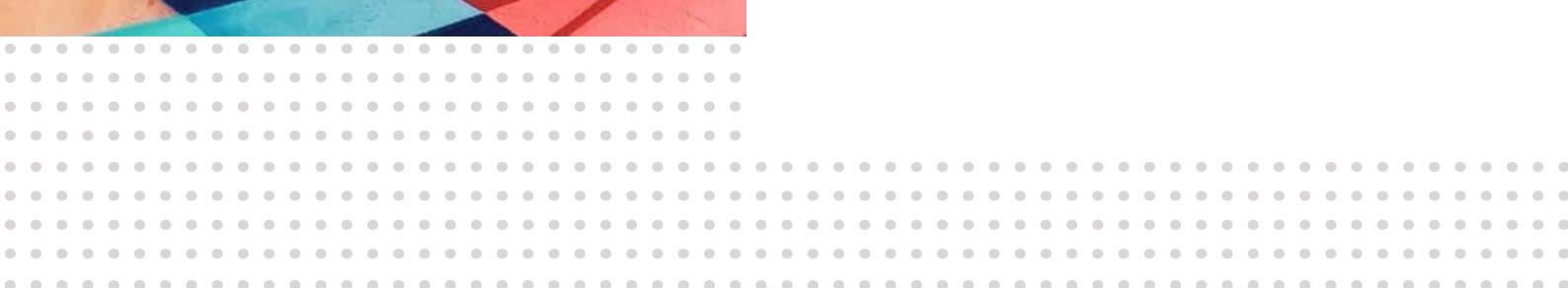




# DELIVERING ON EUROPEAN COMMON GOODS

STRENGTHENING  
MEMBER STATES' CAPACITY  
TO ACT IN THE 21<sup>ST</sup> CENTURY



#### **Disclaimer**

The EPSC dossier on 'Delivering on European Common Goods' seeks to intellectually accompany the ongoing reflections on the future of Europe. While recognising that no single initiative will ever be able to offer a silver bullet to the diversity and complexity of challenges facing the EU, the ideas presented here aim to provide food for thought, without pre-empting the final outcome of the European Parliament elections in May 2019, or the priorities of the next European Commission.

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# INTRODUCTION

**“** The European Union is facing unprecedented challenges, both global and domestic: regional conflicts, terrorism, growing migratory pressures, protectionism and social and economic inequalities. Together, we are determined to address the challenges of a rapidly changing world and to offer to our citizens both security and new opportunities. [...] Unity is both a necessity and our free choice. Taken individually, we would be side-lined by global dynamics. Standing together is our best chance to influence them, and to defend our common interests and values. [...] We will work together at the level that makes a real difference, be it the European Union, national, regional, or local, and in a spirit of trust and loyal cooperation, both among Member States and between them and the EU institutions, in line with the principle of subsidiarity.

**”**

Declaration of the leaders of 27 Member States of the European Council, the European Parliament and the European Commission, 25 March 2017, Rome

## The polycrisis was a turning point

The rapid spread of the US sub-prime markets crisis to Europe; the Greek debt crisis; the sudden surge in arrivals of irregular migrants and asylum-seekers sparked by wars in Syria, Iraq and Afghanistan; the wave of terrorist attacks that struck at the heart of several European cities; the UK decision to withdraw from the EU: many events combined to put the European project – painstakingly built up over decades – under existential threat.

Confronted with global developments that its existing institutional and budgetary frameworks were simply not equipped to deal with, and faced with widely diverging views among Member States, the result was an image of a Union too often caught off guard, too slow to respond, and in constant crisis mode.

And yet, **the EU ultimately showed itself capable of the bold policy responses needed to extract itself from the crisis when it really mattered.** Europe's

economy and society have emerged stronger from these testing times – even if more work is needed to ensure that the benefits are felt by all. The Economic and Monetary Union was fortified, and social considerations now strengthen Europe's economic governance; a more integrated migration and border management policy saw the light of day; and the EU started laying the foundations not only of a 'Security Union', but also a 'Defence Union'.

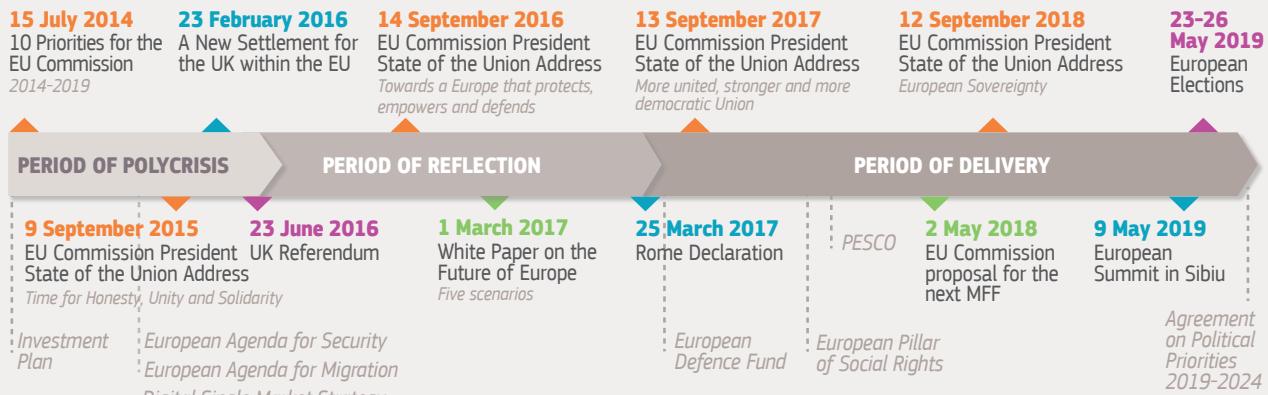
Even if the 'crisis management approach' did not always lead to the most optimal or ambitious solutions, it nevertheless served as a **trigger of Europe's reinvention**, opening up a major process of reflection on the future of Europe, culminating in the meeting of European Leaders in Sibiu, Romania, on 9 May 2019 to flesh out a Strategic Agenda for the Union's next five years.

A clear conclusion has been that there will be many more challenges of similar scale and complexity in the years ahead, and that no single EU Member State can master them unilaterally.

## Sowing the seeds of the EU's reinvention

With its White Paper process launched on 1<sup>st</sup> March 2017, the Juncker Commission launched an earnest and inclusive debate on Europe's future. While recognising that **the EU was not always equipped to deal with the scale, pace, complexity and uncertainty of modern challenges**, this process has moved the EU agenda decisively towards delivering on key concerns of Europeans that are best tackled at EU level.

### Relaunching the EU under the Juncker Commission: key milestones



Source: European Political Strategy Centre

## Recasting Europe's capacity to act means identifying and delivering on European Common Goods

Ensuring Europe's resilience in even the most adverse of circumstances and restoring Europe's capacity to act in a fast-changing world cannot be about simply 'doing more of the same'. Rather, it is about **developing shared political ambitions** to navigate and shape the coming decades. **The capacity to respond to future seismic developments largely hinges on articulating relevant policies at the European level.**

In his State of the Union address in September 2018, European Commission President Juncker stressed that the time for European sovereignty has come if Europe is to take its destiny into its own hands. Only by overcoming

fragmentation at home will Member States be able to punch above their weight globally and carry the political, economic and military clout to navigate safely and confidently in a volatile world.

Indeed, **the EU has always been about sharing sovereignty in a bid to deliver some 'common goods' better than what Member States could do alone**. But the polycrisis disrupted the incremental logic of the European project. It revealed that the EU had previously spread itself a little too thin; lacked sufficient focus and anticipation; and, in some cases, failed to achieve a sufficient level of collective ambition.

This is why a refocusing of EU priorities was needed and the identification and delivery of European Common Goods is part and parcel of this shift.

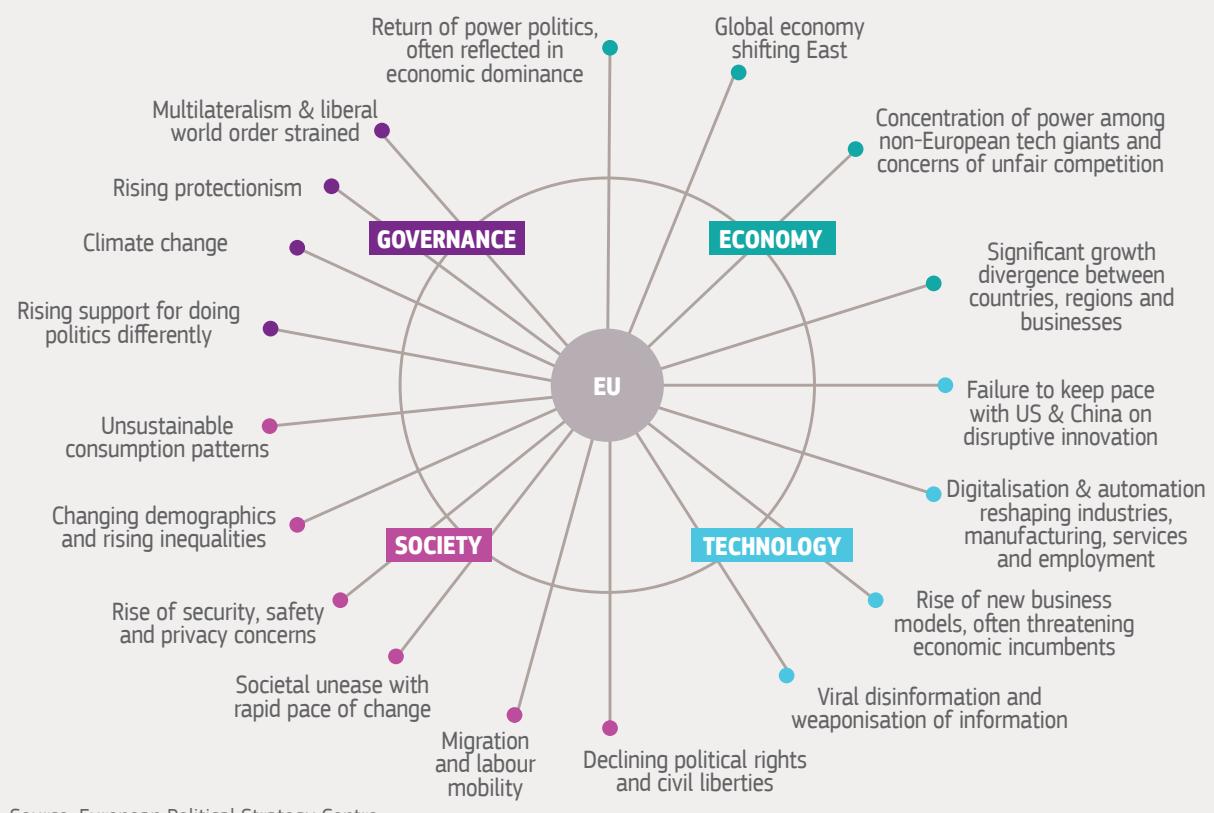
## More than the sum of its parts: The EU's long history of sharing sovereignty and jointly delivering common goods

**The history of the European Union has seen Member States gradually move towards sharing their sovereignty on numerous occasions.** The idea was first introduced with the European Coal and Steel Community (1952) when six European countries decided to delegate the control of their coal and steel sectors to a joint independent authority. Twenty years later, as economic globalisation accelerated and European economies risked lagging behind other developed regions, the case for scaling up national markets to a single European one was compelling. In hindsight, it delivered increased competitiveness and wealth-enhancing productivity gains. The Single European Act of 1986 reformed the decision-making mechanisms of the then European Economic Community, laying the foundations for the Single Market, which was launched on 1<sup>st</sup> January 1993.

