushed for a strengthened

European Border and Coast Guard Agency (Frontex) and fortified external borders. For its part, Hungary has erected a border fence, supplemented with thermal and infrared cameras, drones, and regular patrols to further reduce the number of migrants able to illegally enter the EU (Marsai, 2024). Technological advancements and expanded information sharing—such as the recent expansion of Eurodac—can help strengthen external border protections. Strengthening borders, of course, must be coupled with an efficient asylum claims processing system not reliant on illegal entry, and the reinforcement of legal pathways into the EU.

To enhance Member States' control over who enters the EU, one of the stated goals of the Hungarian presidency is to conclude negotiations on the revised visa suspension mechanism. The EU has a visa-free scheme with around sixty non-EU countries, which facilitates business and social and cultural ties between the EU and its partners. The scheme, however, is sometimes a source of irregular arrivals to the EU. In October 2023, the Commission proposed a renewed suspension mechanism expanding the grounds for visa suspension—to include non-EU countries with investor citizenship schemes, for example—and increasing monitoring (Directorate-General for Migration and Home Affairs, 2023). Negotiations are ongoing.

In order to maintain the credibility of EU laws and reduce the abuse of the EU migration system, individuals who do not have the right to stay in the EU must be returned in an effective manner. At present, only about one third of individuals ordered to leave Member States actually leave, further incentivizing irregular migration and undermining EU citizens' trust in the asylum and migration systems (European Commission, 2020). The Commission adopted the first EU Strategy on voluntary return and reintegration in 2021, which laid out procedures for supporting the voluntary return of irregular migrants through return counseling, financial assistance, and post-return support for sustainable reintegration (European Commission, 2021). Voluntary returns are generally more cost effective than forced returns, despite the services provided to voluntary returnees, and provide a pathway for those residing in the EU illegally to leave. Here, too, cooperation with third countries plays an important role.

Reducing pull factors driving irregular migration also requires cracking down on the illegal employment of third-country nationals unauthorized to stay in the EU. Migrants staying in the EU illegally are at risk of

exploitation not only by criminal networks but also “regular” employers in terms of pay, labor conditions, job security, and lack of protections in the event of injury, for instance. They often receive pay well below the statutory minimum or receive payment for only a fraction of their work, working in dangerous conditions that put their health at risk. Those who find work through third parties may find themselves trapped working for long periods in order to pay back debts incurred through placement, housing, and other fees (Fox-Ruhs & Ruhs, 2022). While the EU has rules in place to prevent the exploitation of workers in irregular situations, it is impossible to sufficiently monitor the conditions of those working illegally.

Migration can only work if there are systems in place to integrate new arrivals into European societies, including housing, employment, and social integration. Integration is important both from the standpoint of ensuring the wellbeing of migrants and in terms of enabling the EU to make the most of the migrants it hosts. The EU Action Plan on Integration and Inclusion for 2021–2027, which focuses on education and training, skills recognition and employment opportunities, healthcare, and housing, is a step in the right direction. Still, many migrant families continue to face difficulties, especially with finding employment. In 2023, only 63 percent of non-EU nationals between the ages of twenty and sixty-four residing within an EU country were employed, compared to 78 percent employment for citizens of other EU countries, and 76 percent for nationals (Eurostat, 2024).

While there has been some progress on regulating migration since the peak of the crisis in 2015, there is still work to be done. Migration is complex, and there will be no overnight solutions for managing it. Member states like Hungary, however, can move the process forward. The presidency agenda for the second half of 2024 highlights the need to address the root causes of migration into the European Union, as well as strengthen border protections and crack down on human smuggling networks. Cooperation with third countries is emphasized as crucial for achieving these goals. Unchecked migration into the EU has the potential to cause turmoil and put a strain on Member States already struggling with their own domestic issues. Making EU migration policy crisis proof will need to be a key part of strengthening the EU’s position on the global stage.



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CHARTING THE FUTURE OF COHESION POLICY

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The effective functioning of the European Union’s regional development policy—officially known as cohesion policy—is a strategic issue for European integration. Strengthening territorial convergence and reducing disparities in development levels between member states and regions is key. The European single market can only be truly achieved, and function effectively, if its constituent states and regions are at a broadly similar level of development. This is exactly what cohesion policy does, providing a crucial amount of development funds especially for the EU’s less developed member states like Hungary.

As the program of the Hungarian Council presidency for the second half of 2024 states, however, still “more than a quarter of the EU’s population lives in regions not reaching 75% of the Union’s average development level,” and therefore, Hungary’s presidency “will aim for a high-level strategic debate on the future of cohesion policy, including its role in promoting competitiveness and employment, as well as in addressing demographic challenges” (“Programme of the Hungarian Presidency,” 2024, p. 6). This chapter, after providing a general overview of the European Union’s cohesion policy, will discuss the recent successes and failures of cohesion. Last, it will provide an indication of where improvement is needed for cohesion in order to better align with its declared aims in practice and render the disadvantaged regions of the EU a fair and even development.

A BRIEF HISTORY OF EU COHESION POLICY

Cohesion policy is an EU policy that aims to reduce inequalities between regions caused by economic and social disparities. By different regions, we can mean both regional economic differences within member states,

primarily in the rural-urban context, and, more broadly, regional differences within the EU, for example between East and West, North and South. Although it was formally established by the Maastricht Treaty, the roots of cohesion policy and the thinking behind it date back to the 1950s and the Treaty of Rome, which stipulated that regional disparities within the then-only six-member European Economic Community would be reduced. In this form, however, it did not achieve much, as it had not yet become an official Community policy. Enlargement, the accession of Ireland, Denmark and the United Kingdom in 1973, and periodic economic problems such as the coal crisis brought the need for a more effective regional development policy back to the fore, and the European Regional Development Fund (ERDF) was set up as a result. Nonetheless, the developing internal market of the Community, the progressively closer integration and the accession of new member states like Greece, Spain and Portugal, called for new approaches as southern countries were lagging considerably behind older members in economic terms (Navracsics, 2023).

The idea has come to the fore that the catch-up of “lagging countries/regions” should be pursued more through Community support, as this is more efficient in the long run and is in the interest of the whole Community. In 1986, the Single European Act designated the European Social Fund and the European Agricultural Fund, alongside the ERDF, to promote these objectives. From this time onwards, we can speak of a truly Community-level regional policy, since it was already operating on the basis of systemic principles and rules, such as the coordinated operation of the aforementioned funds, as well as long-term planning. Even with this, however, Community funding could not replace national funding (Navracsics, 2023).

The next step in this direction was the Cohesion Fund, created in 1993 as an innovation under the Maastricht Treaty to help new Member States meet the convergence criteria as part of the overall process of catching up, and included a rigorous review system. In the years that followed, cohesion policy priorities were progressively complemented with employment policy, for example, becoming a priority area. The enlargement of the EU to the east in 2004 and 2007, which nearly doubled the number of member states, also marked an important change. The role of cohesion became more important than ever, as most of the acceding countries were lagging far behind older member states, since the former Eastern bloc countries had followed a very different economic development path than their Western and Southern peers (Navracsics, 2023).

Cohesion policy is, in effect, made up of three principal areas: social, economic, and territorial cohesion. While economic and social cohesion has been an objective for the European Community since the Single European Act of 1986, achieving territorial cohesion only became a prominent objective in the late 1990s and early 2000s. It was only in 2008, with the Lisbon Treaty, that territorial cohesion was formally introduced as the third dimension of EU cohesion. This was mainly motivated by the concerns of older member states about the enlargement to the east, namely that territorial disparities and differences in economic performance within the EU would have a negative impact on growth after the accession of new countries (Petri, 2024).

