

Luxembourg and the European Union

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Summary and Keywords

A founding member state of the European Union (EU) and a major European institutional center, Luxembourg has been a consistently strong supporter of the further development of European integration, often acting to facilitate compromises at critical moments. Its European policy rests on a broad political consensus and enjoys strong support in national public opinion. However, the country has also defended key national priorities on occasion, such as the interests of the steel sector in the early phases of European integration or its taxation policy in the early 21st century.

Historically, this openness toward cooperation can be explained by reference to Luxembourg's long experience of cooperation with neighbouring countries. Luxembourg was a member of the *Zollverein* (German Customs Union) in the 19th century and formed an economic union with Belgium after the First World War.

European policymaking in Luxembourg is characterized by a pragmatic and informal policy style. The comparatively limited size of the national bureaucracy allows for an ease of internal communication and coordination. The typically long tenures and broad remits of national officials coupled with their multilingualism facilitate their integration into European policy arenas, where they often play pivotal roles.

Luxembourgish society is further highly “Europeanized.” As the country became one of the largest producers of steel in the world, it attracted high levels of immigration from other European countries. The economic transformation of the country from the 1980s onward—moving from an industrial economy to a service-based economy centered on the financial sector—would not have been conceivable without the parallel development and deepening of European integration. In 2018, foreigners made up 48% of the resident population of the country, with citizens of the other 27 EU member states accounting for around 85% of that foreign community. The country's labor force is further heavily dependent on cross-border workers from the three surrounding countries. This unique national situation poses a range of distinctive policy challenges regarding both the national political system and the wider governance of an exceptionally dense network of cross-border relationships.

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Luxembourg is one of the six founding member states of that which became the European Union (EU) and has consistently enjoyed the reputation of being one of the most pro-integrationist of the member states. Luxembourgish governments have consistently supported the further development of the European project and take pride in having often played the role of an “honest broker” facilitating the achievement of compromises among other member states. This European policy rests on a broad political consensus and enjoys strong support in national public opinion. Uniquely, “the Luxembourgish people” were awarded the Charlemagne Prize of the City of Aachen for services to European integration in 1986, thus collectively receiving an award that has also been bestowed individually on two Luxembourgish prime ministers (Joseph Bech in 1960 and Jean-Claude Juncker in 2006).

Luxembourgish society is further highly “Europeanized.” The successive transformations of the economy from an industrial economy to a service-based economy and now towards a “fourth industrial revolution” were greatly facilitated by European integration. They also required the influx of a specialized and diverse workforce. In 2018, foreigners made up 48% of the resident population of the country. The country’s labor force is further heavily dependent on cross-border workers from the three surrounding countries. Almost 200,000 people cross the border into Luxembourg each day to work, relative to a resident population of just over 600,000. These cross-border workers account for just under half of the total national labor force, with around 50% coming from France and 25% coming from each of Belgium and Germany.¹

Although having long assumed a pivotal role in the European integration process, Luxembourg’s position in the EU has been the subject of only comparatively limited scholarly attention. This may in part be explained with reference to the distinctive situation in which there was no full university in the country until 2003. As such, the academic literature tended to be somewhat fragmentary, dependent on the efforts of individual scholars and frequently of Luxembourgish students completing theses or dissertations abroad (Nies-Berchem, 1996).

From a comparatively early stage, however, Luxembourgish developments have been treated in relation to a growing body of “small states” scholarship. Already in the 1970s, the Luxembourgish case was analyzed in terms that sought to probe the nature and limits of small state “resilience” in situations of asymmetric interdependence (Hirsch, 1974). Later surveys of Luxembourgish foreign policy have also often been undertaken in the context of wider, comparative projects on small states (Frentz, 2010; Hey, 2003). Concepts drawn from the small states literature have further come to serve as reference points in national policy discussions, often moving from “small state” to “smart state” (cf. Bouchet, 2019; Thill, 2019). Reflecting the wider literature, attention has thus been focused on the vulnerability or structural constraints implied by “smallness” (Cooper &

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Shaw, 2009; Panke, 2010) but also on the adaptive advantages that it may provide through greater cohesion and flexibility (Jones, 2008; Katzenstein, 1985).

Against this background, this article surveys Luxembourg's position in the EU viewed particularly but not exclusively within the context of this wider small states literature, drawing on both published materials and original empirical (interview-based) research. The article begins by looking at the broad pattern of historical development from the early post-World War II development of European integration onward, as well as Luxembourg's role as one of the main institutional seats of the European institutions. It then moves on to look at the national coordination of EU policymaking, key policy areas (with particular reference to the two areas of EU tax policy and Brexit), and party positions and public opinion in relation to European integration. While a broad pro-integrationist orientation emerges throughout, the article also highlights the strategic defence of national interests at key junctures, from the existential dilemma posed by the first steps in the European integration process for the Luxembourgish steelmaking industry through to political battles over taxation policy since the 2000s. The conclusion draws together the strands of this analysis in relation to the European and multilateral framing of national interests, while also suggesting a further, broadened research agenda that more fully incorporates a societal dimension into the understanding of patterns of small state adaptation.