## The convergence of megatrends ahead will require a powerful response

**The 21<sup>st</sup> century will inevitably bring more existential global challenges.** All Member States are being affected – and they will increasingly find themselves unable to cater to these challenges on their own. This is largely **due to the rising importance of the ‘global commons’** in a world that is increasingly interconnected, and where cyberspace knows no borders, but also as new actors emerge and the competition for global domination and technological leadership is fiercer than ever. This coincides with a growing shift of economic weight to the Asia-Pacific region, but also with a **blurring of lines between internal and external security, and profound geopolitical shifts** in traditional allies like the United States. At the same time, the effects of climate change are increasingly tangible, with the potential to unleash catastrophic weather events and unforeseen migratory flows. Jointly, these megatrends affect Member States’ ability to deliver on the **varied expectations, anxieties and aspirations of European citizens.**

### Towards boiling point? Long-term structural trends accelerating and intersecting at EU level



**“We need a Europe for that which is essential...  
a Europe for what nations cannot do alone.”**

Jean Monnet, Reflection Paper, *Les Portes*, Archives de la Fondation Jean Monnet pour l'Europe, 1965

## Being big on big and small on small means acting purposefully where the EU adds the most value

Identifying and delivering on European Common Goods is no easy task. Given the weight and range of European citizens' expectations, the EU's scarce resources, and the sheer number, scale and complexity of challenges ahead, there is a clear need to ensure that the EU's limited set of tools is effectively and efficiently mobilised, in full respect of its institutional setup, and giving due attention to the principles of subsidiarity and proportionality.

**The EU must carefully identify those areas where action at EU level will add the most value and reinforce European – and therefore Member States' – sovereignty.** This requires a mix of strategic foresight and policy innovation.

The focus must be on those game-changing areas:

- that matter most to European citizens or where they most agree that European action is needed;
- where Member States cannot, can no longer, or do not wish to deliver alone;
- where the EU has better tools to deliver than actions taken only or primarily at the level of Member States.

The following chapters identify some of the biggest challenges that Member States will face in the near future, and to which they will clearly be unable to cater to alone. In each case, three possible scenarios – best case, worst case, and status quo – are outlined to help reflect on how the dynamic within the EU could unfold depending on the actions that are – or are not – taken jointly.

**“For Europe to thrive, the EU's Member States must act together. They must act together if they want to preserve our European way of life, sustain our planet, and reinforce our global influence. Only by finding strength in unity, will Europe be able to influence the course of world events.”**

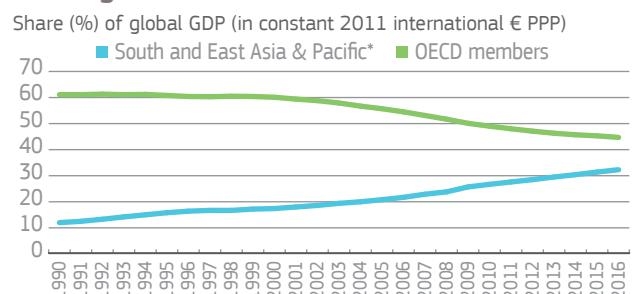
European Commission contribution to the informal EU27 Leaders' meeting in Sibiu, Romania, 9 May 2019

# GLOBAL INFLUENCE

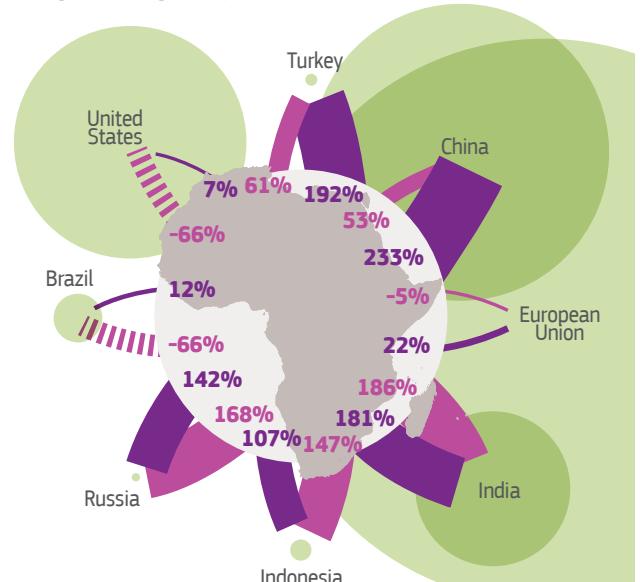
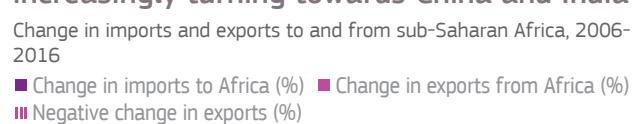
## Global trends: What is changing?

- Unpredictability and instability are emerging as the new norms in global relations.** Great power competition, rising transactionalism and intentional disruptions in foreign policy, along with an accumulation of political and humanitarian crises, terrorism and wars, have created persisting unease and uncertainty.
- The liberal rules-based world order** that kept Europe safe and prosperous since the end of World War II is under pressure like never before – both from emerging global powers and traditional actors that previously stood side by side with Europe in its defence.
- Even as the EU continues to champion multilateral solutions to shared global challenges, **support for international organisations and cooperation is waning**. This is particularly clear in the US, with the Trump administration pulling out of the Paris climate agreement, the Iran nuclear deal, the United Nations Human Rights Council, UNESCO or the Trans-Pacific Partnership, suspending the Intermediate-Range Nuclear Forces Treaty, and threatening to withdraw from the World Trade Organisation. But pushbacks against multilateral solutions are also happening in the EU, as witnessed by the schism among Member States with regard to the signing of the Global Compact on Migration in Marrakech, or the unwillingness of some Member States to join forces in the ‘High-Ambition Coalition’ at the COP24 meeting in Katowice in December 2018.
- Geo-economics and protectionism** are back in fashion as trade spats mount in intensity, in particular between the US and China – with Europe caught in the cross-fire.
- Although Europe’s global regulatory and normative influence continues to be one of its strongest assets in world affairs, **standard-setting power threatens to shift towards Asia**, along with economic prowess and technological leadership.
- Amidst these shifts, the **EU’s traditional regional partners** – such as the Western Balkans or Africa – are **diversifying their partnerships**, looking more and more to the East, whether on trade, investment or security cooperation.

## The global economy's centre of gravity is shifting East



## The EU remains by far Africa's largest trading partner but the continent is increasingly turning towards China and India



Source: Brookings based on IMF, Direction of Trade Statistics, 2017



## Why Member States cannot deliver alone

- Already today, **few EU Member States can claim to hold sway on their own in international negotiations.** In future, their ability to shape the global agenda will only erode further as Europe represents an ever-shrinking share of world population and economy.
- **The EU has repeatedly proven the value of acting collectively on the global stage,** most prominently on climate change or in its trade relations, where the Single Market gives it a strong global leverage, as well as in setting standards or using competition policy to enforce a more level playing field.
- **The ability to project influence internationally and defend European values will be ever more important as geopolitical rivalry creates new lines of conflict** and as other global superpowers distance themselves from the existing liberal rules-based order. The US and China already have a decisive say in a number of critical areas, including emerging technological developments. Europe's only way to successfully respond to major questions of the future – such as ethical standards for digital technologies like Artificial Intelligence – will be to scale up Europe-wide ventures and act jointly in a global setting.

## Three potential scenarios for the future

### ▼ Worst case: Every nation for itself

- **'Divide and conquer' strategies of third countries succeed:** China's repeated attempts at sowing division in the EU through sub-regional diplomatic initiatives and targeted investments in strategic infrastructures, combined with Russia's anti-EU disinformation campaigns, lead to growing disunity and paralysis.
- This results in an **increasing number of failures in collective EU approaches** across policy areas – from human rights (e.g. failure to condemn China and Russia in international fora), to deploying foreign policy tools (e.g. civilian missions or EU sanctions), but also on trade and investment (e.g. stalling implementation of strategic foreign investment screening mechanisms; lack of a united approach in dealing with trade conflicts with China and the US), and digital connectivity (e.g. scattered approach to safeguarding critical digital infrastructure).
- **A divided EU loses political credibility, global normative power and, ultimately, its way of life.** Rather than expanding its joint potential as a global player, Europe turns into a playground for others, exposed to an increasingly bipolar world. European

influence in setting the agenda of international institutions such as the United Nations system or the World Trade Organisation erodes as it becomes increasingly marginalised. Institutional reform attempts are thwarted and, as a result, predictable multilateralism is superseded by power politics and transactionalism between the mightiest global players to the detriment of European interests and global stability.

- **Neo-authoritarian regimes, less inclined to support individual liberties and the rule of law (e.g. China, Russia), gain in influence,** spreading their systems to other world regions, including in parts of Europe and its neighbourhood. This is particularly the case in the Western Balkans, where a divided EU fails to progress on accession talks, putting the region in reverse on rule of law, peace and security.
- Similarly, the **lack of an ambitious EU-Africa cooperation** framework following the expiry of the Cotonou Partnership Agreement means the EU loses sway on the continent. Numerous African countries turn to China seeking investment 'with no strings attached', leading to an explosion of debt, as well as a gradual backtracking of progress on democratic values, good governance and rule of law.