Cohesion policy is a long-term policy designed in seven-year cycles, in line with the principles set out earlier, and this should be taken into account when assessing its effectiveness, although the process for assessing the policy is ambiguous. It is undeniable that economic disparities between member states in the West and member states in the East have narrowed, especially in the case of member states that joined the EU as part of the eastern enlargement, such as Poland, Hungary, Romania or the Czech Republic, but in many cases the rural-urban divide has further widened within countries.

THE CURRENT STATE OF COHESION POLICY: SUCCESSES AND FAILURES

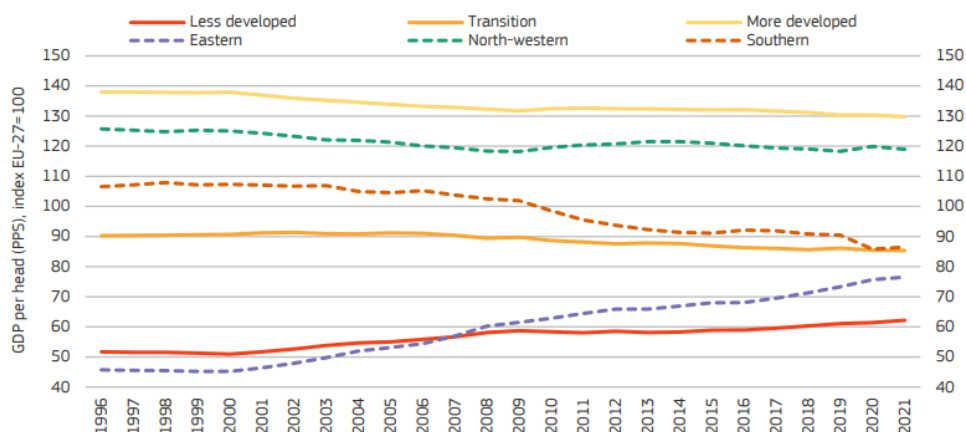
Cohesion funds have played a crucial role in improving economic conditions in Europe, particularly in underdeveloped regions, including within Hungary. These funds, however, come with challenges and controversies. The regions catching up to EU average levels are generally only urban regions, and cohesion policy has failed to effectively address demographic issues.

The largest part of the EU's current long-term budget for 2021–2027, the Multiannual Financial Framework (MFF), is allocated to “Cohesion, Resilience and Values.” Additionally, the EU's emergency recovery instrument, NextGenerationEU concentrates almost exclusively on this area. Overall, the Cohesion, Resilience and Values category takes up €1,203.2 billion—out of €2,017.8 billion total—in the 2021–2027 EU spending, indicating an exceptional opportunity for cohesion projects to come to fruition in the current budget period (European Commission, n.d.a). For this period, the Commission has set five policy objectives: (1) a more competitive and smarter Europe, (2) a greener, low carbon transition towards a

net zero carbon economy, (3) a more connected Europe by enhancing mobility, (4) a more social and inclusive Europe, and (5) a Europe closer to citizens by fostering the sustainable and integrated development of all types of territories (European Commission, n.d.b). The 2021–2027 funds and programs serve these objectives, and, as Petri sets out (2024), there are several of them that serve the aim of cohesion.

The “Investment for Jobs and Growth” objective amounts to a total of €322.3 billion, of which €202.3 billion is destined for less developed regions, €47.8 billion for transition regions and €27.2 billion for more developed regions. In addition, €42.6 billion is allocated to Member States benefitting from the Cohesion Fund (of which €10 billion will be allocated to the Connecting Europe Facility). This is complemented by almost €2 billion for the outermost regions and half a billion for interregional investment in innovation. The European Regional Development Fund (ERDF) resources for the European territorial cooperation (Interreg) objective total €8,050 million. Additionally, the Just Transition Fund, supporting the areas most affected by the transition to climate neutrality and aiming to mitigate regional disparities, as well as ReactEU, supporting key sectors in the recovery from the COVID-19 crisis, amount to a combined €70 billion.

Figure 1
GDP per Head in EU Regions in Purchasing Power Standards, Percent of EU Average, 1995–2021

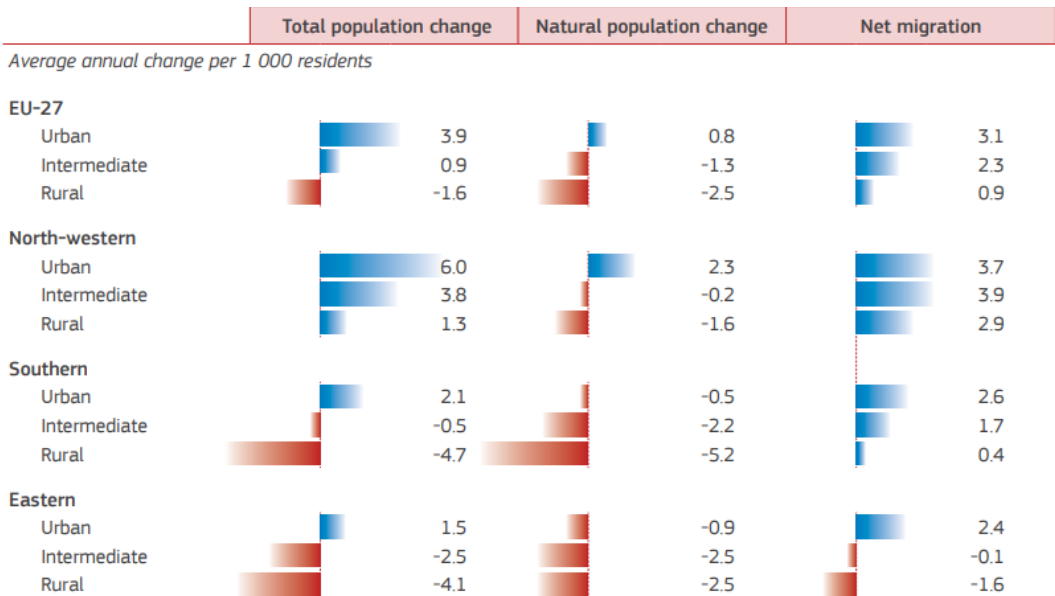


Source: Eurostat

Note. From “Ninth report on economic, social and territorial cohesion” by the European Commission, 2024, p. 6, https://ec.europa.eu/regional_policy/information-sources/cohesion-report_en. Copyright 2024 by the European Union.

The EU’s Ninth Report on Economic, Social and Territorial Cohesion was published by the Commission in March 2024 and notes a great number of successes with regard to cohesion policy, especially in cases like that of Hungary. The report claims that average GDP per capita in the member states that joined in 2004 rose from about 52 percent of the average to almost 80 percent by 2023. During the same period, unemployment fell from 13 percent to a mere 4 percent. The convergence, contends the report, was driven by an increase in productivity in the less developed regions. It is noteworthy that the same catch-up did not materialize in the underdeveloped regions of the southern member states (European Commission, 2024). These tendencies are all the more important for Hungary, for three—if we exclude French overseas territories, four—of its eight NUTS 2 regions, which are the regions eligible for cohesion policy support, were among the twenty poorest regions of the EU in 2022, according to Eurostat (2024).

Figure 2
Total Population Change, Natural Population Change and Net Migration by Urban-Rural Regional Typology, 2010–2021



Note. From “Ninth report on economic, social and territorial cohesion” by the European Commission, 2024, p. 194, https://ec.europa.eu/regional_policy/information-sources/cohesion-report_en. Copyright 2024 by the European Union.

