**Soft law and multilevel cooperation as sources of (new) constitutional challenges in EU economic and monetary integration: introduction to the special issue**

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*1. Introduction: the rise of soft law and multi-level cooperation in EU economic and monetary integration*

In response to the Great Financial Crisis, all the areas of the European Union (EU)’s Economic and Monetary Union (EMU) have undergone significant reforms characterised by additional transfers of competences to the EU level. The reforms have included the reinforcement of the coordination among Member States’ economic and financial policies, which now happens under the tighter oversight of EU institutions (primarily, the European Commission and the Council of the EU). To this end, EU and national institutions (especially those of the euro area) engage in a constant dialogue in the framework of the European Semester. Since its institution in 2010, the European Semester has, though, been reformed on several occasions. Although its importance in the efforts toward economic integration within the EU was recently confirmed by its use as a vehicle to channel the EU’s largest fund for recovery post-COVID-19 (the Recovery and Resilience Fund), it remains the case that its implementation so far has been subject to criticism on the basis of the discretion it leaves to the European Commission, or of the limited compliance by the Member States with the recommendations made to them (so called Country Specific Recommendations)[[1]](#footnote-1).

Next to these reforms, important changes were made in the field of financial regulation proper, after the crisis of the banking sector we witnessed a decade ago almost threatened the very existence of the euro. These efforts to deepen the integration of the European financial sector encompassed the creation of the European System of Financial Stability in 2010, and were later consolidated in 2013 with the creation of the European Banking Union. As a consequence of the realisation of the increasingly interconnected nature of the banking sector across the EU and of the cross-border nature of banking activities, new competences in banking supervision and banking resolution have, for instance, started to be exercised at the EU level. The mechanisms in place in the fields of both banking supervision and banking resolution operate under the ultimate responsibility of an EU authority (the European Central Bank and Single Resolution Board, respectively). However, these authorities cooperate closely with the national authorities which had previously exercised those competences, and partly continue to do so, such that multi-level (administrative) cooperation is a prerequisite to the good functioning of the new mechanisms. Responsibilities in the area of prudential supervision are, for instance, shared between National Competent Authorities and the ECB on the basis of the credit institutions’ significance.

Reforms in EMU did not, however, stop after the most acute phase of the economic and financial crisis was overcome, even if Member States’ appetite for change significantly decreased when the sense of urgency had diminished. Even before the COVID-19 outbreak forced EU and Member States institutions alike to hastily adopt measures to prevent a new economic crisis, other reform proposals were already under discussion, for instance with a view to introducing a digital euro or to combatting money laundering. Efforts in the latter area have notably been characterised by enhanced cooperation among national authorities at the EU level, and steps towards increased Europeanisation in this field that could be inspired by the developments observed within the EBU may be expected in the near future. In short, reforms in both the EBU and the EMU are still underway, and their urgency has only been made more pressing by the recent COVID-19 outbreak and the resulting economic downturn.

Against this background, this special issue provides an analysis of recent and ongoing developments from the perspectives of multi-level administrative cooperation, that is the cooperation between national and European authorities (as well as international forums), and the use of soft law in this policy area. The resort to soft law instruments and the necessity for European and national authorities to cooperate in the implementation of European norms are certainly not a distinct feature of EMU, as is further evidenced in the next section. Nonetheless, EMU differs from other EU policy areas on several accounts. Starting from the most well-known one, it is composed of areas in which EU competences range from exclusive competence (monetary policy), to that of sole coordination (economic and financial area), despite these policy areas being closely intertwined and difficult to distinguish, as was most recently evidenced in the *Weiss* case.[[2]](#footnote-2) Owing to this interdependence between the different EMU policy areas, coordination among Member States has been strongly reinforced over the past decade such that the resort to soft law instruments may appear problematic, and their very nature as non-binding instruments in practice may need reassessing. Additionally, as evidenced above, the level of integration and the way in which it is organised varies greatly in the areas of non-exclusive competence. All these reasons, combined with the fact that these reforms are only recent or are still underway, justify the focus of this special issue on EU economic, and especially financial, integration through the lenses of multilevel (administrative) cooperation and the resort to soft law.