## **Exporting the technologies of repression?**

China has been ploughing ahead, exploiting the multiple possibilities offered by combining big data with Artificial Intelligence and other novel technologies to build an expansive toolkit for intense surveillance of regions and individuals: from facial and iris scanners in official buildings, shopping centres and public transport, to ID tracking of purchases such as petrol and knives, and the collection of biometric information from medical examinations. It is now specialising in off-the-shelf kits that can be readily exported abroad, with projects already discussed and delivered to varying degrees to regions in Kenya, Pakistan, Tajikistan, Kyrgyzstan and Zimbabwe. Where to next? Countries that purchase Chinese technologies may be vulnerable to security and privacy breaches through technological backdoors.

### **■ Status quo: Multilateralism if feasible**

- The EU continues to follow a pragmatic **dual-track approach**: promoting fair and rules-based global multilateralism wherever possible; and building coalitions of the willing wherever necessary (e.g. with China on climate action, and through bilateral and regional trade agreements with like-minded partners).
- **A more unified voice on the global stage remains the EU's firm aspiration, but it often weighs in too late, too little, or not at all**, given the veto power of a single Member State to block any Common Foreign and Security Policy decision under the system of unanimity voting.
- In the trade domain, the **EU succeeds in leveraging the weight of its single market to reopen global talks** on reforming the World Trade Organisation, but the US and China continue to hijack the process so that **progress remains slow and uneven**.
- The EU continues its **efforts to set the global agenda relating to new connectivity needs, digitalisation challenges** and the spread of Artificial Intelligence (e.g. data privacy, ethical issues). While it succeeds in including provisions in its bilateral partnerships (similarly to the recent EU-Japan Free Trade Agreement), it fails to garner the backing of global giants, such as China, which continues to pursue – and export – its own agenda and standards.
- The failure of existing institutions to effectively respond to emerging challenges leads to a **further erosion of public trust in cooperative multilateralism**.

### **▲ Best case: Shaping a new world order**

- The spread of neo-authoritarian systems and zero-sum mentalities around the world, as well as in Europe, comes as a real **wake-up call**. EU leaders decide to take decisive joint action to defend their open democratic societies and strengthen the liberal rules-based world order
- **Enhancing the EU's foreign policy resources, prioritising the building of political unity, and switching from unanimity to qualified majority voting** in key areas of Common Foreign and Security Policy enable the EU to respond more swiftly, jointly and decisively to emerging challenges to the values that it defends. Renewed political will to defend Europe's place and values in the world increases the EU's credibility and global visibility.
- A **revitalised Europe relaunches its relations with key world regions** (Africa, Asia, Latin America) and global players (China, India), affirming its policies with confidence and political weight.
- **Successful coalition building and the forging of multi-stakeholder alliances for multilateralism leads to consensus on reforming pivotal international institutions**, such as the World Trade Organisation, as well as decision-making in the United Nations, to reflect changing world balances and strengthen global governance in a 'Multilateralism 2.0' approach.
- Treating all world regions as equal and essential partners, **the EU invests in global connectivity and the building of sustainable bridges for the 21<sup>st</sup> century**. At the same time, the Union's ability to shape an ambitious common digital development strategy means it remains a robust competitor vis-à-vis other big tech players and is able to carve out a strong role for itself in driving global developments and setting standards and norms to its image.



# SECURITY AND DEFENCE

## Global trends: What is changing?

- The centre of gravity of defence spending is shifting away from Europe and the US as Asia and the Middle East make substantial increases, most notably China, but also India, Russia and Saudi Arabia.
- Existing international agreements aimed at maintaining peace and stability are showing their limits, as evidenced by the breakdown of the Iran nuclear deal. Combined with persistent military tensions – such as the recent Russia-Ukraine confrontation in the Sea of Azov – these developments heighten the **risk of escalation of violence in Europe's neighbourhood**. Even previously ‘uncontroversial’ parts of Europe, such as the Arctic, are becoming more central to the debate on Europe’s future security.
- Increasingly disruptive – but also cheap and accessible – means of generating violence and conflict are proliferating, and Europe is largely unprepared for them. For example, Artificial Intelligence will be a game changer in the military domain. The US and China are today the undisputed frontrunners, with their technological leadership in the civilian field giving them a head-start in developing the military AI applications of the future. Biological warfare is also

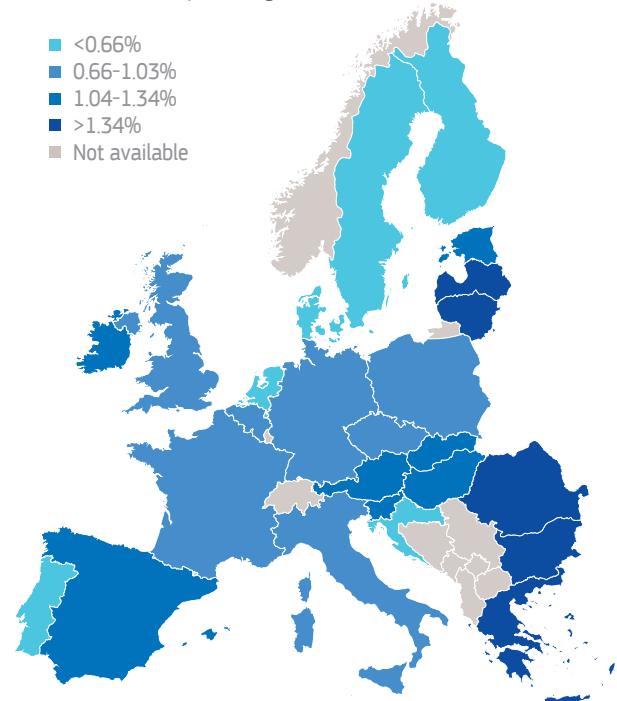
emerging as one of the major threats of future years.

- Both external and internal security threats are becoming more versatile, hybrid and cross-border (home-grown terrorism, cyberattacks, organised crime, use of disinformation and propaganda as a weapon of war, etc).
- This is accompanied by a rise in ‘multi-criminality’, with organised crime groups, terrorism, drug trafficking and people smuggling networks increasingly interconnected. The nexus between organised crime and transnational terrorist groups enables them to expand their geographical reach and bolster their capabilities thanks to improved access to funding and weapons.

## Illicit markets taking on seismic proportions

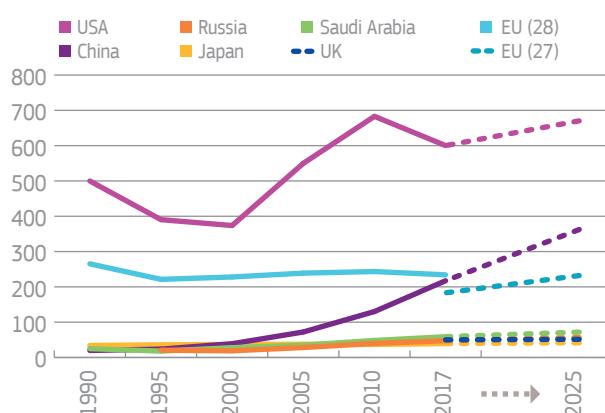
The proceeds from money laundering in the EU are estimated to be €110 billion per year, corresponding to 1% of the EU's total GDP.<sup>1</sup> Illegal drug markets generate some €24 billion a year in profits.<sup>2</sup>

Scale of illicit markets in EU28. Estimate of the revenues from selected markets, in percentage of GDP



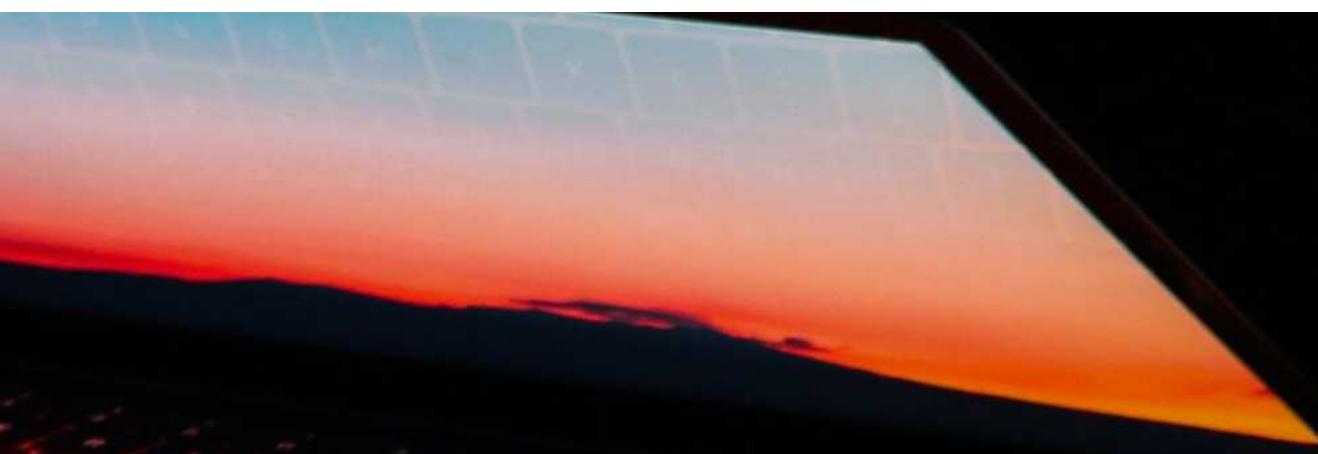
## China to overtake EU on defence spending

Military expenditure, in euro (billions)



Source: Stockholm International Peace Research Institute (SIPRI)

Source: Transcrime elaboration on OCP estimate and Eurostat data



## Why Member States cannot deliver alone

- In an increasingly unstable world, military power matters just as much as economic and political clout. Member States may have put an end to the downward trend in their defence spending, but, even together, they remain outspent on the global level. The scale of investment, both in capabilities and R&D, that is needed to keep pace with the world's superpowers means no Member State can afford to do this alone.
- Even as EU-NATO cooperation has intensified, there is growing realisation that the EU cannot rely on NATO alone to protect its citizens, if only because not all EU Members belong to the Alliance. This means that the EU must simultaneously develop its defence capabilities to act where EU-level action is more appropriate.
- Digitalisation and technological advances are driving the emergence of new forms of warfare that are increasingly complex and virtually always cross-border in nature. External and internal security are increasingly interconnected and cannot be dealt with in isolation or at Member State level alone.
- In a borderless Union, security can no longer be understood as the sum of the Member States' national security. Terrorists, cyber-criminals, organised crime groups, drug and people traffickers operate across borders – as most recently demonstrated by the terrorist attack in Strasbourg – taking advantage of regulatory and legal fragmentation and deficiencies in information-sharing between Member States. 7 out of 10 organised crime groups are typically active in more than three countries.<sup>3</sup>

## Three potential scenarios for the future

### ▼ Worst case: Isolated and exposed

- As nationalist reflexes prevail, recent EU defence initiatives are not followed through by the Member States and remain a 'paper tiger'. Lack of ambition, austerity pressures on defence budgets and absence of support for a more muscular and assertive Europe put a halt to current efforts towards a more unified European defence and greater EU defence spending.
- Lack of adequate joint spending leads to all Member States having less capable and efficient security and defence capabilities. Even those Member States that continue investing lag way behind the US, China, Russia and other emerging big spenders such as India and Saudi Arabia, which engage in an AI arms race. Europe finds itself unprepared for such new forms of warfare, as well as to the spread of chemical and biological weapons, leaving it particularly exposed to non-state actors and transnational terrorist groups. As attacks accelerate, there is less and less willingness by partners to defend a European security crisis that is seen of its own making.