The report contends that cohesion policy has played a pivotal role in the overall improvement of employment and social indicators, especially among its Eastern members, whose poverty rate is now converging to the EU average of 21 percent—southern states are still stagnating around 25 percent. The gap between more and less developed regions also narrowed to 9 percentage points in 2022, from around 14 percent in 2016 (European Commission, 2024). Moreover, disparities in employment rates between more and less developed regions narrowed by 2022. Although employment rates remain weaker in less developed regions at 68 percent in 2022, compared to 78 percent in more developed regions, the gap decreased by 5 percentage points from 2013 (European Commission, 2024).

Altogether, cohesion policy has played a crucial role in generally uplifting Europe economically, but the effect has been particularly noteworthy in underdeveloped regions. The report suggests that based on macroeconomic modeling, the 2014–2020 and 2021–2027 programs, taken together, could increase EU GDP by 0.9 percent by the end of 2030. This impact is much stronger in countries where support is concentrated, including Hungary: Croatia’s GDP will grow up to 8 percent in 2030, 6 percent in Poland and Slovakia and 5 percent in Lithuania compared to what it would be in the absence of cohesion support (European Commission, 2024).

Nonetheless, EU cohesion fund support is not without its challenges and controversies. As Navracsics (2023) discusses, a key but unwelcome feature of cohesion in the European Union is its skewedness. That is, the less developed regions that perform well and thus catch up with the rest the most dynamically are overwhelmingly urban ones. The reason for this can be traced back to economies of scale. First, we can see a general correlation between the quality of digital infrastructure and the catch-up potential of an underdeveloped region. As cities usually have the quality and quantity of digital infrastructure required for swift development in contemporary times, they start from a better starting position than rural areas, where building up infrastructure is much less economical due to the dispersed populace and greater distances to be covered. Therefore, while currently the EU’s cohesion policy rightly stimulates investing into digital infrastructure, due to its single, general approach, these investments remain geographically concentrated. A better mechanism is needed to target rural areas (Navracsics, 2023). As the ninth cohesion report says, especially in eastern member states, it is a general characteristic that genuinely impressive convergence to the EU’s average level of development

is driven solely by high growth rates in already better-developed regions—usually in the capital city region—exacerbating domestic regional disparities. Hence, subnational disparities will be masked by good national performance (European Commission, 2024).

Another area where cohesion policy has been insufficient is demographics. The ninth cohesion report highlights that by 2050, the EU's working-age population is expected to shrink by 50 million, a dramatic decrease in a community of 450 million, and therefore low unemployment and high labor demand will put more pressure on labor markets (European Commission, 2024). In contrast, Dubravka Šuica, the Croatian Vice-President of the European Commission for Democracy and Demography, claims that the EU working age population is expected to fall by “only” 35 million by 2050 (Petri, 2024). According to Šuica, while the vast majority of European regions will be affected by demographic decline, the decline will be more pronounced in less developed and rural regions, leading to increased inequalities. Population aging increases the demand for health care and places greater financial burdens on pension systems.

This is all the more important as an economic downturn ensuing from population decline could have serious political consequences. A 2020 study presented by the European Commission's Directorate General for Regional Policy found that lower unemployment, an ageing population and a less skilled workforce, among others, render it more likely that hard Euroscepticism will be rife in local societies. We have already seen the consequences of this, having played a significant role in the successful 2016 Brexit vote in the United Kingdom (Petri, 2024).

Navracsics (2023) adds to this, introducing the perspectives of the EU's eastern member states. The Western European labor market that opened up to the workforce of these states had a draining effect on the EU's new members post-2004. While the free movement of labor force is a natural phenomenon in a market economy such as the EU, the emigration of the workforce, especially young and better-educated people, had a dramatic effect on many of these countries. It is not unprecedented for a new member state to lose over a quarter of its population over twenty years, mostly due to emigration. Such a shocking loss of workers had a grim impact on their development potential, especially in already less developed regions, which had to endure the greatest losses in human capital.

Therefore, cohesion policy in the EU should not only manage demographic problems ensuing from declining natural birth rates but should also develop plans in response to the specific difficulties of the regions emptying out on the peripheries of the European Union. The farther away a region is from the EU's core territories and the more rural a character it has, the more likely it is to be affected by demographic problems (Navracsics, 2023). These regions often struggle with every type of demographic decline: plummeting birth rates, migration from the countryside into towns and cities, as well as the post-accession emigration to better-off member states.

WHAT CAN HUNGARY DO TO IMPROVE COHESION POLICY?

Cohesion policy needs to find a solution for the phenomenon that the dynamically developing regions in the EU are almost exclusively urban ones. Cohesion policy, therefore, should not only include incentivizing infrastructural investments and their effective implementation but should also embrace a mechanism for targeting these investments to cover intermediate and rural areas as well. This is made more difficult, however, by the fact that the implementation of infrastructural investments is a national competence. The EU, therefore, cannot create a uniform development policy toolkit that applies to every state. Instead, more efficient coordination attached to the policy could bring us to a fairer distribution of funds (Navracsics, 2023).

Cohesion policy, however, is not exclusively about territorial cohesion. This has been especially true for the last decade. There have indeed been debates within the European Commission about the right balance between the two dimensions of cohesion. Namely, currently there seems to be a rift between Elisa Ferreira, Portugal's Commissioner for Cohesion and Reforms, and Nicolas Schmit, the Luxembourgish Commissioner for Jobs and Social Rights, with the latter clearly prioritizing social cohesion and equity over the elimination of territorial disparities (Petri, 2024).

In a similar manner, Vasco Alves Cordeiro, President of the EU's Committee of the Regions, warned against the potential centralisation of cohesion policy directly under the Commission President, concentrating solely on economic recovery or economic convergence while giving up on the social and territorial dimension of cohesion (European Committee of the Regions, 2024). He added in an interview that a reform that would give the right to distribute cohesion

monies into the hands of national governments instead of regions “will kill cohesion policy” because the territorial approach will likely to be missing from it, implying that funds would be distributed inefficiently, i.e. not helping those the most in need (Packroff, 2024).

In 2015, it became obvious that the European Union must face the consequences of mass migration, mainly from Africa and the Middle East. Soon, virtually every part of the EU was affected by the problems brought by mass immigration. Dealing with the most immediate impacts of this new phenomenon—receiving and caring for immigrants—was soon supplanted by the need to socially integrate them. The European Commission has supported integration from the outset. This involves cohesion policy as well, featuring a number of proposed policy solutions that would contribute to the integration of newly arrived migrants into society. Such programs can help in the economic renewal of regions beset by workforce shortage and economic stagnation. The outbreak of the Russo-Ukrainian war presented the EU with a new challenge: Millions of Ukrainian refugees fled to the EU within a matter of days and weeks. This highlights the need for cohesion policy to become more flexible, as the current rigid rules cannot be adapted to sudden shocks. That is, mid-term programs with rigid financing systems need to be reformed into rapid-response facilities, even though the question remains whether the Commission is able—and willing—to do that (Navracsics, 2023).

However, just as Commissioner Šuica argued, Europe should not see supporting immigration as the primary solution to its demographic problems (Petri, 2024). Instead, cohesion policy should be better oriented to support investments that increase regional attractiveness, improve people’s skills and retraining, and promote innovation. The Hungarian presidency has also indicated it will place great emphasis on this, saying it “plans to adopt Council conclusions on the necessary and prominent role of cohesion policy in effectively addressing demographic challenges” (“Programme of the Hungarian Presidency,” 2024, p. 8).