*2. Soft Law and Multi-level (administrative) cooperation within the EU – challenges and opportunities*

In EU regulation in general, the Community method - where legislation enacted by the Council and Parliament is implemented or enforced through administrative action at EU or national level - has been joined by alternative modes of governance. Such regulatory approaches include joint implementation and networks of regulators at different levels, framework legislation, soft modes of regulation, and private or semi-private regulation by the actors involved.[[3]](#footnote-3) These new modes of governance were particularly evident in EU financial regulation following the Euro crisis.[[4]](#footnote-4) Within a fragmented regulatory order, European regulatory networks respond to the need for coordination of resources and technocratic expertise.[[5]](#footnote-5) Rules may be developed not only through majoritarian institutions, but at a sectoral level between regulators and in some cases with stakeholders themselves.[[6]](#footnote-6) Soft law instruments such as notices, guidelines, communications and opinions are now common tools in regulatory areas of EU law and policy. While they are formally non-binding, these rules of conduct nonetheless are intended to influence behaviour, and may have legal and practical effects.[[7]](#footnote-7) There are strong incentives to comply with ostensibly non-binding measures, as *Dermine* shows in this issue with the example of Country Specific Recommendations. Soft law is attractive for its flexibility and quick adoption processes. It also opens the possibility to regulatory agencies to adopt instruments, affording them significant influence in a given policy field where the current Treaty framework limits the extent of the decision-making powers that may be delegated to agencies (as opposed to EU institutions).[[8]](#footnote-8) While it may be expedient, this circumvention of Treaty constraints is one of the concerns about soft law and its legitimacy from a constitutional perspective. It raises questions of appropriate oversight (whether parliamentary, judicial, democratic, or through auditors), effective judicial protection and remedies, institutional balance and conferral of competences, and openness and transparency.[[9]](#footnote-9)

Similar legitimacy concerns might be expressed with regards to co- and self-regulatory processes.[[10]](#footnote-10) Also, as mentioned above, regulatory networks, and multi-level systems of administrative cooperation are commonplace within the EU, despite their entailing risks of weakened legitimacy and accountability.[[11]](#footnote-11)

Indeed, in the system of EU multi-level administrative governance, different forms of administration can be identified, ranging from fully centralized (or direct) (whereby the EU institutions adopt rules and implement them), to decentralized (or indirect) (whereby the administrative implementation of EU law is in the hands of national competent authorities). Increasingly, however, ‘shared administration’ (and the ‘composite procedures’ this system generates) has emerged as a prevalent pattern in virtually every EU policy field.[[12]](#footnote-12) These are administrative procedures in which administrative authorities from the Union and from Member States cooperate and provide input into the final administrative decision taken at the Union or the national level. This ‘input’ can take various shapes and these procedures may be used in various moments of the policy cycle.

In terms of ‘patterns’ of cooperation, there are so-called top-down procedures, which start with a European act, and are concluded with a national measure, while bottom-up procedures follow an opposite approach and start with the national level while being concluded by an act taken by an EU authority. An example of a bottom-up procedure, in the context of the SSM, relates to the approval, or withdrawal, of an authorization to take up business as a credit institution, and on an approval for acquiring a qualifying holding in such a credit institution. In such cases, the procedure starts, in principle, with a draft decision by the relevant NCA of the Member State where the credit institution is or will be established, and ends with a final decision from the ECB.[[13]](#footnote-13) A top-down procedure is instead used for LSI, whereby ECB sets “regulations, guidelines or general instructions to national competent authorities” on the basis of which NCAs take supervisory decisions.[[14]](#footnote-14) These are procedures entailing only two steps of decision-making.

There are also procedures with more complex patterns, such as those which start at national level, entail a European phase and are eventually concluded through a national act. This kind of procedure is used, for example, in relation to ‘material supervisory procedures’: NCAs must transmit material draft supervisory decisions to the ECB and the ECB may express its views on those draft decisions, before a final decision is adopted by the NCAs.[[15]](#footnote-15)

Even more complex are procedures such as those which exist in the field of market authorisations where the procedure starts at national level, entails a ‘horizontal’ phase of input provided by national authorities (other than those in which the procedure started), and might either be concluded at national level, or include a possible ‘escalation’ of the decision-making process at the European level in case of disagreement between Member States.[[16]](#footnote-16)

If – rather than the ‘patterns’ of cooperation – one considers the ‘content’ of the cooperation, various scenarios emerge. The input of a national of European authority might vary from the issuing of formal – hard or soft – measures to more informal and ‘intangible’ acts. From this perspective the participation of a national of EU authority might entail the adoption of binding measures or opinions, but also the possibility of raising objections, providing information, drafting reports and the like.