- As a result, Europe loses credibility with partners, including NATO and its main contributor, the US, while being more dependent on both to ensure the security of its Member States.
- EU contractors find themselves losing lucrative defence markets as they are unable to offer the high-end technologies required by regional military superpowers. This has repercussions on the EU economy as a whole, particularly given the growing interconnections between military and civilian domains.
- Frustrated with Europe's continued failure to invest more in its own defence, the US pulls its troops from all EU countries below the NATO defence expenditure threshold and refuses to take part in further joint NATO exercises. Poland, the Baltic States, Romania and Greece on the other hand succeed in strengthening their relationship with the US in exchange for continued spending and additional concessions on security, trade and investment.

- This **growing transactionalism and reliance on bilateral ties with third countries to deal with security challenges** has direct repercussions on the EU's capacity to be a credible global actor – even in policy areas where it has exclusive competences such as trade. The EU's Common Foreign and Security Policy suffers most: the EU proves unable to speak with a single voice and to shape global policy. **The implementation of a common security strategy proves impossible as trust among Member States deteriorates.** The only way for Member States to deal with cross-border threats is to close their borders and withdraw from Schengen. While this puts a brake on transnational activities of terrorist and organised crime groups, Member States remain vulnerable to home-grown threats and cybersecurity remains a serious problem.

### **Status quo: Strategic divergences**

- The implementation of many recent defence proposals at EU level sets in motion a **gradual shift towards greater spending at both national and EU levels** – namely with an expansion of defence spending in the next Multiannual Financial Framework – and improved cooperation among Member States.
- Yet, the lion's share of the work and investments lie ahead and **Member States continue to stumble on the details**, while also failing to live up to their individual commitments. Continued fragmentation leads to further overlaps and inefficiencies.

**Fragmentation and insufficient spending remain central features of EU defence**

	EU-28	United States
<b>Defence expenditure</b>		
Total amount	€ 227 billion	€ 545 billion
% of GDP	1,34	3,3
Investment per soldier	€ 27,639	€108,322
<b>Duplication of systems in use</b>		
Number of types of weapon systems*	178	30
Main battle tanks	17	1
Destroyers/frigates	29	4
Fighter planes	20	6

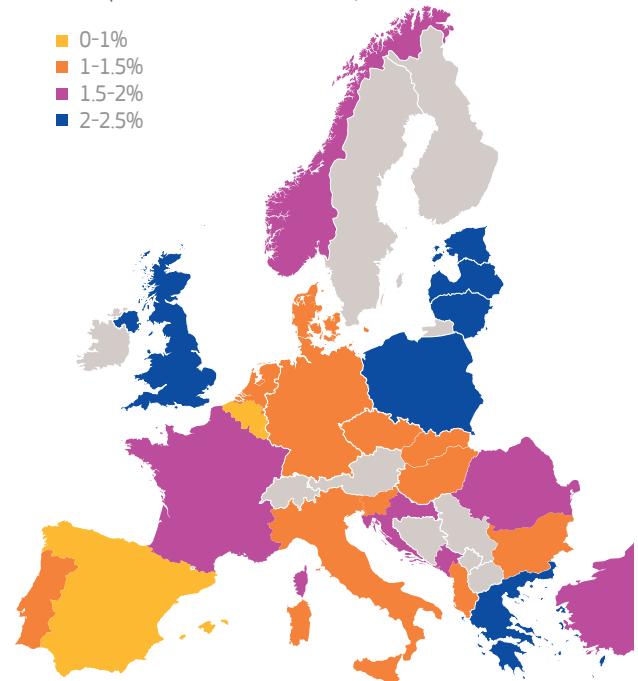
Source: European Commission

- **Strategic divergences among Member States as to their perceptions of threats and challenges** slow down the implementation of Permanent Structured Cooperation (PESCO) projects and often translate into lower levels of ambition.
- As a result, **joint spending tends to focus on immediate security challenges**, rather than preparing for future types of warfare and the long-term strategic autonomy of the EU. Leading military powers such as the US, China and Russia continue to invest heavily in AI-related defence technologies, while Europe makes only incremental steps in this respect

- **Europe remains existentially dependent on NATO and the US** due to the lack of sufficient conventional and nuclear capability, and of a coherent, pan-European decision-making with regards to investment in defence capabilities. At the same time, the rise in defence spending by actors including China, Saudi Arabia and India mean that they are more assertive in regional and international security, often meddling in the EU's neighbourhood or even Member States.

**Most Member States remain under the NATO defence expenditure guideline of 2%**

Defence expenditure as a share of GDP, 2018 estimates

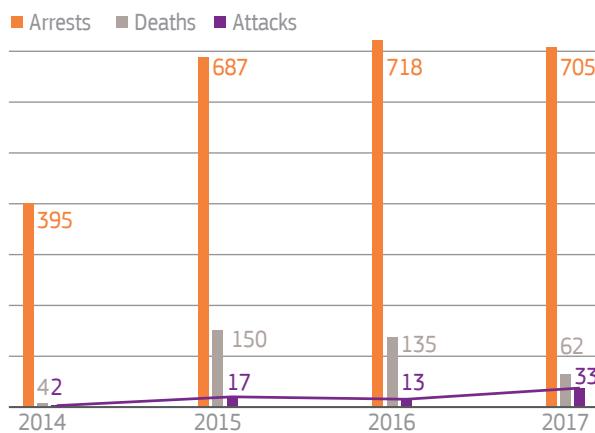


Note: For 2018, Latvia, Poland, Lithuania and Romania have either national laws or political agreements which call for at least 2% of GDP to be spent on defence annually.

Source: NATO, [Defence expenditure of NATO countries](#), March 2019

- Progress to address cybersecurity, organised crime and transnational terrorism is made**, most prominently with a **reinforced mandate for the EU's Agency for Cybersecurity** (European Union Agency for Network and Information and Security, ENISA), and the creation of a **European Public Prosecutor's office**. Yet prominent gaps and barriers remain as Member States lack ambition on enhanced information-sharing and fail to close technical interoperability gaps across security-relevant databases. As a result, organised crime continues to spread across Europe, raising funds for terrorist and other illicit operations. Corruption continues to pose a serious problem as funding from EU programmes is funnelled through shell companies to serve the interests of groups with anti-EU and anti-democratic aims (e.g. Russian disinformation campaigns, or groups involved in migrant smuggling).

### Terror threat remains high across Europe



Source: Europol 2018

### ▲ Best case: Shielded Europe

- As Member States engage in closer security and defence cooperation, a **common European strategic culture develops** – a culture of preparedness. This is reinforced through common experiences (increased joint military operations), common training and education, and, in some areas, common capabilities.
- A shared understanding of what Member States *can* do together leads to a more similar vision of what they *should* do. This is translated **into a White Book outlining a common outlook on European Security and Defence**, as a complement to national security strategies.
- This leads to **enhanced cooperation on internal security aspects**, with greater information-sharing, the creation of a European Intelligence Agency, as well as actions against money laundering, organised crime, corruption and tax fraud – often used as pathways to fund terrorist and anti-democratic activities.
- Member States also achieve a **step change in defence spending and procurement** leading to less fragmentation, reduced costs and more advanced capabilities. **Spending is more ambitious and future-oriented, enabling the EU to build its resilience against new forms of warfare**, including hybrid, chemical, biological, radiological and nuclear-related threats.
- The upgrading of defence technologies, the harmonisation of standards, and the creation of an integrated European defence industry supports **growth and convergence within the Union**,<sup>4</sup> also driven by synergies in R&D investments.
- As the EU invests more in AI-assisted military capabilities, it is in a strong position to **proactively articulate ethical norms and international arrangements relating to the use of AI in defence**. This also has positive spillover effects in civilian technology leadership and digital skills development.

1. Project Organised Crime Portfolio, DG HOME, <http://www.transcrime.it/wp-content/uploads/2015/03/OCP-Full-Report.pdf>

2. EMCDDA & Europol 2016, EU Drug Markets Report 2016, p. 23

3. European Union Serious And Organised Crime Threat Assessment, Europol, 2017

4. Robert Schuman Foundation, <https://www.robert-schuman.eu/en/european-issues/0486-the-sword-and-the-market-a-defence-union-would-strengthen-european-economic-integration>

# Migration and Border Management

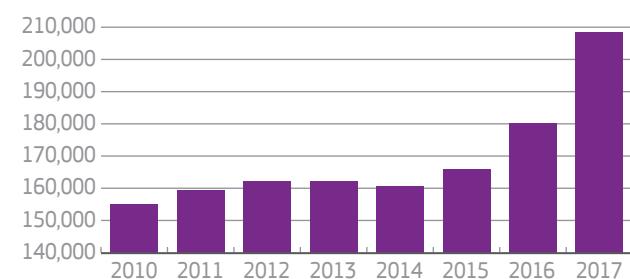
## Global trends: What is changing?