During the Hungarian Council presidency, the changing of institutional cycles at the Commission and the Parliament only allows modest changes in policy (Navracsics, 2023). This is because the outgoing Commission will not be interested in major policy innovations given that the new Commission will take office quite late in the year and thus will lack the time, experience and political will to initiate such innovations. Nonetheless, the recent publication of the ninth cohesion report provides an opportunity for tweaking EU cohesion

policy, especially given the general political cycle change underway, thus providing a promising chance for Hungary to formulate its interests in shaping cohesion policy and promote it during negotiations—either interinstitutionally or within the Council.

The Hungarian presidency has prepared for this opportunity, claiming in its program that “the aim of the Presidency is to encourage reflection on the future of cohesion policy, and to facilitate a strategic debate at the European Council” (“Programme of the Hungarian Presidency,” 2024, p. 8). Such debates would most probably include the right balance between territorial and social cohesion, where Hungary, along with fellow eastern member states, will argue for strengthening the territorial dimension, ensuing from their national attributes and interests. Social cohesion, however, also features in the Hungarian Council Presidency’s program, highlighting the essential link between cohesion policy and successfully addressing demographic challenges (“Programme of the Hungarian Presidency,” 2024).

A further, quite sensitive, issue to consider during the Hungarian Presidency would be financing cohesion under enlargement. Hungary has historically been a proponent of the EU enlargement and will support taking the process further during its presidency (“Programme of the Hungarian Presidency,” 2024). Nonetheless, admitting a large number of Western Balkan and Eastern European countries would have serious implications regarding cohesion policy. That is, all the states to be admitted are significantly less developed economically than the EU’s average, meaning that they as members would become net beneficiaries, receiving large amounts of funds from the EU’s budget. The accession of all possible member states would increase the EU budget by 21 percent, to 1.4 percent of the EU’s GDP, while a host of countries—the Czech Republic, Estonia, Lithuania, Slovenia, Cyprus and Malta—would no longer qualify for cohesion funds due to the lowering of thresholds by the newly admitted, relatively poor countries (Moens, 2023).

If admitted, the greatest beneficiary—thanks to its size and population—would be Ukraine. According to the Bruegel think tank, Ukraine’s accession would result in member states contributing on average 0.1 percent more of their GDP to the EU budget (Darvas et al., 2024). Taking the 2021–2027 MFF as a baseline, Ukraine would get €32 billion in cohesion funds plus an additional €85 billion in CAP payments and €7 billion from other EU programs while only contributing €14 billion to the EU budget. In another review, an internal note of the Council leaked to *Politico* and *The Financial Times* estimated the

funds that would be provided to Ukraine during the seven-year period at €186 billion (Moens, 2023; Foy, 2023). This underscores the dilemmas of EU enlargement policy.

In conclusion, it is apparent that a number of challenges lie ahead for the European Union's cohesion policy, and, while the Hungarian Council Presidency in the second half of 2024 will only have modest chances to drive the change, it should nonetheless be ready to grab every opportunity to lead technical and higher-level discussions on the possible courses of reform in Council meetings. An effective cohesion policy that can reduce disparities in development levels between member states and regions is necessary to achieve a well-functioning European Union.

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CREATING A FARMER-FRIENDLY AGRICULTURE POLICY

Miklós Vásáry

The Common Agricultural Policy (CAP) of the European Union is one of the fundamental common policies and has continuously helped to achieve common goals throughout the development of integration. This is why matters relating to agricultural policy regulation also play a decisive role in relation to the Hungarian EU presidency. The sector is facing a number of challenges and undergoing an ongoing process of adaptation and change. In addition to extreme weather events caused by climate change, international political and economic logistical challenges, many new plant and animal diseases also pose difficulties in production and marketing. In addition, the requirements and conditions as well as the administrative burden for agricultural operators are increasing. European farmers, on the other hand, provide essential public goods to all EU citizens, and ensuring food sovereignty and food security must be part of the EU's strategic autonomy efforts.

IMPORTANCE OF THE AGRICULTURE SECTOR

The question arises as to why priority should be given to agriculture. Today, agriculture plays an important role at the EU level. According to the latest Eurostat data, almost 40 percent of the EU's total area is farmland (Eurostat, 2024a). Agriculture contributed 1.3 percent of EU GDP in 2023, representing €219.5 billion (Eurostat, 2024b).

EU agriculture output amounted to €537.1 billion in 2023. Slightly more than half (51.3 percent) of this related to crop production, almost two-fifths (39.8 percent) of total output came from livestock production and the remaining 8.9 percent came from agricultural services. More than



half of total outputs, 57.7 percent, come from four countries: France (€96.0 billion), Germany (€76.6 billion), Italy (€71.9 billion) and Spain (€65.5 billion). The next three leading EU countries were Poland (€39.5 billion), the Netherlands (€36.7 billion) and Romania (€25.6 billion). Three quarters (76.6 percent) of the EU's total agricultural value in 2023 came from these seven EU countries (Eurostat, 2024b).

The sector plays a crucial role in employment, although fewer and fewer people work in agriculture every year. As a result, EU agricultural labor input amounted to 7.6 million full-time workers in 2023, a decrease of 1.3 percent compared to the previous year. Agricultural income, defined as real factor income per annual work unit, decreased by 5.4 percent in the EU in 2023 (Eurostat, 2024a).

European agricultural production is expected to ensure food security. Many products have a high degree of self-sufficiency—for example, poultry, pigs and beef, cheese and cereals have a degree of self-sufficiency of more than 100 percent, while 90 percent of sheep meat or milk, 82 percent of maize and 60 percent of oilseeds are self-produced (Eurostat, 2024b).

The agricultural trade balance affecting the external trade of agricultural products remained positive in 2023, with almost €70 billion more in exports to markets outside the EU than imports. Looking at the international comparison, it is worth mentioning that, based on the latest Food and Agriculture Organization of the United Nations (FAO) data for the calendar year 2022, the importance of the EU on a global scale is decisive for some classic European products. EU producers supply 85 percent of the world's flax, 79 percent of triticale, 63 percent of hemp, 70 percent of rye, 47 percent of olives and 40 percent of sugar beet (Food and Agricultural Organization, 2024). In addition, the EU produces 57 percent of wine, 20 percent of cow's milk, 42 percent of cheese made from cow's milk and 38 percent of butter. Moreover, EU producers are responsible for 33 percent of world barley production, while 22 percent of rapeseed, 17 percent of sunflower and 16 percent of wheat are produced by EU farmers. By contrast, for many of the products that dominate EU consumption, the EU's share of international production is very low. The EU accounts for just 0.3 percent of world rice production, 0.5 percent of soybeans and 2 percent of lentil, spinach and green peas production.

The current system of agricultural policy is heavily influenced by the history of its development and current realities. In view of this, it is necessary to review the previous reforms to fully understand the current

system. It is also necessary to systematize the challenges and tasks facing the field so that sectoral interventions can continue to serve CAP and EU objectives.

HISTORY OF THE COMMON AGRICULTURAL POLICY

In 1958, the Treaty of Rome introduced a common policy governing agriculture as one of the defining points of the activity of the European Economic Community. Under the main objective, a number of other goals were formulated: increase agricultural productivity, ensure a fair standard of living for farmers, secure the supply of agricultural products, stabilize markets and contribute to maintaining an affordable supply chain. These objectives remain unchanged, although several elements have since been added. In order to establish the conditions for technical implementation, in the first days of 1962, the ministers of the six founding countries of the European Communities concluded an agreement which gave legal effect to the first Common Agricultural Policy (Halmai, 2020a).