Furthermore, looking at the system of administrative cooperation from the perspective of the moment at which is takes place, one can observe that cooperation exists at the moment of decision-making, such as the distribution of EU funds, or the authorisation of GMOs, but also at the moment of enforcement, with various patterns of cooperation emerging in the inspection and sanctioning process.

Again to give examples from the SSM framework, as also discussed by *Lo Schiavo*, on-site inspections might be conducted by mixed teams comprising both members of the ECB and of NCAs under the supervision of the ECB. Similarly, in the sanctioning process, *Lo Schiavo* discusses a cooperative pattern whereby solely NCAs are able to sanction supervised entities, but they act upon advice of the ECB.

Finally, it should be mentioned that cooperative patterns emerge not only vertically (i.e. when EU and national authorities cooperate in the implementation of EU law) but also horizontally (i.e. between Member States themselves). These are what Craig refers to as ‘administrative networks’.[[17]](#footnote-17) Horizontal composite procedures exist in the field of migration, product safety or taxation, but also in the field covered by this special issue. As *Lo Schiavo* discusses, for example, the AML framework knows of a tightly knit system of cooperation and information exchange between the NCAs without the presence of a supranational body in charge of AML matters.

It should also be noted that, for one same policy field, several patterns of cooperation might exist with differing roles for the national and EU institutions. For example, *Smolenska* notes that, for the EBU countries, the SRM provides for centralised cooperation of national authorities with a “specific” EU agency (the SRB) at the center stage, while for the EU as a whole (including therefore also non-EBU Member States), loose – horizontal – networked arrangements in the form of resolution colleges exist. Both forms include both horizontal (national) and vertical (national-EU) dimensions of the administrative cooperation, which have, however, some important nuances. Interestingly, *Nicolaides* identifies ‘horizontal’ cooperation also at the EU level itself, with mechanisms in place for banking resolution between the ECB and the SRB. Because the decision-making organs of both bodies include Member State representatives, the system also implicitly creates a need for ‘vertical’ cooperation between the national and the European levels.

It is worth noting that this complex situation within the EU may in some instances be made even more complicated because EU rules in the financial domain are strongly influenced by standards defined at global level. As evidenced by *Fromage*, this raises issues of coordination, duplication, and potentially competition among EU and Member State representatives. This is for example the case because only a minority of Member States participates directly in the Basel Committee of Banking Supervision or the Group of 20, whilst the European Commission, the European Central Bank and the European Banking Agency represent the Euro area Member States or all other Member States in the different global forums.

As we see in this Special Issue, in terms of multilevel governance, the picture of European financial regulation is characterised both by multiple levels and by different configurations. The levels comprise not only the EU and national, but also the international dimension through forums such as the Basel Committee, and regional considerations through State aid. In this picture there are differentiated configurations both of Member States -euro area, non-euro area and the Banking Union - and of EU institutions. In this system we see the dynamics of uploading preferences and downloading standards and rules between levels. Gaps and overlaps in competences raise important accountability considerations, such as democratic versus technocratic legitimacy, and the oversight of courts and auditors. These questions also connect to the use of soft law instruments, where we observe conditionality and strong incentives to comply with ostensibly non-binding measures.