Luxembourg and the Historical Development of European Integration

The history of Luxembourg until the mid-19th century was marked by long periods of foreign rule by the Habsburgs, the French, and the Spanish. Even after its formal independence, the country experienced considerable foreign influence, as it was the personal possession of the king of the Netherlands who governed it as if it were a Dutch province for large parts of the 19th century (Rollinger, 2006). The country only became truly sovereign at the end of the 19th century with a change in the ruling house, but even that sovereignty was limited by certain decisions on the part of Europe's great powers (e.g., the neutrality of the country) and periods of German occupation during the two world wars. These experiences certainly contributed to Luxembourg's perception of the advantages of a community of states, which would involve a limited pooling of sovereignty but otherwise guarantee the independence of the country (Majerus, 2008; Reding, 2006).

Luxembourg's economic dependence on foreign markets and economic cooperation with other states also long predates the contemporary processes of European integration. It was part of the German *Zollverein* (customs union) from 1842 until the First World War and then formed an economic union with Belgium in 1922 that involved both a customs union and a currency union. Although a 1919 referendum had expressed a strong preference for economic union with France (73% voted for this option), the French were not interested. Isolation was not an option: the south of Luxembourg had iron ore, but the country had no coal. Thus, in order to produce steel, Luxembourg depended on coal im-

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ports. As the steel sector quickly evolved into the predominant economic sector and as Luxembourg became the world's biggest per capita producer of steel and even one of the biggest producers in absolute terms, the country soon needed access both to coal imports and to export markets for steel (Fally, 1992). Only 3% of steel was used domestically. Steel accounted for 88% of Luxembourgish exports and employed 25% of the active population (Tausch, 1992).

The first moves toward that which became the post-World War II process of European integration date already from the wartime period. Intensified cooperation between the Luxembourgish, Dutch, and Belgian governments in exile in London saw the conclusion of the Benelux Customs Union Agreement in 1944. While the move toward a full economic union between the three countries was to take a somewhat arduous path, concluded only in 1958 (and renewed in 2008 as the Benelux Union Treaty), their early moves toward intensified cooperation were nonetheless an important milestone in the wider integration process, often seen as a "laboratory" for later developments. These early negotiations also allowed the Luxembourgish government to assert its place as a full partner in the emerging structures of postwar cooperation with a seat at the table, putting paid in particular to Belgian claims to represent both partners in international fora on the basis of the Belgium-Luxembourg Economic Union (Tausch, 1994).

The Luxembourgish government actively engaged with the development of both European and wider multilateral structures of international cooperation in the formative postwar period. The country was a founding member of the United Nations (1945), the Organization for Economic Cooperation in Europe (1948), and the Council of Europe (1949), as well as the North Atlantic Treaty Organization (1949). In the latter case, participation in a military alliance marked a reversal of the principle of neutrality, which had been the historic cornerstone of the nation's foreign policy. A constitutionally entrenched commitment to "perpetual neutrality" was repealed, after a relatively contentious parliamentary debate, in 1948 (Kayser, 2006). The principal political architect of this renewed foreign policy was Joseph Bech, a long-serving prime minister (1926-1937, 1953-1958) and exceptionally long-serving foreign minister (1926-1958), who, in recognition of the realities of the new international situation, had declared already in the 1940s that he was willing to pool sovereignty in a European supranational organization (Calmes & Bossaert, 1994).

While the celebrated May 9, 1950, declaration by the (Luxembourg-born) French foreign minister Robert Schuman won support from the Luxembourgish government, it was clear from the outset that the proposal for the formation of a European Coal and Steel Community (ECSC) posed what amounted to an existential question for the small state. Steel, at the time, accounted for 85% of the country's industrial production and 90% of its exports (Tausch, 1996). Moreover, a high level of concern existed about price competition among the member states and the effect on the social standards within the sector. As the salaries were 20% higher than in Belgium, 40% higher than in the Netherlands, and 60% to 70% higher than in France, there were fears that the Luxembourgish steel industry might become uncompetitive or that salaries would decrease (Fally, 1992). Yet, despite such con-

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cerns, it was evident that nonparticipation in the venture was neither a desirable nor a realistically possible option.

These apprehensions were in part allayed by the inclusion of a specific article in the ECSC Treaty (Article 31) recognizing the “very particular importance” of the steelmaking sector in the overall Luxembourgish economy and providing that, if necessary, the High Authority created by the treaty could use the funds at its disposal to avoid any “serious disturbances” to the national economy. The clause, if perhaps of somewhat ambiguous practical effect, nevertheless did set the tone for later Luxembourgish European diplomacy, marked by a proactive support of the development of broad multilateral structures while at the same time seeking to secure specific derogations where particular national circumstances posed potential problems.