After complicated negotiations, the first legislative acts made the CAP operational and established Common Market Organisations (CMOs) for cereals, pigmeat, poultry, wine, fruits and vegetables, as well as the European Agricultural Guidance and Guarantee Fund. In order to ensure the sale of agricultural products, a guarantee system based on support for producer prices was also been put in place (Halmai, 2020a). With regard to the common organization of the markets, market unity, the implementation and operation of Community preference and financial solidarity created a genuine common policy across Member States. The CAP is still an essential part of European integration today, albeit with a changing focus adapted to current circumstances.

Despite the reforms implemented since the original agreement, the achievement of the original objectives is crucial, as the European population must be provided with safe food at affordable prices. At the same time, it is necessary to ensure a fair standard of living for farmers and to maintain the stability of certain commodity markets. The complex and sometimes very costly intervention processes characteristic of the first decades yielded results. Today, agriculture in the European Union is efficient and competitive in many areas, while consumers are also

satisfied. The first major reform phase in 1992, the MacSharry reform—named after Ray MacSharry, Irish Commissioner for Agriculture at the European Commission from 1989 to 1992—introduced a new approach to support farmers (Jámbor & Mizik, 2014). Thus, in addition to reducing the CAP budget, it became possible to reduce overproduction and meet the obligations arising from international trade agreements like the Blair House Agreement and later the World Trade Organization (WTO) agreements. Unlimited guaranteed prices and market support gradually transitioned to income support based on production area or number of animals, in the context of compensation for the reduction of institutional prices that determine market conditions. In addition, a number of accompanying measures were developed, including support for environmental protection, afforestation of agricultural land and generational renewal. The first substantial reform was followed by several more, including the 2003 reform and the 1999 Agenda 2000, which strengthened the role of rural development. At that time, decoupled payments were introduced as an innovation in response to the policy challenges that existed at the time and were expected to emerge as a result of the EU's Eastern enlargement. A single agricultural payment replaced farmers' incomes, and the link between payments and volume of production was removed for a large part of CAP support (Halmai, 2020b). This payment scheme forms the basis for the Single Area Payment Scheme (SPS) and the Simplified Area Payment Scheme (SAPS) for the Member States that joined the EU after 2004, albeit with some changes.

The reform phases, in addition to introducing new elements in the framework of the applied support measures, decisively changed the overall approach. In addition to sectoral objectives and ambitions, the CAP regulation planned for 2014–2020, which entered into force between 2015 and 2022 due to the transitional periods, also aimed to meet new societal demands on agriculture more effectively than in the past. In addition to the original objectives of the CAP, new expectations were set (Baksa et al., 2018). The reform aimed to reflect challenges in areas such as climate change, the sustainable use of natural resources, animal welfare and food safety. The need to green CAP payments and encourage a fairer distribution of funds, e.g. by supporting young farmers or applying the principle of redistribution between farmers, as well as increase spending on rural development measures had intensified (Regulation 2021/2115).

THE LATEST TRANSFORMATION

The reform stages and the changes they brought clearly demonstrate how competitiveness and then sustainability became increasingly important alongside productivity. The stages also explored how, beyond sectoral objectives and interests, agricultural activity could be understood in an even broader context, enabling the implementation of strategies based on overarching EU objectives.

In addition to the 2018 adoption of legislative proposals for the post-2020 CAP by the European Commission, the Commission published a long-term concept called the Green Deal in 2019, which clarified the EU's commitment to tackling climate and environment-related challenges (European Commission, 2019). In line with the Green Deal Roadmap, the Farm to Fork and Biodiversity Strategies were presented (European Commission, 2020a, 2020b). Together, they set quantified targets for EU agriculture and rural areas and additional expectations for the CAP, which were reflected in the CAP rules for 2023–2027. The new CAP envisaged a fairer distribution of resources, higher green ambitions and a more results-oriented approach. In this context, the aid scheme was subject to a number of changes, which took place in the context of a completely new instrument, the so-called CAP Strategic Plans, which were drawn up by individual nations and adopted by the Commission. The plans allow Member States to determine how to manage the operational frameworks and expected impacts of agricultural and rural development—i.e. Pillar I support for agricultural production and markets and Pillar II support for rural development—and address local needs in order to achieve measurable results in line with the common objectives.

The main changes were made in the framework of direct aid, which affects the widest range of producers. The former basic payment scheme was transformed, enabling the launch of a basic income support for sustainability. The new agro-ecological program was introduced, replacing the previous greening scheme and going well beyond its environmental commitments, to encourage farmers to make the most of environmental and climate protection efforts. The toolbox for redistributing support between farmers was expanded further, as all Member States now have to redistribute support to small and medium-sized farms on a larger scale than in the past. In order to promote generational renewal, the existing

scheme was revamped, taking into account the changing conditions. The same is true for coupled support, which remains available (Regulation 2021/2115).

The new measures already provide a strong indication of the need to adapt agricultural production to the changed environmental conditions. An important tool for this is the use of environmentally and climate-conscious farming practices that improve landscape mosaics and biodiversity, enhance the state and water balance of soils, and promote more sustainable pesticide use (Regulation 2021/2115).

The changes and new measures introduced continue to set objectives for the common agricultural policy, such as developing a sustainable agricultural model across Europe, ensuring food security and other services provided by agriculture to European citizens, and maintaining the availability of public goods produced by multifunctional agriculture. At the same time, these require a policy that is both economically viable and socially sustainable, while simultaneously adopting a green and market-oriented approach, in a simple operational environment, despite the diversity of European countries and regions.

FURTHER CHALLENGES

The COVID-19 pandemic has clearly shown how essential and decisive a robust and resilient food system is—one able to function in all circumstances and provide consumers with sufficient quantities of food at affordable prices. As a result, the maintenance of production standards is a social expectation. The 2022 CAP opinion survey (Eurobarometer) confirmed that almost half of Europeans believe that ensuring a stable food supply in the EU should always be one of the main objectives of the Common Agricultural Policy (European Commission, 2022). More than half of respondents believe that the CAP should also contribute to ensuring acceptable food prices for consumers. More than two-thirds of respondents believe that the CAP contributes effectively to achieving a stable food supply and reasonable prices. The survey showed that almost all respondents are aware that extreme weather events, such as increasingly severe floods and droughts, can have an impact on food supply and food security. Most believe that agriculture has already made

a significant contribution to the fight against climate change, but two-thirds (67 percent) believe that EU farmers could do more by changing their way of working, even if this means that EU agriculture will be less competitive globally.

2024 PRESIDENCY PRIORITIES

Before the presidency, the government defined the program of the Hungarian presidency of the European Union and its seven main priorities, one of which is related to agriculture: implementing a farmer-centered agricultural policy that provides farmers with a decent standard of living and the ability to guarantee food sovereignty and security (“Programme of the Hungarian Presidency,” 2024).

Competitiveness, one of the horizontal priorities of the Hungarian presidency, will also be a central topic at the Agriculture and Fisheries Council meetings. In this context, the Hungarian Presidency will pay particular attention to the competitiveness of European farmers and the food industry, as well as to the security of the EU food system. It is crucial to examine the system of direct payments and rural development support under the future CAP on the basis of the results of the Strategic Dialogue on the Future of European Agriculture. The aim is to reach a Council conclusion on how best to contribute to the competitiveness of farmers and the food system. In addition, important topics include responses to encourage generational renewal and preserve the traditional European rural way of life, which are important elements for maintaining agricultural production and preserving livable rural areas.