- **Anti-immigration rhetoric and sentiment** has strengthened in much of Europe, despite significantly reduced inflows of irregular migrants since the 2015-2016 peak.
- Migration will remain a defining issue for the EU in the years to come as the **absolute number of migrants** across the world is expected to continue increasing.  
**Economic development in the world's poorest regions** will in the short-term lead to greater migration as people's ability and willingness to emigrate increases with income. This trend could affect much of the African continent, where the population is not only very young, but also set to double in the next 30 years.<sup>1</sup>
- Even as irregular routes are closed off, refugees and **asylum-seekers are finding new channels of entry**. This was recently visible with the large numbers of Venezuelan migrants arriving in Europe.<sup>2</sup> In fact, the majority of asylum-seekers already today enter the EU in an orderly manner with the necessary documentation, and via designated points of entry, e.g. arriving as visa-free travellers or on valid tourist visas before overstaying or making an asylum claim.
- **Climate-related pressures**, as well as **deteriorating political and security environments** in a number of world regions will continue to increase the number of forcibly displaced people and people seeking protection outside their country of origin in coming years.
- **Europe will likely remain an attractive destination:** It is already home to 15% of the world's migrants (excluding mobile EU citizens) and, since 2010, EU28 countries have received on average 43% of the world's new asylum applications.
- Yet, **the EU continues to underachieve on attracting high-skilled talent. Labour migration to the EU27 has fallen by more than half since 2008** and accounts for just 15% of total immigration. More than half of legal migration flows into EU Member States are driven by family reunification – mainly marriage migration – or humanitarian grounds.

- Foreign workers from third countries have been replaced by mobile EU citizens and seasonal labour arriving for shorter periods of time. Among them Ukrainians working temporarily in Poland are the largest group (585,000 in 2017).

## More Latin American migrants and asylum-seekers arriving through legal and orderly channels: The case of Venezuela

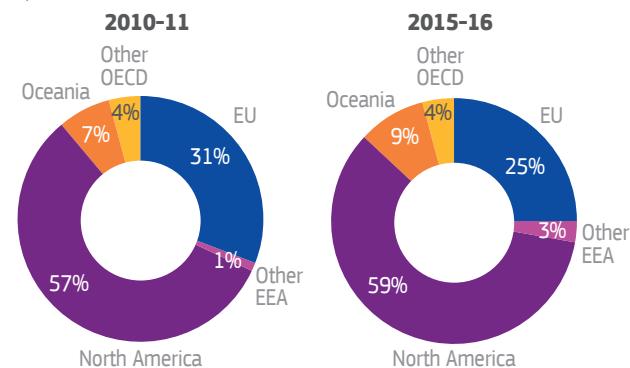
Absolute numbers of registered Venezuelan migrants and refugees in Spain, 2010-2017



Source: Padrón Municipal/Instituto Nacional de Estadística.

## EU losing ground when it comes to attracting high-skilled migrants

Distribution of foreign-born residents with a high-level of education, by OECD destination countries



Notes: EU refers to EU28 without Croatia due to missing data. For Iceland, Japan, New Zealand and Turkey, data are from DIOC 2010-2011. For the EU, only non-EU immigrants are included.

Source: Organisation for Economic Cooperation and Development

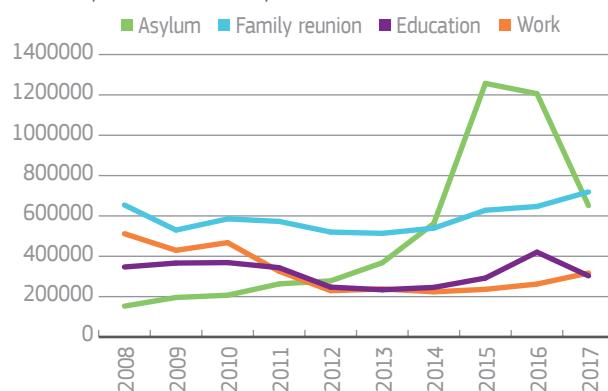


## Why Member States cannot deliver alone

- Europe's ability to negotiate arrangements, aimed at both managing migration flows and ensuring effective returns of irregular migrants, is a function of acting jointly and collectively.
- Europe's external frontier is only as secure as its individual parts. Given that irregular migration flows can – and do – shift quickly from one unsecured and porous area to the next, consolidating the common management of the EU's external frontiers is a necessity.
- The removal of border controls within the Schengen area means that migration flows to one Member State has spillover effects for other Member States.
- Some Member States carry a much larger burden than others – whether in terms of managing irregular arrivals, given their geographical situation at the external border of the EU (e.g. Greece, Italy and Spain), or in terms of resettling and integrating asylum-seekers and migrants (e.g. Germany, which is the only EU country in the world's top ten refugee-hosting countries).

### Labour migration to the EU is the exception rather than the rule

Migration flows to EU Member States estimated on the basis of first residence permits and first asylum claims



Source: Eurostat

### Three potential scenarios for the future

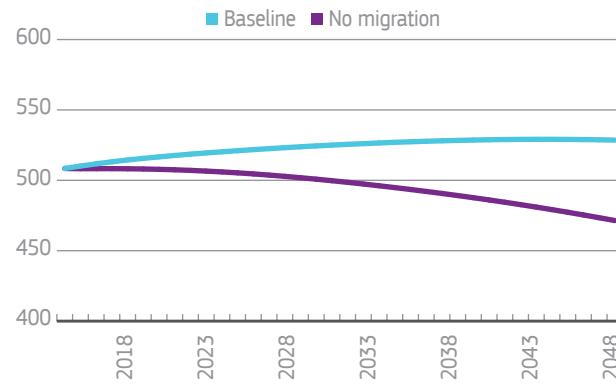
#### ▼ Worst case: Destitute fortress Europe

- More EU Member States harden their line over immigration, so that immigration flows are drastically reduced, even as many of Europe's best brains emigrate to the US and Asia-Pacific region, attracted by strong economic growth, technological leadership and easier access to finance. Economic growth stagnates in these Member States, and public finances prove unable to cope with higher dependency ratios, putting more people at risk of poverty.
- Because some EU Member States remain more open to migration and refugees, 'hard-line' countries close off their borders, withdrawing from the Schengen area. Anti-migrant and xenophobic discourse in these countries drives discrimination against existing migrant communities – including second and third generation migrants – in turn prompting or reinforcing the development of parallel societies and even radicalisation.

- ‘Hard-line’ Member States leave other countries to bear the burden of processing arrivals in the event of inevitable future shocks (e.g. outbreak of war or instability, or climate-related disasters). New arrivals have to be turned away as **reception facilities are stretched to their limits**, with devastating humanitarian consequences. Those who are accepted are often low-skilled, and tend to only find employment in highly precarious and very poorly paid jobs, often in the informal economy. They find it difficult to make a decent living and therefore to integrate, and also have trouble to make enough to remit back to their families and sustain them in their country of origin.
- The gulf between ‘softer-line’ and ‘harder-line’ Member States deepens until **solidarity between EU Member States reaches breaking point**.

### An impending labour shortage in Europe?

In the absence of any future immigration, total population in the EU (including the UK) would drop from 512 million in 2017 to 471 million in 2050: a loss of 41 million people. This would inevitably translate into a declining labour force, with anywhere up to 50 million fewer workers by 2050 depending on future labour force participation and retirement age.



Source: Global Trends to 2030: The Future of Migration and Integration, Europop, Eurostat

### ■ Status quo: At the world’s mercy

- In the absence of further shocks, **irregular migrant flows remain under control but this depends largely on the willingness of neighbouring countries**, such as Turkey, the Western Balkans, Libya and Morocco, to uphold existing agreements. In the event that collaboration ceases, the EU’s planned 10,000 new border guards would help minimise numbers of irregular crossings into the EU. However, their impact will remain limited due to the reluctance of many Member States with external EU/Schengen borders to accept EU border guards’ presence on their territory.
- Refugees and asylum-seekers continue to enter through alternative entry channels. **The EU’s leverage with countries of origin to ensure the**

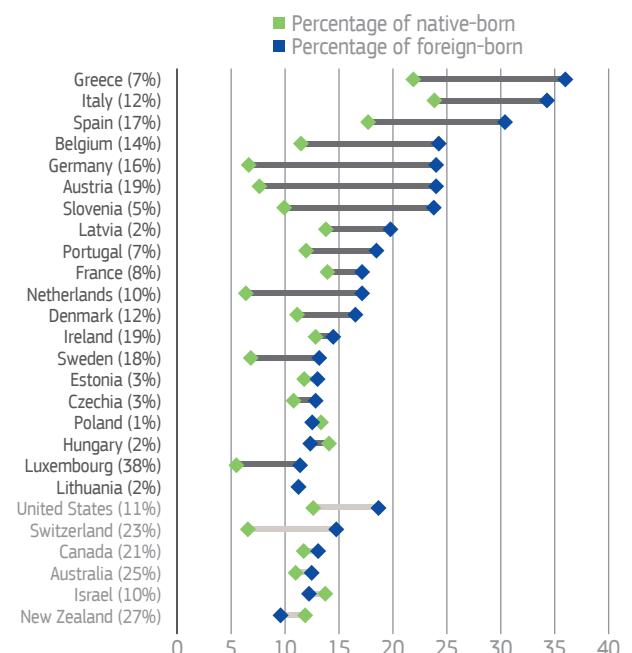
**return of people without a valid asylum claim or residence permit remains limited** due to its reluctance to issue more work and residence permits to labour migrants, or to use foreign assistance and investment as a bargaining chip.

- Member States continue to compete for talent, without an overarching EU labour migration strategy as the Blue Card Directive revision talks remain stalled. The EU continues to fall behind other comparable economies in attracting highly-educated talent, but it also fails to bring in the workforce it needs if it is to care for an ageing population and support the rising female labour force participation.
- Because the main legal pathway for immigration in most Member States remains family reunion (mainly marriage migration), rather than employment, **integration remains a lengthy and difficult process**.
- **Entrenched discrimination** in Europe and failure to integrate migrant communities means Europe continues to create a class of under-employed immigrants who feel little or no connection with their host societies.<sup>2</sup> Not only is this an opportunity cost for Europe at a time when it faces labour shortages and lagging productivity, but there are also potential security risks as alienation can be a source of radicalisation.

### Europe’s integration gap

Percentage of native- and foreign-born 15-29 year-old who are neither employed nor in education or training (NEET), 2017.

The (%) represents the share of 15-29 year-olds born in a foreign country.



Source: Education at a Glance 2018, Indicator A2, OECD

### ▲ Best case: Managed migration, talent magnet

- EU Member States agree on **joint border management** and efficient border controls.
- The availability of more residence and work permits **reduces incentives to use irregular routes**, and also gives the EU greater leverage in negotiating returns of irregular migrants with countries of origin.
- As irregular migration inflows are reduced to a minimum, this creates the political breathing space for the **completion of the EU's common asylum policy**.
- Member States also enhance efforts on the **integration of third-country nationals**. This is made easier in a context where the EU is able to better select and manage immigration thanks to more selective and

targeted labour migration policies at EU Member State level, alongside a revised Blue Card scheme. All relevant levels of government and civil society are engaged, thereby helping to improve social cohesion and maximise the economic gains from migration.