It was also ultimately advantageous that integration started in a sector where Luxembourg was among the world leaders, as the seventh largest steel producer in absolute terms around the time of the creation of the ECSC (Fally, 1992). Its proportionately strong representation in the institutions of the ECSC is probably due to the fact that its economic weight compensated in part for its smaller size in terms of population (Baillie, 2005). It received 4 out of 78 seats in the Common Assembly, or 5%, despite the fact that its population represented 0.2% of the ECSC’s population. It also chose one member of the High Authority (today the European Commission) and had a disproportionate number of votes on the Council of Ministers (Majerus, 2008).

Luxembourg supported the plans for the creation of a European Defence Community, which failed, however, after France withdrew its support. Luxembourg felt that full sovereignty was meaningless if a state did not have the means to defend it and that the pooling of sovereignty in this area would be advantageous (Fally, 1992). After the failure of the European Defence Community, Belgium, the Netherlands, and Luxembourg played an active part in the relaunch of European integration. They drew up a Benelux memorandum on economic integration that they presented at the conference of Messina in 1955 (Fally, 1992).

Despite Luxembourg’s support for the project, there were again some national concerns that were raised (Trausch, 1996). The competitiveness of Luxembourgish companies having to pay high salaries remained a concern, and the absence of a social dimension was criticized. Luxembourg was also worried about immigration (especially from Italy) and demanded the right to impose restrictions. Given its small size, it was granted these rights and was again granted the right after the enlargement to Portugal. In practice, however, migration ebbed in both cases shortly after the exception was made. In the first case, Italian migration ebbed so much that Luxembourg had to find new sources of labor migration and started to rely on Portuguese workers. In the second case, migration also ebbed, so that Luxembourg itself requested an early suspension of the transition measures (Trausch, 1992). Finally, Luxembourg’s agriculture had benefitted from decades of protectionism, and Luxembourg now had to phase those out over a space of 10 years (Ma-

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jerus, 2008). As under the ECSC, Luxembourg benefitted again from an overrepresentation in the European Parliament and the Council of Ministers.

In 1970 Luxembourgish Prime Minister Pierre Werner was tasked by the Council of Ministers to draw up a plan for the creation of a currency union (Danescu, 2018). His vision failed to bear fruit at time, as the 1970s were marked by strong currency fluctuations in the context of the oil crisis. The idea nevertheless remained alive and served as the basis for the Economic and Monetary Union provisions finally integrated into the Treaty of Maastricht and implemented in three stages from the 1990s onward (Mersch, 2006).

Economically, Luxembourg was hit hard by the steel crisis, provoking a major economic restructuring from the 1980s onward that centered on the strategic expansion of the financial sector (Majerus, 2008). Luxembourg had an attractive registration and taxation system for holdings since 1929, but the sector remained largely focused on the national and the regional market until the 1960s. The economic openness of the country, its attractive tax system, and its ability to innovate and adapt quickly helped the country to build up the financial sector and benefit from the internal market in that regard (Rollinger, 2006). The financial sector has come to assume a similarly central place in the national economy as the steel industry before it, accounting in 2016 for 27.3% of gross value added in the overall national economy and 11% of the labor force at some 46,000 jobs (Government of Luxembourg, 2018A).

The Treaty of Maastricht actually increased Luxembourg's control over some policy areas: as part of Economic and Monetary Union, it had to establish its own central bank that participates in the European System of Central Banks and is represented in the Council of Governors. The country had not had control over its currency for a long time, due to the monetary unions with Germany (until 1918) and Belgium (since 1921), which de facto controlled the common currency under those unions (Majerus, 2008). A particularly painful episode was the devaluation of the Belgian franc by 8.5% in February 1982—and the fact that the Belgian government failed to consult or notify the Luxembourgish government first (Calmes & Bossaert, 1994). From Luxembourg's perspective, the introduction of the euro thus somewhat paradoxically led to greater national control over the currency than it had previously been able to exercise.

While the composition of the European institutions has been changed several times by successive treaty revisions, some features remain attractive to small states. Although it has become easier for them to be outvoted, as qualified majority voting is used more often, there are still key decisions where unanimity is required and where all states carry equal weight. In addition, in the European Council, most decisions are taken by unanimity or consensus. Each member state sends one commissioner to the Commission, so that an equal representation of states is guaranteed. This is indeed a key principle for Luxembourg, which only reluctantly supported moves to shrink the Commission and to introduce a rotation system whereby each member state would lose "their" commissioner every so often. It insisted that the rotation principle should only be used once there were more than 27 countries and that each country would have to take part in it (Hirsch,

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2008). In the European Parliament, Luxembourg does not carry much weight, with only six seats, but it is in fact somewhat overrepresented compared to larger states.

Luxembourg's involvement in EU politics from its earliest beginning also means that its politicians have managed to hold key positions and provide important impetus at times (Baillie, 2005; Santer, 2006). Notably, Luxembourg has uniquely provided three Commission presidents (Gaston Thorn, 1981–1985, Jacques Santer, 1995–1999, and Jean-Claude Juncker, 2014–2019), while Jean-Claude Juncker also served as the first head of the Eurogroup from 2005 until 2013.

A “Capital of Europe”

Luxembourg's position as one of the main seats of the European institutions—and thus as a symbolic “capital of Europe”—has itself been the subject of scholarly analysis, both detailing the often tortuous negotiations surrounding the question (Croisé-Schirtz, 1996) and examining it as an instance of small state influence (Baillie, 2005).