Agriculture plays a key role in responding to changes in climatic conditions. Sustainable agriculture and forestry can effectively mitigate the negative effects of climate change and help conserve biodiversity and protect nature. The green architecture of the current CAP contributes to achieving these goals. Negotiations on the legislative proposals on plant and forest reproductive material, forest monitoring, animal protection during transport, new genomic techniques and the welfare of dogs and cats should continue under the Hungarian presidency. When conserving natural resources, the condition of soils is also given special attention. In addition to this, progress can be made in reducing food waste. The presidency will host



an international conference on food waste reduction in Budapest in October 2024. An important EU objective is to simplify the implementation of the CAP as much as possible. To this end, it is necessary to create a farmer-friendly EU regulatory environment by reviewing the implementation of the CAP Strategic Plans and rethinking the framework for the new delivery model after 2027. Moreover, there is a need to review the implementation experience of the Animal Health Framework Law and prepare for the implementation of the legislation on deforestation-free supply chains. It is also necessary to discuss a proposal amending the Single CMO Regulation and a regulation laying down rules on the cross-border enforcement of unfair commercial practices. Sustainable and competitive agriculture cannot exist without knowledge-based and innovative elements. Therefore, the process of knowledge transfer and the creation of local added value should also be strengthened. And within the framework of the Central and Eastern European Initiative for Knowledge-based Agriculture, Forestry and Aquaculture in the Bioeconomy (BIOEAST) initiative, Hungary will strive to create a pan-European research and innovation partnership focusing on Eastern Europe.

During the presidency, there will be five meetings of the Council of Ministers, twelve meetings of the Special Committee on Agriculture (SCA) and almost one hundred meetings of twenty-three different working party configurations in the field of agriculture.

During the presidency, Hungarian experts will work to ensure that the Agriculture and Fisheries Council gives political direction to the new European Commission to shape the post-2027 EU agricultural policy in order to create a competitive, crisis-proof and farmer-friendly European agricultural sector. Promoting the sustainability of the agricultural sector is a key priority for achieving the strategic objectives of the European Green Deal, stabilizing agricultural markets and ensuring a fair standard of living for the agricultural community.

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ADDRESSING DEMOGRAPHIC CHALLENGES

Gladden Pappin & Lillian Zsófia Aronson

Europe is currently dominated by two main demographic trends. First, Europeans are living longer, healthier lives. Life expectancies have risen significantly thanks to social and economic programs and advancements in health care and medicine. At the same time, however, the proportion of young people is shrinking as families have fewer children and choose to have children at later ages. In the last few years, the resulting demographic challenge has entered more firmly into international discourse, moving from a “fringe” issue—spoken about on the margins of political discourse—to one that occupies the thoughts of many global decision-makers. The challenge posed by aging societies with low rates of family formation now clearly has several aspects. As security concerns have returned to the continent, it has become evident that an aging or declining society is less able to fulfill its defense needs than one that maintains a healthy growth. Second, as the long-term effects of European decisions on migration in 2015 and 2016 have become more apparent—with greater stress put on increasingly divided societies—voters, as well as politicians, have questioned whether immigration can make up for demographic decline. Finally, aging also poses a challenge to European competitiveness. Taken together, these problems require a robust response, and Hungary’s 2024 presidency aims to put them in the spotlight.

The challenge of an aging society was perceived differently as recently as ten years ago. At that time, declines in rates of family formation were thought to be an inevitable consequence of long-term trends in modernization, and the solution for European economies was to be found in migration. Liberalism was seen as a solvent of intercultural differences that would harmonize new arrivals with native populations. Though discussion of the resulting problems is still sometimes taboo on the European stage, a broad social awareness has set in, reflected in shifting political trends at the European level. It has also become clear that

family formation rates are an indicator of overall societal health. Economic crisis, subdued growth expectations and defense concerns all have negative impacts on family formation and birth rates and indicate the need for a strong public response. Unfortunately, that response has generally been too little, too late. Europe needs public discussion on its demographic future, with all the options on the table.

To be sure, much of demographic policy falls within the competencies of individual member states, which means that EU institutions have limited capacity to make change. This is a good thing, because European societies are extremely heterogenous, and national governments are best equipped to deal with their own specific circumstances. Still, the EU can support members in developing policies to address looming issues and create opportunities for critical discussion. Resources like the October 2023 demographic toolbox can provide some of this support, and the Hungarian presidency has identified it as the key starting point for addressing Europe's demographic challenges. The toolbox, which was created in response to a request by the Commission, focuses on four key pillars: supporting families, young people and older generations, as well as tackling labor shortages. At the same time, the EU must also make sure its policies do not exacerbate demographic issues, particularly when it comes to policies related to migration and the green transition.

Tackling looming demographic issues was already a priority for Hungary during its previous 2011 presidency. During this period, the country organized "Europe for Families, Families for Europe—Population Issues and Policies Awareness Week," the "Family Fiesta with Europe" festival, and other public events and international conferences to increase awareness of demographic issues and spark dialogue (Fűrész & Molnár, 2023). Internally, it asked the European Economic and Social Committee to publish proposals for supporting family formation and organized a meeting of EU ministers responsible for demographics and family affairs in Gödöllő to coordinate policies and discuss best practices. This presidency will provide an opportunity for further public and private events and discussions.

Hungary also has experience hosting the Budapest Demographic Summit, an international forum that it has hosted five times. It could use this experience to try to revive the European Demographic Forum, which was held regularly from 2006 until 2013.

THE ACCELERATING AGING OF EUROPEAN SOCIETIES

In many ways, aging societies have become a sign of modern success—but it is increasingly clear that they pose challenges for modernization itself. Modern food quality, as well as new medical techniques, are able to help people live longer, healthier lives. At the same time, however, economic and technological advances have led to a decline in family formation and birth rates, endangering economic advance as well as the social support systems that modern societies rely on. The trend puts pressure on young people and existing social systems, fueling tensions and severely impacting intergenerational solidarity.

By 2050, the number of people aged 65 and older is expected to nearly triple and already there are large cohorts of baby boomers retiring (Lovász, 2023). These individuals will need care and social support. Normally, an aging population would be able to obtain support for elder care through tax increases on young workers. But declining fertility impacts this dynamic as working-age population growth begins to slow.

The 2024 Ageing Report projects that the EU's population will peak in 2026 (European Commission, 2024). The EU's natural population change, however, which refers to the difference between live births and deaths, has been negative since 2012. Between 2002 and 2022, the median age increased from 38.7 years to 44.4 years, with a rapid increase expected in the coming years. Of course, at a national level, there is a great amount of heterogeneity, with some countries experiencing more drastic fertility rates than others—Italy had the fewest births according to the most recent 2021 data, with just 6.8 live births per thousand people (Eurostat, 2023). Fewer births will likely mean labor scarcity, and labor scarcity requires large tax increases, while also putting young workers in a stronger bargaining position in terms of wages and benefits. The result is inflationary pressure on the economy (Goodhart & Pradhan, 2020).

Why this is the case is intuitive. An elderly population consumes without producing. Therefore, younger people of working age must provide for their own consumption and for that of the elderly citizens. As the number of those in the working-age population shrinks relative to the elderly population, the workers find themselves in higher “demand.” This results in an increase in the “price” of these workers—that is, their wages. Since wages are the largest cost in the production process, this higher cost is



passed on to consumers in the form of price increases: inflation. The more elderly people relative to workers, the more price pressures build and the more dramatic the inflation. This is bad news for Europe, as the continent has already seen the impact of rapid inflation in recent years.