- The EU27 agree on a **common strategy for attracting highly-qualified immigrants** to Europe, based on the results of the 'fitness check for legal migration' at Member State level carried out and published by the European Commission. This greatly improves the EU's ability to attract and retain highly skilled third-country nationals that are in great demand and short supply in Europe, such as information technology specialists or nurses and carers for the rapidly growing numbers of elderly people in Europe.

1. EPSC, JRC, Many more to come? Migration from and within Africa, 2018

2. European Asylum Support Office, 2018

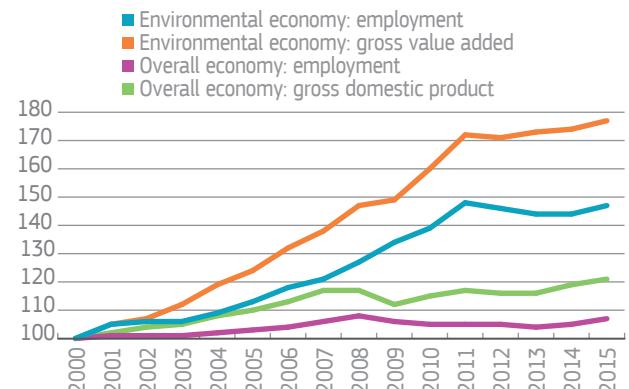
3. <https://immigrationlab.org/project/the-struggle-to-integrate-muslims-in-europe/>

# CLIMATE AND ENERGY

## Global trends: What is changing?

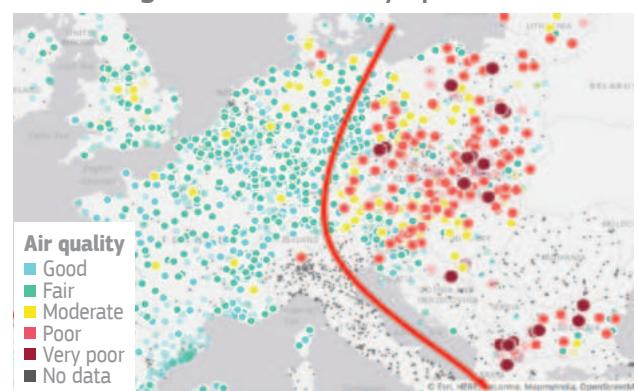
- The once distant-seeming effects of climate change are increasingly observable. Weather-related disasters have hit many European regions hard, at **significant human and financial cost**.
- The tangible dangers of climate change have led to a **rise in civic activism** throughout Europe, in particular among younger generations, placing climate high on the political agenda in many Member States.
- Buoyed by early EU policy and regulatory measures, Europe has succeeded in reducing its carbon footprint over the past 25 years. However, **the world as a whole is still far from the agreed goal of limiting global warming to well below 2°C**. Governments worldwide, including in the EU, continue to subsidise fossil fuel consumption and financial markets remain overwhelmingly skewed towards carbon-intensive sectors.
- Europe's early lead in developing clean tech markets is coming under pressure as other economies seek to take a share of this fast-growing, future-oriented market. It is rapidly being **overtaken by Asia** as China pours money into renewables and energy efficiency. In addition, Europe is **increasingly reliant on third countries for access to raw materials** and components that it needs to produce clean technologies, such as solar panels, wind turbines and electric vehicles.
- Nonetheless, the green economy has been growing faster than other sectors in Europe – acting as a major stimulus for **new 'clean tech' jobs**. **However, not all Europeans are equipped with the necessary skill sets** to benefit from these new opportunities.
- In addition, **many consumers and taxpayers are unable to cope with the costs of the clean economy transition**, which weigh harder on some regions and segments of population. Rising social contestation in some Member States highlight the need for policies that not only champion the low-carbon transition, but do so in a way that is fair and manageable for lower-income groups.

## Green economy growing faster than overall economy



Source: Eurostat, European Commission

## Effects of environmental degradation are more tangible and unevenly spread



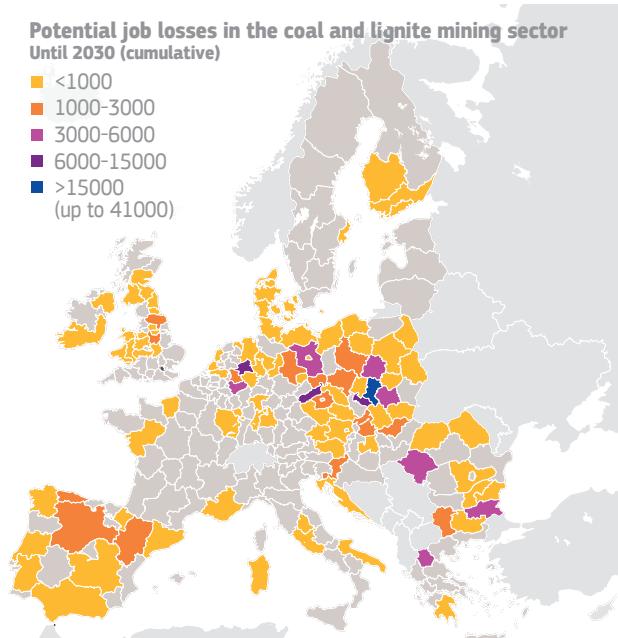
Source: European Air Quality Index

- Lastly, as **digitalisation and decentralisation of energy systems** create opportunities for cheaper and more localised energy production, they also amplify cyber risks both for individual installations and on a systemic level.

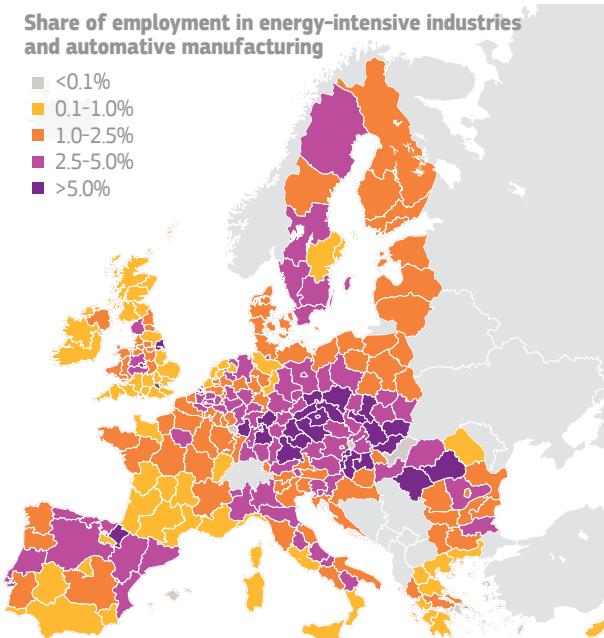


## Carbon-intensive regions are most at risk

By 2030, it is estimated that around 160,000 of the current 237,000 direct jobs in coal and lignite mining and power-plants may be lost, affecting some regions harder than others. But that's just the small picture: energy-intensive industries and the automotive sector, which represent over 5% of total employment in many regions, will also have to adapt.



Source: Joint Research Centre



Source: Eurostat, SBS

## Why Member States cannot deliver alone

- Carbon emissions know no borders and **mitigating climate change requires global cooperation**.
- Only as a collective actor does the EU carry enough weight in international negotiations to uphold its interests.
- The legacies of the economic and financial crisis mean that many Member States have neither the political capital nor the fiscal means to credibly address climate change in the coming years. Yet, **climate and energy are policy areas with major ramifications for the delivery of other policy goals**, such as economic modernisation, social equity, health and security.
- The **EU's single market is indispensable to develop sufficiently sizeable markets to scale clean technologies** across Europe, which is needed to tackle climate change and reduce fossil fuel dependencies while maintaining economic growth. The current fragmentation along national, even regional, lines keeps markets small, reducing the return on clean tech investments.

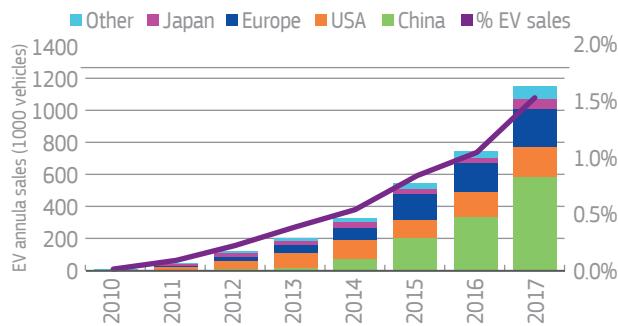
## Three potential scenarios for the future

### ▼ Worst case: Outsourcing Europe's future

- Frustration with the social and economic costs of the transition to a clean economy grows as policymakers fail to put in place the necessary frameworks to support those most affected. Far-right and populist parties benefit, leading to a political backlash, **significantly lowering the ambition to tackle climate change and managing energy objectives at EU level**.
- Reflecting these lower levels of ambition, funds initially foreseen for climate action under the next Multiannual Financial Framework are drastically cut and the EU fails to mobilise the necessary investments for research and innovation or for deploying the infrastructures and technologies needed to modernise its economy.
- It continues to slip further behind China on clean tech solutions, seeing **entire markets shift to Asia – including the production of next-generation electric vehicles**, leaving tens of thousands of Europeans jobless. China becomes Africa's largest partner for the development of clean tech solutions, with the EU missing out on lucrative business opportunities, while still remaining the main destination for African migration.
- **Continued reliance on fossil fuel imports**, due to a lack of means of most Europeans to buy foreign-made clean tech solutions, mean that air pollution remains a critical problem, ramping up healthcare costs.
- Member States are further exposed to Russia and other suppliers' 'divide et impera' approaches. Disagreements over strategic projects such as Nord Stream 2 eventually divide Europe, leading to a **renationalisation of energy policies**, so that the EU no longer has the leverage of its internal energy market in trade negotiations with the United States and others.