Luxembourg won an early victory in the long battle over the siting of the main European institutions when in 1952 it secured an agreement whereby the High Authority of the ECSC would “begin its work” in Luxembourg. It essentially benefitted from the rivalry among the other states that had put forward Strasbourg, Saarbrücken, Turin, Liège, and The Hague as permanent seats and the fact that it was perceived as small, neutral, and noncompetitive. This initial agreement was, however, tentative at best, with Luxembourg emerging only as the *siège précaire* of the new body, given that the ministers could not even agree on the inclusion of a reference in the final communiqué to Luxembourg as the “provisional seat” of the institutions (Croisé-Schirtz, 1996). Foreign minister Bech was, nevertheless, to be vindicated in his view that the provisional was likely to become permanent, particularly after the result of the 1955 Saarland referendum saw the territory reject the option of forming a European district.

Luxembourg was thus able progressively to consolidate its position as one of the main institutional centers of the European Communities and later the EU. It has consistently sought to ensure a continued, significant European institutional presence in Luxembourg City (Hey, 2003), though the government was also sensitive in the 1950s to the substantial domestic apprehensions expressed in regard to Jean Monnet's proposal for the creation of a “European federal district,” which many feared would overwhelm the small state (Croisé-Schirtz, 1996). The country has formed shifting alliances over the years in this “battle of the seats.” For example, regarding the maintenance of the European Parliament secretariat in Luxembourg, the country found itself opposed to France prior to 1979 as French authorities sought the concentration of all parliamentary activities in Strasbourg, yet it has subsequently been allied with the French in opposition to later bids to move all parliamentary activities to Brussels after direct election changed the role and functioning of the institution (Hausemer, 2007).

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Luxembourg hosts a plethora of EU institutions, including the European Court of Justice; the general secretariat of the European Parliament; the European Investment Bank; the European Court of Auditors; the Publications Office of the European Union; the Consumers, Health, Agriculture and Food Executive Agency; the Statistical Office (Eurostat); and the Translation Centre for the Bodies of the European Union. Sessions of the Council of Ministers further take place in Luxembourg three times every year (the April, June, and October meetings). Luxembourg City is also home to the European Financial Stability Facility and the European Stability Mechanism as more specific institutions of the Eurogroup. In total, some 11,000 EU officials are based in the country (Government of Luxembourg, 2018B).

The Domestic Coordination of EU Policymaking

The domestic coordination of EU policymaking maps easily onto the wider national administrative model, which is fundamentally shaped by the comparatively small size of the state—in effect, fewer than 30,000 civil servants in total having to meet the full range of demands placed on an EU member state. The national administration is correspondingly marked by relatively flat structures that privilege informality, personal contacts, and multitasking. “Manageability” (*Überschaubarkeit*) thus emerges as something of a watchword for the system (Bossart, 2019). This culture also shapes national EU policymaking, similarly marked by an informality that reflects both the practical immediacy of communication in a small administration and the broad domestic consensus that exists on European issues (Bursens, Hielscher, & van Keulen, 2015).

Reflecting this overarching logic, Luxembourg has adopted a relatively decentralized approach to EU policymaking, and responsibility for EU affairs is “mainstreamed” (cf. Gattermann, Högenauer, & Huff, 2016). In other words, each ministry is in principle responsible for those EU policies and policymaking processes that fall within its area of competence. The Ministry for Foreign and European Affairs does nevertheless have a unit that supports the other ministries and coordinates their efforts. The CICPE’s (*Comité interministériel pour la coordination de la politique européenne*) main task is to coordinate EU affairs, especially when a policy cuts across several ministries. When only one ministry is responsible, the unit will still follow the discussions on the European level but will leave the sectoral ministry in charge (interview with members of staff of the Ministry of Foreign and European Affairs, March 21, 2016; interview with a member of staff of the Ministry of Foreign and European Affairs, February 25, 2016).

Civil servants tend to be relatively Europeanized. Given the small size of the administration, most civil servants have to handle several dossiers at the same time and cannot focus on a single policy, like in some larger states. As a result, they tend to have less technical expertise in a single area but have a better horizontal overview over other policies in the area and how the new policy might complement or conflict with existing policies. In addition, civil servants do not rotate all that often, so they usually have extensive experience in their policy area. As national civil servants often have to work on EU dossiers in

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addition to national dossiers, there are many civil servants with decades of EU experience. Civil servants from the ministries also frequently take part in EU meetings, as the close proximity of Brussels and Luxembourg makes it easy to commute between the two capitals (interview with a member of staff of the Ministry of Foreign and European Affairs, February 25, 2016). In addition, Luxembourgish civil servants and ministers tend to be multilingual (Rollinger, 2006). The national languages are Luxembourgish, German, and French, and many politicians and officials also speak good English. This facilitates communication with other countries immensely (interview with an official of the Council of Ministers, February 15, 2016) and allows Luxembourgers to mingle easily with their French and German counterparts (Baillie, 2005).