*3. The questions addressed by this Special Issue*

Against this general background, where multi- and cross-level cooperation shapes the working of the EU and where the policy area sees an increasing use of soft law instruments, this Special Issue aims to examine some of the recent and on-going evolutions in the field of EMU and explores the challenges posed to EU constitutional principles by these evolutions. *Paul Dermine* begins with an analysis of the soft law/hard law dichotomy in the context of EMU, in which formally non-binding measures nonetheless create constraints on the conduct of the actors involved. In light of the challenged this construction poses for key constitutional principles, he argues for a new approach revisiting the concepts of bindingness and legal effects to reflect the reality of Eurozone fiscal governance. This approach also has relevance for other policy areas. The next two papers address monetary policy. *Marijn van der Sluis* considers the evolution of the position of national banks within EMU. He argues for a reconsideration of the legal framework since the Euro crisis disrupted the delicate balance struck between effective collective decision-making and national banks’ role in protecting national interests. Meanwhile *Jay Cullen* looks ahead by focusing on the stance of the European Central Bank towards a more recent regulatory challenge: the introduction of digital currency. He argues that limitations to the ECB’s capacity in this area are not necessarily constitutional, but that market solutions may be preferable to central bank intervention. The remaining articles explore various aspects of the European Banking Union. Highlighting differentiated configurations of Member States and institutions, *Agnieszka Smolenska* directly examines multilevel administrative cooperation, raising questions of accountability, equality of Member States and delegation of powers to agencies. Drawing lessons from the non-euro area Member States joining the Single Resolution Mechanism, she finds that the EU-wide networked resolution colleges are more conducive to cooperative outcomes than centralised mechanisms. These multilevel and differentiated configurations are reflected in *Diane Fromage*’s contribution too. Bringing in the international level through the example of the Basel Accords, she assesses banking supervision as influenced by global standards. She argues for greater transparency at the EU and national level - particularly through parliaments - to enhance democratic legitimacy over participation in international financial fora. Next, *David Baez* sheds light on perceived audit gaps in EU banking supervision, raising the important trade-off of supervisory independence and accountability. He assesses the extent of the European Court of Auditors’ mandate to audit the ECB’s supervisory function, which in turn affects the interpretation of the mandate of national Supreme Audit Institutions regarding Less Significant Institutions. LSIs also feature in *Phedon Nicolaides*’ article. He considers the impact of banking supervision on State aid and administrative accountability, asking under which conditions the granting of State aid to financial situations is still possible alongside the resolution mechanisms of the EBU. Completing the collection, *Gianni Lo Schiavo* compares the governance models of the Single Supervisory Mechanism and the new EU field of Anti-Money Laundering. While the latter is currently based on a national supervisory model with some EU harmonisation of substantive rules, he sees the potential for applying the SSM model to establish an effective supranational supervisory system of AML to align the two frameworks.

These articles are based on the papers discussed at an online workshop in October 2020 supported by the York-Maastricht Partnership and Sciences Po. While we could not meet in person in Brussels as originally intended due to COVID-19 pandemic restrictions, we enjoyed lively and fruitful discussions between academic and policy practitioner colleagues. We warmly thank the participants and the discussants - Aneta Spenzharova, Jan Inghelram, Marcel Magnus, Martina Krobath, Diego Valiante, Jakub Kerlin and Endija Springe - for their valuable contributions, and Carlo Martinoia for his excellent editorial assistance for this special issue.