### China's domination of clean tech markets

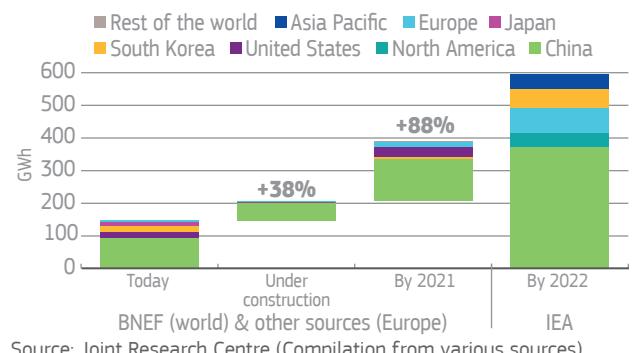
Half of the world's electric vehicles sales are in China



### ■ Status quo: Patchy leadership

- Thanks to Europe's persistent efforts, **the United Nations framework on climate change remains stable** and one of the few functioning areas of multilateralism.
- Internally, the EU continues its approach of **target-setting**, relying largely on its Emissions Trading Scheme and other market mechanisms to deliver.
- Expenditure for climate-related purposes is increased in the new Multiannual Financial Framework, but the EU continues to lag behind on infrastructure, research and innovation funding.
- This means that the EU has to rely mainly on the gradual roll-out of renewable technologies that are already mature, like solar, hydropower and wind, rather than new breakthrough innovations, like green hydrogen.
- **China takes the lead in many emerging clean tech markets** and Europe becomes a market for more advanced foreign producers instead of opening up new markets for its own industries.
- In addition, the roll-out of climate-friendly technologies remains patchy across Member States due to diverging geographies and **vast differences in levels of investment**. While the EU's Investment Plan and its European Fund for Strategic Investments (EFSI) support the demonstration and scale up of projects, its **ad hoc approach** leads to a growing gap between Member States.
- Those Member States that invest less in the transition and climate proofing of infrastructures face **knock-on effects**, including greater risks of climate disasters, fewer business opportunities for their fossil-fuel based industries, higher energy costs for consumers and detrimental health effects.

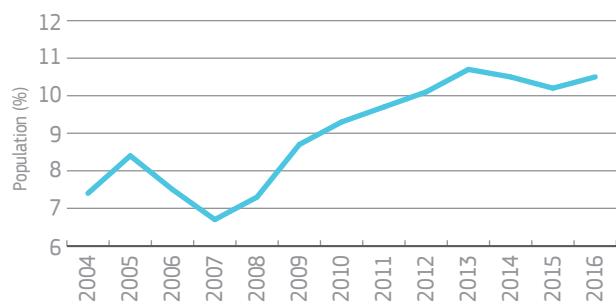
China dominates battery sale production



- Some Member States continue to apply **unilateral approaches to security of energy supply** and proceed with contested bilateral energy and infrastructure projects with third countries – some of which are not aligned with the EU's over-arching policy priorities and strategic interests.

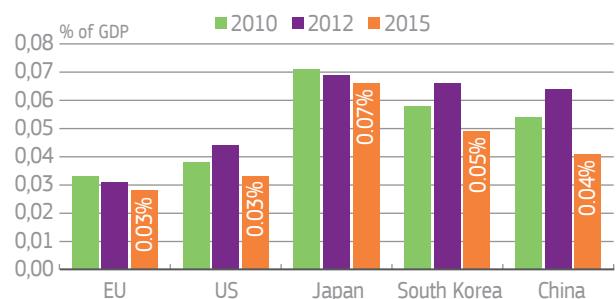
### More Europeans unable to pay their utility bills in recent years

Share of population facing arrears on utility bills, 2004 - 2016



Source: Eurostat, Energy poverty observatory

### The EU ranks last among major economies in terms of R&I investments in the energy sector as share of GDP



Source: Joint Research Centre

### ▲ Best case: Europe on a mission

- The fight against climate change is put forward as one of the top political priorities of the EU. It is mainstreamed across policies to support economic modernisation, social fairness and European strategic autonomy. The **substantial co-benefits** of this engagement include greater energy independence, more high-quality, future-proof jobs, as well as fewer climate-related disasters, and improved health, reducing the need for public spending in these fields.
- The EU builds coalitions to **integrate the climate agenda into global trade rules**, creating fair competition for its companies on the basis of the Paris Agreement rulebook agreed upon at COP24 in Katowice.
- Targeted investments are used to support vulnerable regions, industries, citizens and parts of the workforce at risk** of losing out in the transition to a green economy.
- Europe shows **global solidarity with countries affected by climate change**, and through its economic diplomacy offers African partners an alternative to the Chinese development model, creating economic opportunities for Africans and Europeans alike.
- The clean economy transition also provides a **new socio-economic paradigm based on local economic activity**. Energy efficiency and building renovation provide a major stimulus to local employment in the construction sector, to project finance through retail banks, and to the creation of European value chains.
- Enabling policies supporting European technology leadership are at the heart of the EU's climate and energy action. Measures to support the growth of sustainable finance, together with a sizeable Investment Plan 2.0, within a reformed Multiannual Financial Framework, places the EU in a **strong position to support innovation and scale up clean tech companies and markets in Europe**.
- A young generation deeply concerned about climate change realises that **only EU action can deliver global change**, rejuvenating the European project and giving it new momentum and vision.

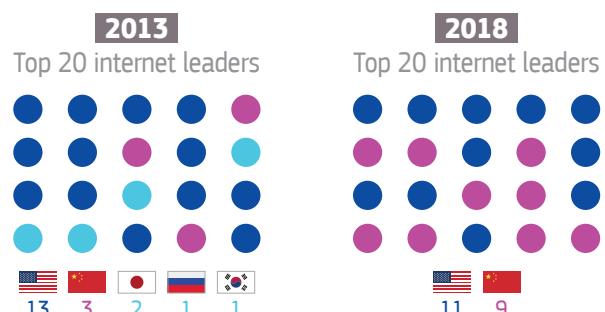
# TECHNOLOGY AND INNOVATION

## Global trends: What is changing?

- The digital age is changing the nature and speed of innovation.** Often referred to as knowledge-based capital, intangible assets have become the key ingredient of modern-day corporate success: design, software, data, business model and organisational innovation, firm-specific skills, branding and marketing, to name but a few. Copyright and links to entrepreneurial universities that facilitate knowledge transfer are also recognised as significant.
- Economic success and innovation is no longer the exclusive remit of the West.** Once considered primarily as a low-cost producer and copy-maker, China is now often leading the innovation wave, buoyed by large-scale government investments in the domestic tech industry, an innovation-friendly regulatory framework and a massively expanding consumer market, as the Chinese middle and upper classes grow rapidly.

## The digital universe is now binary

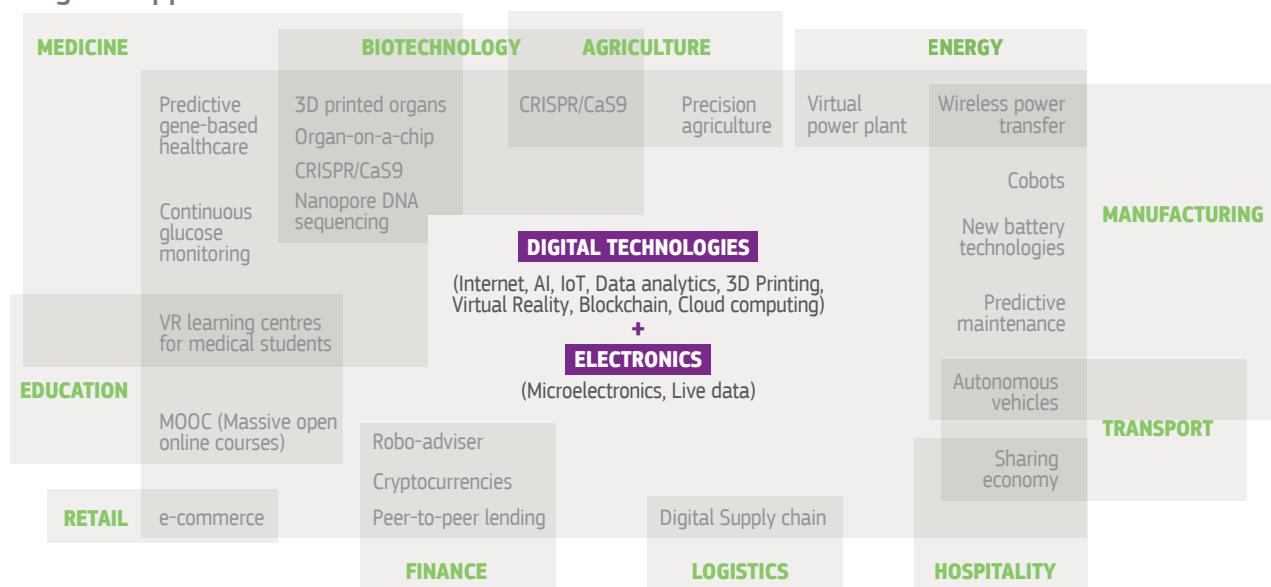
Top 20 Internet companies in terms of market valuation are all American and Chinese



Source: Kleiner Perkins Caufield & Byers Internet Trends Report 2018, Forbes, Company Reports

- China has also become far more active in attempting to shape **international standards** in its favour, with a view to dominating markets of the future.

## Digital technologies and electronics are enabling new developments across an ever-growing range of applications



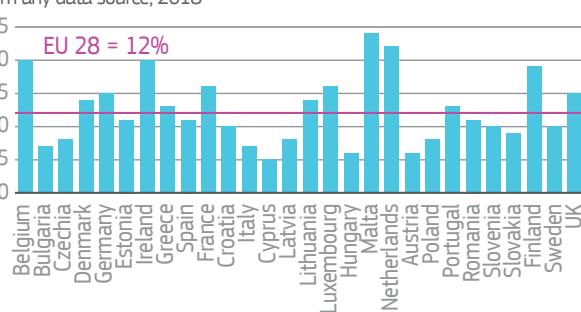
Source: EPSC, based on DG RTD



- **Among the global top twenty digital companies, not a single one is European.** At the same time, the position of these superstar firms is becoming more entrenched. The **winner-takes-all and keeps-all dynamic** that tends to prevail in digital markets makes it hard to displace these firms once they gain the position of market leader.
- **New enabling technologies**, including AI, blockchain, or quantum computing, have unleashed a global race for investment, talents, knowledge and research.
- **Digital technologies enable innovation across a range of fields**, most significantly within the life sciences and manufacturing. In this context, economic and technological leadership is increasingly a function of digital performance. At the same time, ubiquitous connectivity exposes nations to new cross-border threats, leading to the increasing confluence of geopolitics and technological vulnerabilities.