In addition, the ministries are supported by the Permanent Representation of Luxembourg in Brussels. It is comprised of both diplomats and civil servants who are seconded there by the various ministries to follow European policymaking for the ministries. The Permanent Representation is Luxembourg's largest representation abroad.² It plays a particularly important role during the times when Luxembourg holds the rotating presidency of the Council of the European Union: small countries often base their presidency around the Permanent Representation, whereas larger member states tend to manage their presidencies from their capital. In the case of Luxembourg, all 12 past presidencies relied strongly on the Permanent Representation, whose staffing easily doubles during those times. The government does of course provide the general guidelines on political questions, but the Permanent Representation can negotiate relatively freely within those guidelines (interview with an official of the Council of Ministers, February 15, 2016; interview with a member of the Permanent Representation of Luxembourg, February 24, 2016; interview with a member of staff of the Ministry of Foreign and European Affairs, February 25, 2016).

The formal powers of the Luxembourgish parliament (*Chambre des députés*) in domestic EU affairs coordination are relatively weak. Both Winzen (2012) and Auel, Rozenberg, and Tacea (2015) rate Luxembourg as one of the weaker European parliaments in terms of formal powers. As far as EU affairs scrutiny is concerned, the constitution is in fact silent on the role of the parliament. It is the parliament itself that defines the scrutiny procedures in EU affairs in its rules of procedure (RoP) (Spreitzer, 2014). Most of these rules are part of an *Aide-Mémoire* on the cooperation between the chamber and the government included in Annex 2 of the RoP.

The *Aide-Mémoire* grants the parliament information rights, such as the right to receive a wide range of EU documents and to be informed by the government about topics that are important for Luxembourg. The task of scrutinizing the government in EU affairs is shared between the Committee for Foreign and European Affairs and the sectoral committees. Therefore, both types of committees can invite members of the government to answer questions before and after Council or European Council meetings, and the sectoral committees are expected to follow the dossiers that fall into their area of expertise.

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The Luxembourgish parliament lacks mandating powers. While the government has to inform it in time to allow it to define a position on the issue and transmit it to the government, this position is only consultative: The government has to report back on the dossier, but it is not obliged to follow the position of the parliament. In addition, the government will present an annual report on EU politics. In practice, this is usually done by the foreign minister and followed by a public debate.³ Finally, the government has to inform the *Chambre* about accession negotiations when a new state wishes to join the EU, set out its own position, and consult parliament.

Luxembourg and Key EU Policies

In terms of policy style, Luxembourg's role as an "honest broker" in EU affairs emerges as a consistently emphasized point of reference in the literature (Hirsch, 2008; Majerus, 2008; Rollinger, 2006). This role has also been emphasized by national officials in interviews (interview with a member of the Permanent Representation of Luxembourg, February 24, 2016; interview with a member of staff of the Ministry of Foreign and European Affairs, February 25, 2016). In this view, smaller countries tend to have fewer priorities than large countries and can therefore often act as mediator in areas where their own position is not as strictly defined. One example that was cited is climate change, where Luxembourgish civil servants felt they could mediate between Germany's ambitious stance and Poland's economic concerns. An interviewee from the Council of Ministers confirmed that Luxembourg usually did not try to impose its priorities or position on the negotiations but focused on facilitating compromise. The official perceived their style as "pragmatic" and "consensual," probably due to the fact that Luxembourgers are used to coalitions and a consensual style of policymaking domestically (interview with an official of the Council of Ministers, February 15, 2016). The ability of Luxembourgish officials to assume the role of "honest brokers" is also further enhanced by their multilingualism and often long experience in post.

In practice, the willingness of officials and politicians to broker or facilitate compromises also of course depends on the perceived importance of the dossier for the country. Officials must also be able to work through multilateral channels to protect core national interests. Two examples may be used to illustrate this approach. The first example, that of tax policy and more specifically banking secrecy, allows for an examination of an area in which the Luxembourgish government mobilized in the defense of a crucial national interest. The second area, Luxembourgish responses to Brexit, engages both specific national interests and wider views of the future direction of the European integration process.

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Given the central place occupied by the financial sector in the national economy, seeking to ensure favorable outcomes in the area of taxation policy has unsurprisingly been one of the core interests most vigorously pursued in EU (and wider multilateral) arenas by successive Luxembourgish governments. Perhaps the most prominent policy position in this

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regard was the country's long and dogged, if ultimately abandoned, defense of the principle of banking secrecy (the nondisclosure of client information to third parties) in opposition to attempts by the European Commission and coalitions of other member states to impose obligatory information sharing as regards nonresident accounts.