This shift would not merely be another ho-hum change in overall economic balance. For much of the last thirty years, the world economy has benefited from a large increase in labor supply through China's modernization, as well as from the initial postwar increase in women's labor force participation, which has now declined. Deflationary pressures have easily stayed below central bank targets, the prices of manufactured goods have fallen, and interest rates have fallen to historic lows. While the last thirty years have also been a period of worsening inequality and, recently, of rising populism, most policymakers do not take account of the underlying demographic structure that has enabled recent political economy to function at all. Changing demographic structures will hinder the EU's overall competitiveness on the global stage, especially as population growth continues in other parts of the world and youth bulges prevail in many societies in Africa, southern Asia, and the Middle East.

The solution will require reforms to European pension systems in order to ensure their sustainability in the long term. Despite the considerable efforts by previous presidencies, there has been little progress on the revision of social security coordination regulations in recent years, and the Hungarian presidency has set out to change that. The new Aging Report provides economic and budgetary projections for EU members and Norway until 2070 in order to assess the long-term sustainability of public finances in member states, based on new data from Eurostat, which will prove useful. Older generations also need nonfinancial support to ensure their care, enable their continued participation in labor markets if they so choose, and prevent their isolation in society, particularly given declining intergenerational solidarity.

In terms of specific finance strategies, EU members will need to find a way to finance necessary social spending to maintain a functioning society. Revenues from the taxation of wages may no longer be enough, and new approaches will need to be employed, such as increased taxation of capital or other, newer forms of taxation. Cutting low-priority spending could also help the EU improve the efficiency of its spending and ability to better address issues. Of course, this will require much deliberation before major changes can be implemented.

BUILDING FAMILY-FRIENDLY EUROPEAN SOCIETIES

While the trend of having fewer children is primarily determined by individuals' life choices, EU-wide and national policies can help ensure that those citizens who wish to have children are able to do so. Hungary is already leading the way. When Viktor Orbán's Fidesz party came to power in 2010, Hungary's birth rate had fallen every year since the mid-1970s, and the country was losing overall population at a significant rate every year. Since then, the total fertility rate in Hungary has increased 21 percent (Hungarian Central Statistical Office, 2024). Rather than viewing national spending on families as something to be minimized, or rationalized as a mutual insurance scheme, the government made it its stated goal to increase family expenditure each year. Social benefits like housing allowances and tax breaks for families have enabled Hungarians to build families, increasing fertility rates significantly. Besides these benefits, governments can create policies to help families reconcile work with raising a family.

Childbearing at later ages has brought its own set of problems. The share of births to women over forty years old more than doubled between 2001 and 2021, although age-related fertility issues often make childbearing more difficult in these cases. Medical advancements and access to affordable fertility treatments can help ensure that these older mothers are able to bear healthy children. The Hungarian government recognized the "strategic importance" of fertility treatments in 2020, making otherwise expensive in vitro fertilization treatments free at state-run clinics (Kató, 2020).

The empowerment of younger generations is needed to help them succeed, especially as they face increasing pressures from a rapidly aging population in Europe. In 2022, around one in ten young people between the ages of fifteen and twenty-nine were neither employed nor pursuing further education, which limiting their long-term prospects (European Commission, 2023). In many cases, young people are struggling to access affordable housing and achieve decent living standards, so a comprehensive EU approach must address these challenges.

THE CHANGING WORLD OF WORK

Employment is another area within demographic and social policy that must be addressed. In 2022—the most recent year for which Eurostat data is available—labor shortages reached a historic high. A third of companies

reported labor shortages, and nearly three quarters of small and medium-sized enterprises reported facing a shortage of skilled workers. Meanwhile, the EU has plenty of untapped labor market potential, with many economically inactive individuals, especially among women and young people (European Commission, 2023). Tapping into these human capital reserves is crucial.

Ensuring equal access to opportunities for those with families, people with disabilities, and vulnerable populations can help improve their integration into the labor market and economic success. For families, for instance, flexible forms of work and atypical employment can allow parents to reconcile work life with raising children. Similarly, older workers should be able to remain in the labor market if they wish and take on a job to supplement their pensions. Access to training programs to update their skills can help enable this. At the same time, for young people, global opportunities and more opportunities for entry-level positions and traineeships are important, and the traineeships package will be a huge step forward. In particular, there need to be opportunities outside of urban centers in order to combat rural depopulation.

Part of supporting workers involves improving the quality of employment in Europe so that firms can harness the full potential of the labor market while workers remain satisfied with their employment and maintain a healthy work-life balance. Again, as population declines and labor markets face increasing shortages, workers will have increasing bargaining power, and it will be important to present them with favorable employment opportunities. Occupational health and safety is one area in which the presidency is planning to make progress on working conditions in Europe. The presidency plans to make progress on publishing the sixth revision package of the directive on safety limits for carcinogenic, mutagenic, and reprotoxic substances, which is currently expected in September, and support the implementation of the European Occupational Health and Safety Framework Strategy for 2021–2027. The presidency will also contribute to the evaluation of the implementation of the European Labour Authority (ELA), following the Commission's review due by August.

In the future, enlargement will also bring new workers into the EU, which will help combat labor shortages throughout the Union. Attracting highly skilled workers and educators from abroad can also help fill niche positions, to an extent, and increase the skills of EU citizens to better meet the needs of changing work environments and fill these positions in the future.

The European workforce as a whole will need to adapt to changes in the work environment. New technologies like artificial intelligence, for instance, may replace some jobs while creating new ones, and EU policies will need to effectively support the creation of a workforce to meet those needs. A skilled workforce at the forefront of technological advancement can help drive innovation and R&D, which will be necessary to maintain European competitiveness and avoid losing skilled European workers to markets abroad. In addition to adapting to new technologies, there is also a need to build workforce resilience in face of challenges like the COVID-19 pandemic, which forced many Europeans into remote work. Concluding negotiations on the right to disconnect and on telework is identified as a related priority in the presidency program.

The areas for progress during the six-month term identified by the presidency program include the finalization of the amendment of the directive on European Works Councils, the continued discussion of the March 2024 traineeships package, and the conclusion of negotiations on new legislative initiatives (“Programme of the Presidency,” 2024).

CONCLUSION

In sum, the European Union faces a range of demographic problems, and it is increasingly clear that Europe’s success will depend on solving them. While classical models of family formation have typically been analyzed in conservative vs. liberal terms, a strong demographic basis is necessary for countries to have economic success, social cohesion and security. Though the demographic situation in each country is different, it is important to build a broader public framework through which demographic problems can be discussed and addressed. All too often, this strategic mindset has been missing, with the result that Europe’s current demographic situation reflects not so much a coherent plan as the outcome of a long series of reactive, short-sighted decisions. National governments, as well as the EU itself, have a strong role to play in formulating a path forward for socially strong, well integrated countries that support family, national identity and the hope for a brighter economic future. This year’s Hungarian presidency of the Council of the EU is an important milestone in enabling strategic thinking about Europe’s demographic future.



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CONCLUSION

Ágnes Vass

The Hungarian EU presidency starting on July 1, 2024, marks the beginning of a new five-year legislative term within the European Union. The new European Parliament and the new European Commission begin their work under the presidency. This situation presents both opportunities and challenges: opportunities because the Hungarian presidency can set the tone for the next five years and challenges because the presidency's program must be implemented during a transitional period with a newly transformed European Parliament and European Commission.