1. See on the Commission’s discretion Païvi Leino & Tuomas Saarenheimo, ‘Discretion, Economic Governance and the (New) Political Commission’, in EU Executive Discretion and the Limits of Law 132–154 (Joana Mendes ed., Oxford University Press 2019) and on compliance with Country Specific Recommendations: European Parliament, Briefing ‘Country-specific recommendations: An overview - September 2020’, PE 624.404, 2020, p.5f. [↑](#footnote-ref-1)
2. C-493/17 Weiss EU:C:2018:1000 [↑](#footnote-ref-2)
3. For exampleDehousse, R., ed. (2011). The ‘Community Method’: Obstinate or Obsolete?, Christiansen, T., and S. Piattoni, eds. (2003). Informal Governance in the European Union. [↑](#footnote-ref-3)
4. Raising the legitimacy issues of these developments, seeDawson, M. (2015). ‘The Legal and Political Accountability Structure of ‘Post-Crisis’ EU Economic Governance’, Journal of Common Market Studies, 53:5, 976–93,Claire Kilpatrick, ‘On the Rule of Law and Economic Emergency: The Degradation of Basic Legal Values in Europe’s Bailouts’ (2015) Oxford Journal of Legal Studies 325–353, Paul F Kjaer, ‘European crises of legally‐constituted public power: From the ‘law of corporatism’ to the ‘law of governance’’ (2017) European Law Journal 417– 430 [↑](#footnote-ref-4)
5. For example Morten Egeberg (ed) *Multilevel Union Administration: the Transformation of Executive Politics in Europe* (Palgrave Macmillan, 2006), Renaud Dehousse ‘Regulation by Networks in the European Community: The Role of European Agencies’ (1997) 4 Journal of European Public Policy 246-61, David Coen and Mark Thatcher ‘Network Governance and Multi-Level Delegation: European Networks of Regulatory Agencies’ (2008) 28 Journal of Public Policy 49, Arthur Benz, Andreas Corcaci and Jan Wolfgang Doser ‘Unravelling multilevel administration: patterns and dynamics of administrative co-ordination in European governance’ (2016) 23 Journal of European Public Policy 999; M Blauberger, B Rittberger ‘Conceptualizing and theorizing EU regulatory networks’ (2015) - Regulation & Governance,; Regulatory networks and regulatory agenciﬁcation: towards a Single European Regulatory Space D Levi-Faur [↑](#footnote-ref-5)
6. See Adrienne Héritier (2002) ‘New Modes of Governance in Europe: Policy Making without Legislating?’ (2002) IHS Political Science Series, No. 81 [↑](#footnote-ref-6)
7. L Senden, Soft Law in European Community Law (Hart, 2004), 112, developed from F Snyder, ‘The Effectiveness of European Community Law: Institutions, Processes, Tools and Techniques’ (1993) 56(1) Modern Law Review 19-54, 32. According to the Grimaldi case, soft law measures cannot be regarded as having no legal effect and national courts are bound to take recommendations into consideration, in particular where they are capable of casting light on the interpretation of other provisions of national or EU law: C-322/88 Grimaldi v Fonds des maladies professionnelles EU:C:1989:64, [18] [↑](#footnote-ref-7)
8. Case 9/56 Meroni & Co., Industrie Metallurgiche, SpA v High Authority of the European Coal and Steel Community EU:C:1958:7; C-270/12 UK V Parliament and Council (Shortselling) EU:C:2014:18 concerning the European Securities Markets Authority (ESMA) [↑](#footnote-ref-8)
9. For discussion on types of legitimacy see F Scharpf ‘Problem-Solving Effectiveness and Democratic Accountability in the EU’ (2003) MPIfG Working Paper 03/1, V Schmidt ‘Democracy and Legitimacy in the EU Revisited: Input, Output & Throughput’ (2013) 61 Political Studies 2-22. On soft law legitimacy see Eliantonio, Korkea-aho & Stefan EU Soft Law in the Member States (Hart, 2021), Eliantonio & Stefan ‘Soft Law Before the European Courts: Discovering a ‘common pattern’?’ (2018) 37 Yearbook of European Law 457–469 [↑](#footnote-ref-9)
10. Does Co‐Regulation Strengthen EU Legitimacy? P Verbruggen - European Law Journal, 2009 [↑](#footnote-ref-10)
11. Craig, Paul P., Shared Administration and Networks: Global and EU Perspectives. Values in Global Administrative Law, G. Anthony, J-B Auby, J. Morison and T. Zwart, eds.; eliantonio composite procedures; eliantonio vogiatzis special issue German law journal [↑](#footnote-ref-11)
12. This is the term used by P. Craig in European Administrative Law. It should be noted that this phenomenon has been differently labelled: for example, the term Verwaltungskooperation (administrative cooperation) was used initially. See EBERHARD SCHMIDT-AßMANN, VERWALTUNGSKOOPERATION UND VERWALTUNGSKOOPERATIONSRECHT IN DER EUROPÄISCHEN GEMEINSCHAFT (1996). Other authors have spoken about amministrazione mista (mixed administration), see GIACINTO DELLA CANANEA & CLAUDIO FRANCHINI, I PRINCIPI DELL’AMMINISTRAZIONE EUROPEA (2010); and Verwaltungsverbund (administrative union), see WOLFGANG WEIß, DER EUROPÄISCHE VERWALTUNGSVERBUND. GRUNDFRAGEN, KENNZEICHEN, HERAUSFORDERUNGEN (2010); “integrated administration,” see LEGAL CHALLENGES IN EU ADMINISTRATIVE LAW: TOWARDS AN INTEGRATED ADMINISTRATION (Herwig Hofmann & Alexander Turk eds., 2009); “composite administration,” see THE EUROPEAN COMPOSITE ADMINISTRATION (Eberhard Schmidt-Aßmann & Bettina Schöndorf-Haubold eds., 2011); or “co administration,” see JACQUES ZILLER, Les concepts d’administration directe, d’administration indirecte et de co administration et les fondements du droit administratif européen, in DROIT ADMINISTRATIF EUROPÉEN 235 (Jacqueline Dutheil de la Rochère ed., 2007). [↑](#footnote-ref-12)
13. Articles 14 and 15 SSM regulation [↑](#footnote-ref-13)
14. (Art 6(5)(a) of the SSM Regulation) [↑](#footnote-ref-14)
15. Article 6(7)(c) SSM Regulation [↑](#footnote-ref-15)
16. Further on this see Eliantonio and Roettger Wirtz pharma authorizations; Lanceiro and Eliantonio, German Law Journal GMOs. [↑](#footnote-ref-16)
17. P Craig European Administrative Law [↑](#footnote-ref-17)