Prior to the 2008 financial crisis, the policy strategy pursued by the Luxembourgish government in defense of banking secrecy is perhaps best described as one of "temporization" (Bourbaki, 2016). Making use of its long experience of the EU institutions, Luxembourgish officials adopted various strategies to draw out decision-making processes, joined by the other two EU member states—Belgium and Austria—that similarly were seeking to protect established practices of banking secrecy in their jurisdictions. The position assumed broadly rested on two bases. Within the EU, the three defenders of banking secrecy insisted that the development of EU regulation follow a two-track model in which states would be allowed to opt for *either* information sharing *or* the maintenance of banking secrecy with a withholding tax imposed at source regarding nonresident accounts, countenancing the ultimate abolition of the latter only after a lengthy transition period. At the same time, Luxembourgish officials further strongly made the case that the development of EU regulation should be dependent on reaching wider international agreements with the other major international financial centers concerned (the United States, Switzerland, the Channel Islands, various Caribbean islands, etc.). This latter position, if formally demanding a "level playing field," in practice of course would also serve to kick any EU efforts in this direction indefinitely into touch.

The country was, however, to find itself in a dramatically different situation after the 2008 financial crisis. Faced with increasing pressures on the public purse, political pressure to deal with alleged "tax havens" assumed heightened prominence. Luxembourg faced growing criticism abroad concerning its tax policy and, embarrassingly, found itself on an Organisation for Economic Co-operation and Development (OECD) "grey list" of such alleged "tax havens" in 2009 (again, among EU member states, together with Austria and Belgium). Initially, the Luxembourgish government appeared wrong-footed by this unprecedentedly wide barrage of criticism, uncharacteristically for a time resorting to a practice of relative nonparticipation in relevant international fora as a means to turn down (or at least momentarily escape) the heat (Bourbaki, 2016). A strategy of simple resistance, however, rapidly proved untenable. The turning point in this regard was the adoption by the United States in 2010 of the Foreign Account Tax Compliance Act, imposing an obligation of information exchange on countries wishing to maintain access to the U.S. financial market (Bourbaki, 2016; Hakelberg, 2015). As frankly acknowledged in his 2013 state of the nation address by Prime Minister Juncker, "If we modify our position now, we do it because the Americans do not leave us a choice . . . [A]n international financial centre cannot cut itself from the American financial circuit" (cited in Hakelberg, 2015, p. 420). Having made this concession in bilateral negotiations with the United States, the concession then also had to be extended to EU member states as a matter of EU law. The Luxembourgish Chamber of Deputies formally voted in November 2014 to abolish banking secrecy.

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After an initial hesitation, national policymakers appear to have fully embraced this changed position. The presentation of the Luxembourgish financial sector—the *place financière*—itself tends increasingly to emphasize “transparency” and the range of distinctive advantages or services that it is equipped to offer rather than focusing (only) on rates of taxation. Finance Minister Pierre Gramegna has, for example, spoken in this vein of banking secrecy as having become a “handicap” (Raizer, 2018), from which the country had to move on so as to allow for a reinvention of its financial services industry (Thomas, 2019). More generally, the country has also shifted its position back to a robust defence of multilateralism, above all seeking to develop international regulations in the financial sector that ensure a “level playing field.” It is very much in these terms that Luxembourg has opposed European Commission (and French) proposals for a European-wide tax on big technology companies—the so-called GAFA (Google, Amazon, Facebook, Apple) or GAFAM (also including Microsoft) tax. Luxembourg has argued instead for an OECD-level framework to avoid the self-imposition of a competitive disadvantage. In the words of Prime Minister Xavier Bettel: “I don’t want those companies to leave tomorrow because of a tax we have [only] in Europe. I am asking for a level playing field at the OECD level, which would allow us to have a guarantee that the European economy won’t be penalised by taxes we have here but that others don’t have” (Tasch & Pritchard, 2018).

Luxembourgish tax policy continues to face criticisms both at home and abroad. Particularly bruised by the so-called Lux Leaks affair in 2014 concerned with advantageous corporate tax rulings, the country still attracts significant criticisms for its tax policies despite reforms. Conversely, the Luxembourgish government at home has received significant criticism for what some have regarded as its insufficiently robust defense of the national interest. Whatever criticisms might variably be made of the substantive balances struck, it is nevertheless clear in the present context that the mode of policymaking can be understood only through a multilateral lens—a case study of “small state resilience” seeking strategically to use multilateral institutions as a “multiplier of power” against structural constraints (Bourbaki, 2016).

Luxembourg and Brexit

As a very pro-European country, the population was overwhelmingly opposed to Brexit: in a TNS survey conducted in May 2016, 66% of respondents wanted the United Kingdom to remain a member, only 25% thought it should leave, and 9% were undecided. The political elite also expressed strong hopes that the United Kingdom would choose to remain as a member of the EU and voiced correspondingly great disappointment after the results of the referendum on EU membership were known. Luxembourgish politicians were originally open to compromise to keep Britain in the EU, despite the fact that they worried that this might weaken the EU (Högenauer, 2017). However, the way in which British Prime Minister David Cameron announced the referendum and his demands for a special deal turned the mood sour and led to accusations of “cherry-picking” and “blackmail,” ultimately reducing the willingness to compromise in practice (Buth, Högenauer, & Kaniok, 2019; Högenauer, 2017). After the referendum, both the population and the elite adapted

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rapidly to the changing situation and decided that the result meant that Britain would really have to leave the EU.