The rotating presidency of the Council of the EU is significant not only because it puts the presiding country in the EU's political spotlight for six months but also because it allows that country to shape the political agenda at the European level. The presidency chairs Council meetings where legislation which will be implemented across the EU is discussed and adopted by the Member States. Additionally, the presidency is responsible for maintaining continuity in the EU's political agenda, fostering cooperation between member states, and coordinating with EU institutions. It also organizes formal and informal meetings where it can effectively shape policy priorities and address issues that previously received less attention. Every six months, a new presidency injects dynamism, energy, and priorities into the EU's work, focusing on issues that are important to the member holding the presidency and where it has strong expertise.

THE HUNGARIAN PRESIDENCY PRIORITIES IN FOCUS

The program of the Hungarian presidency reflects the challenges that Europe faces today, considering the realities within the EU and its neighborhood. As previous chapters have covered, the priorities of the Hungarian presidency include strengthening the EU's competitiveness,



developing defense capabilities, promoting enlargement to the Western Balkans, addressing illegal migration, shaping the future of cohesion policy, developing a farmer-centered EU agricultural policy, and tackling demographic challenges.

Hungary has designed its presidency program to address the real internal and external challenges facing the European Union over the next six months. The EU's geopolitical influence has recently weakened—it struggles to keep pace with major global players, both economically and competitively. The EU is also struggling to manage migration effectively—internally, member states are closing borders to each other rather than tightening external borders, and closer cooperation with countries of origin is needed. The “welcome culture” approach, which has led to further social problems and rising crime rates, does not appear to be a viable solution. Meanwhile, the EU itself is grappling with emigration, an aging society, a growing labor shortage, and a declining birth rate.

Despite being one of the EU's most successful projects, the enlargement policy has lost credibility among applicant countries. The EU has failed to integrate the Western Balkans, even though it is a strategically important region for the EU. This region serves as a transit zone in the migration crisis and is economically vital for creating a more coherent and interoperable economic area, benefiting not only the countries in question but the entire region. The Western Balkans are also affected by emigration, so closer cooperation with these countries would be a more effective way to tackle this problem. It is in the EU's fundamental strategic interest to prevent any power in the region from becoming hegemonic, as this would significantly impact stability and peace. Therefore, a merit-based and credible enlargement policy is needed to effectively integrate those states that wish to join.

Western European reactions to the Russo-Ukrainian war—whether arms supplies or sanctions—have proved ineffective. The situation has also exposed the weakness and unpreparedness of European defense. Europe must significantly improve its defense capabilities, international crisis management, and overall resilience. To this end, the EU needs to strengthen the industrial and technological base of the European defense sector, including defense innovation and enhanced procurement cooperation between member states. In addition to membership in defense alliances, the EU must play a much greater role in organizing, providing, and maintaining its own defense.

Rising energy prices following the outbreak of the Russia-Ukraine war and the collapse of supply chains have made it impossible to maintain an agricultural policy based on subsidies. European farmers are struggling with high fuel prices and shrinking profit margins. Extreme weather conditions, agricultural imports from third countries, food security, and self-sufficiency issues all indicate that agricultural policy needs reform. This reform should emphasize that the problems arising from climate change are not caused by agriculture but rather that proper, sustainable, and efficient agriculture can provide solutions to these problems. However, this cannot be achieved without the proper involvement of farmers in addressing these challenges.

Each chapter of this book delves deeper into these problems, their interrelationships, and potential responses. The EU's continuing loss of competitiveness, control over its external borders, and exclusion from strategic decision making are not new problems. Over the years, individual committees have attempted to halt or reverse these trends. For example, the Lisbon Strategy adopted in 2000 aimed to make the EU the most competitive knowledge-based economy in the world by 2010. However, the lag was already evident then, and the EU's responses to changes in the global economy and politics have not been very effective. At the same time, a series of decisions were taken at the EU level, primarily to support the process of federal institution-building, which limited the sovereignty of member states in certain areas.

THE EUROPEAN UNION AT A CROSSROADS

The European Union and its predecessors began primarily as an “economic project,” but there were also political and security interests involved. The process of European integration itself is comprised of three elements: economic (mainly the common market), political, and defense integration. These elements continue to be crucial determinants of the integration process today. However, the proportions, conditions, and consequences of integration in these areas are not always consistent.

In the context of the Hungarian EU presidency, the issue of European defense, especially in light of the armed conflict in our immediate vicinity and its effects, is key to understanding the current situation of the EU and the presidency's

program. Two important defense conceptions have emerged in Europe. One is the Atlanticist approach, which argues that Europe should shape its defense policy to fulfill its allocated tasks within the transatlantic alliance but not be so autonomous that it can defend itself without U.S. protection. The other, the European approach, advocates for a defense system in Europe that is capable of defending the continent. Which approach will be pursued in the long term is not yet a settled question. If we believe in European strategic autonomy, though, Europe must be able to defend itself. Until that is achieved, Europe will always depend on others to guarantee its security and protection, a dependency that comes with a price—not just in terms of security, but also economically and commercially. A defense-independent Europe would largely redefine the dynamics of the transatlantic relationship, but it is important to note that it would not replace or challenge its foundations.

The question of whether the EU will commit to an Atlanticist or a European security concept in the long term leads us to the broader question of the EU's strategy in world politics: Does the EU want to be part of the „Western world,” implementing decisions taken there at the local level, or does it want to take decisions independently as an independent pole in a multipolar system? The European Union has the potential to define itself as an independent pole based on its economic strength, but achieving this requires political will above all. The Hungarian EU presidency intends to take steps in this direction. More and more EU leaders recognize that the EU should do more to guarantee its own security. Currently, around 80 percent of defense procurement by EU member states comes from outside the EU. However, guaranteeing the EU's security is just one aspect of what strategic autonomy entails. It also involves strengthening economic competitiveness, protecting external borders, and ensuring the EU's ability to defend its own interests in any given conflict.

WHAT CAN WE EXPECT FROM THE PRESIDENCY?

During its rotating EU presidency, Hungary has a prime opportunity to prioritize the issues that matter most to it politically. Therefore, it is crucial in which direction Hungary guides the EU's development and future. To enhance the success of the Hungarian presidency, EU citizens themselves will play a role. The European Parliament elections, held just before the start of the presidency, revealed how citizens feel about EU decisions, with significant

numbers voting against the green transition and the current handling of the migration issue. These two issues were key motivators for voters in most European countries. Hungary has integrated these concerns into its presidency program and will collaborate with other member states to implement an EU program that respects the people's interests over the next six months.

In addition to identifying seven key priorities important to both the Hungarian government and EU citizens, the program represents significant steps toward a post-federal union. Hungary aims to ensure stability during this transitional period while the new Parliament is established, the President of the European Commission is elected, and the new Commissioners take their seats. The Hungarian EU presidency, therefore, faces significant challenges, but its program represents a considerable investment in reversing the federalist shift and building a strong Europe of strengthened nations, in collaboration with the member states.

What can we expect from these six months? There is a possibility that the new European Competitiveness Pact will be adopted during the Hungarian EU presidency. Additionally, a common Council position on the European Defence Industrial Pact may be reached, which the Polish presidency, following that of Hungary, will have the opportunity to negotiate with the European Parliament. The Hungarian presidency also has the potential to invigorate the EU accession process for Western Balkan countries and bring demographic issues to the forefront through horizontal policy approaches. Furthermore, it offers a great opportunity to ensure that, after these six months, the policies advocated during the presidency are reflected in the new institutional cycle and become integral to decision making in both political and financial planning in the longer term.