In the Brexit negotiations, the Luxembourgish government generally supports the European lead negotiator and tries to close ranks with the other member states. It also frequently emphasizes its commitment to the common negotiating line in speeches and media statements. However, it does have a small number of priorities where it would defend the national interest if necessary. This is most prominently the case regarding the protection of the interests of the Luxembourgish financial sector. The British and Luxembourgish financial sectors are closely intertwined, so that a British departure from the internal market is seen as disruptive (Schelkle, 2018). However, it became quickly apparent that the United Kingdom would not agree to remain in the internal market, if this involved full compliance with all the EU rules and regulations and the jurisprudence of the European Court of Justice. In this context, it is seen as preferable that the United Kingdom should lose access to the internal market: the Luxembourgish financial sector is concerned that continued internal market access without full compliance with the regulatory framework would create a competitive advantage for the United Kingdom. Therefore, the government is willing to face the disruption of the United Kingdom leaving the internal market, which will probably be somewhat compensated for by the relocations of financial actors from London to Luxembourg and other EU member states (Högenauer, 2017; interview with Luxembourg for Finance, June 7, 2019). However, as the other member states and the EU's negotiating team appear to have arrived at the same conclusion, there has so far been no friction on this issue. If this issue were to be reopened during a second phase of the negotiations, focusing on the concrete future relationship between the United Kingdom and the EU, it is nevertheless possible that the government might have to fight more openly for its priorities.

Overall, Luxembourg has thus been concerned with only a short list of priorities in the Brexit negotiations and is generally willing to support the European Commission. So far, there has been no friction between the national and the European position. The government has been supportive even on issues in which it has no direct interest, such as the question of how Brexit should affect the border between Ireland and Northern Ireland. This attitude is unlikely to change in the future, as all major parties have similar positions in terms confirmed in their national (2018) and European (2019) election manifestos. The Liberal DP, Social-Democrat LSAP, the Christian-Democrat CSV and the Greens are all pro-European, concerned about British cherry-picking, and believe that all four freedoms of the internal market should be protected. In fact, all parties want to protect the freedom of movement (which the United Kingdom would like to restrict), and even the Euro-critical *Alternativ Demokratesch Reformpartei* (ADR) would want to maintain an extensive freedom of movement, while restricting it somewhat. In addition, almost all parties agree that there must be a clear difference between EU member states and non-member states regarding access to the internal market in the financial sector. It is only the ADR that would like to create a quasi-membership status for the United Kingdom (Buth et al., 2019).

Public Opinion, Political Parties, and the EU

Luxembourg has the reputation of being one of the most pro-European countries in the EU. A large majority of citizens support Luxembourgish EU membership, and usually around 80% to 90% of Luxembourgers state in Eurobarometer surveys that they think of themselves as EU citizens (e.g., 89% in Eurobarometer 90, 2018). In addition, there is widespread support for common policymaking in a range of areas. Eurobarometer surveys show, for example, that support for an economic and monetary union, the free movement of citizens, a common energy policy, a common security and defense policy, and a common migration policy ranges from 80% to 90% (Eurobarometer 89, 2018; Eurobarometer 90, 2018).

When asked about the functioning of the EU, Luxembourgers are somewhat less enthusiastic. The satisfaction with the functioning of democracy in the EU is at 65% and only 56% of people have a positive image of the EU, while trust in the European Parliament and the European Commission stands at 55% to 60% (Eurobarometer 90, 2018). The public image of the EU also suffered in Luxembourg during the Eurozone crisis. Thus, while EU support was still above average in Luxembourg compared to other EU member states in 2013, only 40% of Luxembourgers had a positive image of the EU (Eurobarometer 80, 2013). Also, one area where Luxembourgers remain unconvinced is enlargement. In autumn 2018, 55% opposed further enlargements of the EU (Eurobarometer 90, 2018).

The widespread support for EU membership and EU policies is probably one of the factors that led to the relative absence of party competition on the European dimension in Luxembourgish politics. The larger and medium-sized parties traditionally tend to be pro-European and only the smaller parties on the right (the ADR) and the left (*Déi Lénk* and the Communist Party) of the political spectrum criticize EU policymaking. However, even these forces are EU-critical rather than anti-European. The ADR (8.3% in the general election of 2018) does not question membership in the EU or the euro and is in principle in favor of the common market. It is, however, dissatisfied with specific policies such as the handling of the migration crisis and would like to limit the transfer of competences from the member states and protect their sovereignty within the EU better. *Déi Lénk* (5.5%) and the Communist Party (1.3% in the general election of 2018) are also not opposed to EU integration in general but to the perceived liberal economic bias in EU policymaking. The only truly anti-European party (*Déi Konservativ*) gained a meagre 0.3% in the general election of 2018. The four largest parties—the Christian-Democrats (CSV), Socialists (LSAP), Liberals (DP), and Greens (*Déi Gréng*)—are all pro-European and presented broadly similar programs in the last European elections.

The quasi-absence of anti-European parties and the electoral support for pro-European parties can be in part explained by reference to the broad structural factors discussed earlier. The country's multilingualism and open economy certainly contribute to feelings of "Europeanness." This, moreover, has to be placed in the historical context whereby EU membership has effectively given Luxembourg more influence over a range of policies

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(e.g. trade, currency decisions) and greater military and diplomatic protection of its sovereignty than the arrangements that predated European integration.

A further factor that may have shaped the party system may be the fact that the elections to the European Parliament took place on the same day as the national elections from the first European Parliament elections in 1979 to 2009 (inclusive). During this period, European elections were truly second-order elections in a context where parties fought for national office (Dumont, Fehlen, Kies, & Poirier, 2007). It was only in 2013, when the general elections were called early, that European elections were separated from national elections. However, even then the two elections take place only about half a year apart. In 2019, the European campaign was far more subdued than the national campaign and appeared to suffer from election fatigue.

Despite the generally pro-European picture, there is one episode that reveals some of the hidden anxieties in Luxembourgish society: the national referendum on the draft Constitutional Treaty in July 2005. In this referendum, which followed the rejection of the treaty in referendums in France and the Netherlands, only 56.5% of voters supported the treaty. The participation rate was 90.4%. For Luxembourg, this result seemed low, especially since only the ADR, *Déi Lénk*, and Communist Party mobilized against the treaty (and only the ADR was represented in parliament at the time). According to Dumont et al. (2007), the results demonstrate that support for the EU in general is not a blank check for unlimited integration. They show that many trade unions were concerned about the impact of European integration on workers' rights before the referendum, especially in the context of the enlargement to the central and eastern European states, which raised fears about an influx of cheap labor and social dumping. Dumont et al. further point to underlying concerns about national identity as possibly having fueled the unexpectedly high "no" vote. Some voters may also have used this opportunity to express their opposition to EU enlargement to Turkey, which also met with high levels of opposition in Luxembourg.

Conclusion

A founding member of the EU and a major European institutional center, Luxembourg has consistently championed the further development of the European integration process on the basis of a broad domestic consensus. While often acting as an "honest broker," this has not precluded the country from mounting a staunch defense of national interests when required, notably in relation to the steelmaking industry (and agriculture) in the early years of the integration process or concerning issues of taxation policy since the 2000s. This defense of national interests, nevertheless, is situated in a policy framework within which the national and European dimensions are inextricably intertwined—that is, as national objectives may only be realized through robust European and multilateral structures, the defense and development of those structures is itself a constitutive element of national foreign policy. The longer-term development of Luxembourgish foreign and European policy thus emerges as an important case study of "small state resilience"

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in relation to a wider international relations perspective and an equally important instance of Europeanization relative to a more EU-specific literature.

Although establishing this narrative of the country's position in relation to the EU is a necessary (and itself understudied) starting point, it would, however, be a mistake to restrict the research agenda going forward only to the domain of external policy. As noted in the introduction, the past three decades have been marked by an exceptional Europeanization of Luxembourgish society, in a context where foreigners constitute almost half of the resident population and cross-border workers further account for just under half of the total labor force. Fully understanding Europeanization in the Luxembourgish case thus entails moving beyond a focus on external policy to encompass an examination at the domestic level of the interaction and integration of the multifaceted identities present in the country (Identités, Politiques, Sociétés, Espaces Research Unit, 2011), as well as dealing with the unique problems of political representation posed in this context (cf. Kies, 2019). The national reality further must be situated relative to the larger economic region of which it forms the core,⁴ raising a range of cross-border policy issues concerned with transportation, taxation, social welfare entitlements under EU law, and a host of other subjects (cf. Wille, Reckinger, Kmec, & Hesse, 2015).

The Luxembourgish case is thus finally suggestive of the desirability for the small states literature more generally to incorporate a greater concern with the domestic dimension of state adaptation to external constraints. While this literature has long had a strong political economy strand—within which Luxembourgish government-industry-labor “tripartism” may readily be situated (Allegrezza, Hirsch, & von Kunitzki, 2003)—it has largely neglected broader societal dimensions. Yet, as is clear in the present case, societal transformation forms part and parcel of wider adaptive patterns. In this regard, the distinctive policy challenges faced by Luxembourg as a highly Europeanized society and the responses it continues to develop will undoubtedly merit wider attention as part of a widened research agenda.

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Notes:

(1.) Regularly updated information may be found on the Statistics Portal of the Grand-Duchy of Luxembourg.

(2.) Further information may be found on the web site of the Permanent Representation of Luxembourg to the European Union.

(3.) Further information on the European activities of the Chamber of Deputies may be found on the parliamentary web site.

(4.) Luxembourg forms part of a “Greater Region” endowed with formal structures of co-operation including a rotating presidency, secretariat, and interregional parliamentary council. The participating entities beyond Luxembourg itself are the German Länder of Rhineland Palatinate and the Saarland; Wallonia, the Wallonia-Brussels federation and the German-speaking community as regards Belgium; and the French Grand Est region with particular reference to the departments of Meurthe-et-Moselle, Meuse, and Moselle. Further information may be found at Greater Region.

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