In some Member States, fewer than one in ten firms have integrated big data analytics in their processes

Percentage of all enterprises (excluding financial sector) analysing big data from any data source, 2018



Source: Eurostat

## Why Member States cannot deliver alone

- **Success in the digital economy depends on scale, speed and networks.** The success of business-to-consumer markets in the US and China is mostly driven by companies' ability to access large and seamless markets. **Without an integrated market, European companies have fewer chances of competing** and attracting significant investments. Europe has real shortcomings when it comes to access to funding for 'mid-caps' (companies valued between 2-10 billion dollars), not to mention capital markets that continue to be fragmented, despite ongoing efforts. The result is a lack of successful scale-ups in Europe, which has not produced a single sizeable digital company on par with Google or Alibaba.
- **Europe's strategic autonomy in the context of digital technologies and infrastructures** crucially relies on the ability of the Member States to complement each other in how they contribute to the value chain.
- **Short-term interests lead to insufficient strategic planning.** Retaining control over increasingly important sources of revenue (e.g. taxes, data analytics and processing), fear of the disruptive power of tech and its potential considerable impacts on domestic rents means that Member States often seek to deliver tech infrastructure alone. The roll-out of 5G is aptly reflective of this dynamic: increased coordination of wireless spectrum auctions would imply faster deployment of 5G tech and greater synergies across the economy. It would also result in better overall cross-border connectivity (e.g. connected cars that 'don't stop at the border').
- As the distinction between online and offline worlds increasingly becomes superfluous, new ethical dilemmas emerge. It will be in the interest of EU Member States to put shared European values at the heart of the frameworks that will shape the technologies of the future. For Europe to become a world leader in the digital economy, setting global standards and creating new areas of competitive advantage will be essential. **Without a coordinated, EU-wide approach, Member States risk becoming rule- and standard-takers**, as individually they will not have enough clout to influence regulations, emerging business models or technology developments that will shape international normative frameworks.

## Three potential scenarios for the future

### ▼ Worst case: Digital denial

- In an attempt to respond to nationalistic sentiments, the EU's priority of **establishing the Digital Single Market becomes more 'hands-off'**, providing Member States with greater leeway to set in motion their own policies. In parallel, overly interventionist and siloed actions are developed, usually based on a defensive approach rather than charting new technological and economic frontiers.
- The resulting **patchwork of inconsistent or even clashing 27 approaches** on issues ranging from digital taxation to AI puts Europe on a slippery slope to economic decline: due to uncertainties and high compliance costs, providers of digital services exit the market or do not enter in the first place; users lose access to digital offerings; failure to adopt digital technologies results in lagging productivity across EU industries; and foreign and EU investments sink. Once-thriving European industries, such as the automotive sector, are left struggling as non-EU tech firms take the lead in shaping new forms of connected, automated, sustainable, safe and secure mobility.
- Europe remains in denial about an array of security threats in the digital space**, offering a delayed and ineffective response. As no alternatives exist, Europe increasingly relies on foreign digital technologies and infrastructures – in particular on those provided by China and its state-supported companies – becoming increasingly exposed to the threat of foreign interference in domestic matters. Alternatively, Europe acknowledges potential vulnerabilities embedded in foreign products, drawing the conclusion that the only way out is to adopt an 'isolationist' logic and pre-emptively shutting itself off from foreign partners

(e.g. by adopting strict trade restrictions). This not only drastically slows down its digital progress but opens new security risks as Europe is unable to close its digital skills and technology gap overnight.

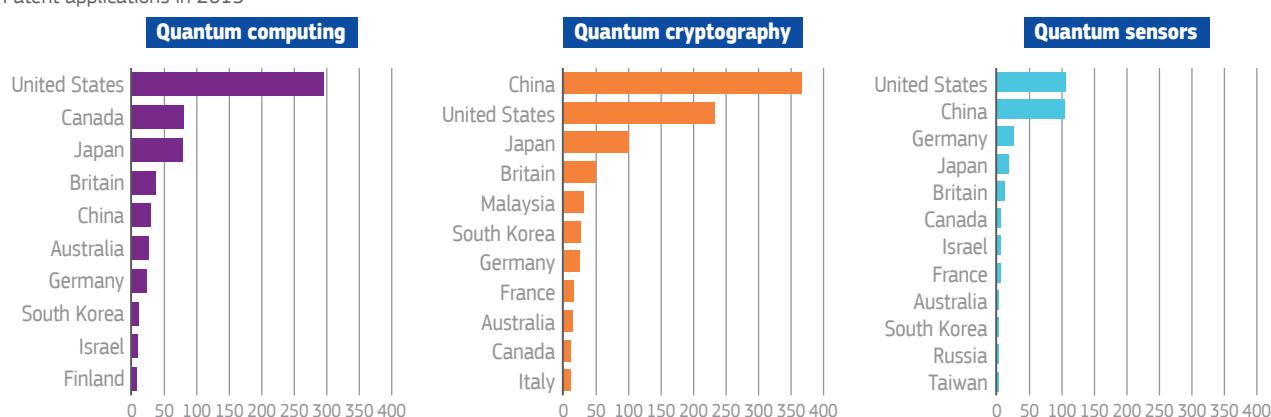
- Learning opportunities and universities are not adapted to the digital transformation of Europe's economy**, producing graduates whose skills do not correspond to those required in a tech-driven job market. **Europeans are not equipped to deal with the large-scale transformation of labour markets**, are left unaccompanied during transitions and under-skilled, leading to growing societal mistrust in technological innovation, fuelling discontent and generating enormous opportunity costs.

### ■ Status quo: Bronze medal at best

- Europe incrementally pulls down cross-border barriers but Member States remain slow in implementing** the legislative initiatives, resulting in significant differences in the regulatory frameworks across multiple dimensions of digital. When it comes to diffusion of digital rewards, the gap between those who reap the benefits (few) and those who remain in a less privileged position (many) continues to widen.
- Europe's digital economy improves, but does not take off**. In the market of business-to-consumer digital offerings, the gap with US and China steadily increases. Improvements in digitalisation of European industry remain marginal: after some years of accelerated efforts, only 30-40% of businesses are highly digitised. Smaller companies fear the asymmetric impacts that a number of **regulatory** initiatives may have on markets, possibly with a relatively bigger increase in **burden** on them as compared to their larger competitors. These concerns, combined with a lack of access to **scale-**

## Towards a greater reliance on foreign technology? US and China dominate across the board in key future technologies

Patent applications in 2015



Source: UK Intellectual Property Office

**up funding** in Europe, leads to a flight of Europe's most promising companies to the US and the rapidly expanding markets of China.

- **Europe becomes more wary about its reliance on potentially compromised and dangerous foreign technologies.** As it does not have its own alternatives, it proceeds carefully to ensure it is not left without access to major tech developments and seeks to maintain partnerships and alliances to the key actors, US and China.
- To respond to an increasing concentration of private power in the digital marketplace, Europe relies on existing regulatory and competition tools to render markets more competitive. **Despite being designed in the times preceding the digital revolution, established frameworks are viewed by competition enforcers as flexible enough to adequately respond to the modern business reality.** Ultimately, certain types of harms are not captured and the openness of markets and creation of a level playing field remain insufficient.
- Regarding AI development and deployment, the EU occupies a stable third place, after the US and China. **Industry and policymakers tend to pursue divergent strategies that aim at addressing the same challenges:** for example, companies offer quick 'tech fixes' to tackle the problem of fairness of automated decision-making, whereas policymakers elaborate on ethical frameworks.

### ▲ Best case: A 'third way' of digital development

- Europe becomes more strategic in designing its technological and industrial future and less naïve with regard to unfair competition from other countries.
- Member States join forces and **invest jointly in major emerging technologies** – AI, quantum, microchips – on a similar level to key competitors such as the US and China – among others by making the most of the framework offered under the EU's 'Important Projects of Common European Interests'. Europe becomes a digital player on par with the United States and China, thanks to the success of its 'third way' of human-centric digital development.

• The Digital Single Market finally becomes a reality. After a full and smooth implementation of relevant EU regulation by Member States, **data can flow freely from one country to another, from one company to another, from one public institution to another – all the while offering a high level of protection for personal data.** The cloud computing market is highly competitive and the integrated single market offers the scale necessary for cloud services to reach their potential.

• **Europe speaks with one voice on big global tech issues:** a new seamless regulatory framework that embraces a coherent approach to digital taxes or tech ethics is put forward by the EU and gains full support of the Member States. EU regulation and enforcement becomes a stable lighthouse for the rest of the world. **Cross-border investment** in tech thrives, backed-up by EU funds and guarantees, and tech companies, scientists, and a tech-savvy labour force rush to establish themselves in Europe where, finally, start-ups can become globally successful scale-ups.

• **Trust in digital blossoms across the continent.** Everyone has access to digital services/connectivity, across both geographies and segments of the society. Individuals are empowered through better redress mechanisms and enforceable digital rights. They are able to make fully-informed choices in the digital space and exercise their 'sovereignty' as consumers. The benefits that tech brings are distributed in a just manner, and a symbiotic relationship is established between European citizens and technology.

• The thriving EU digital economy prompts inexpensive, high-quality technologies and infrastructure alternatives to potentially harmful services from outside the EU.

**Europe adopts a sensible and strategic approach to digital dependencies and alliances**, which remain unavoidable in certain contexts, and retains control and oversight over value chains. The continent becomes resilient, and its higher quality standards are adopted in other parts of the world.

• **Europe emerges as a compelling alternative model for AI** – with equal economic potential as compared to other global models – yet with higher quality standards matching EU citizens' preferences for privacy and respect of ethics.

# DEMOCRACY AND FREEDOM

## Global trends: What is changing?

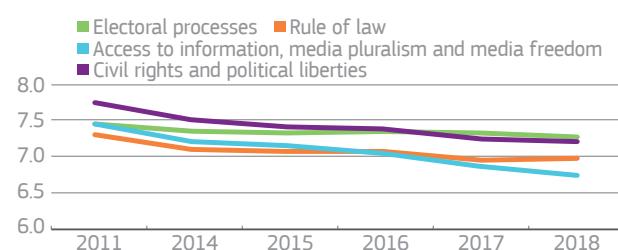
- For thirteen consecutive years, the world has experienced a decline in democracy and freedom.<sup>1</sup> In Europe, despite improvements in political participation, democratic standards have slipped in 16 of 28 Member States. The decline has been particularly strong in some Central and Eastern European countries, which have seen an erosion of rule of law in recent years. Media freedom and pluralism have also seen a stark drop across EU and OECD countries.<sup>2</sup>
- The digital revolution has created important new avenues for public discourse and debate, enabling greater levels of transparency and accountability in public life, and higher levels of citizen engagement. And yet, although the openness, tolerance and pluralism of democracies is an inherent strength, the governance model has come under strain in this digital age, where 'echo chambers' of news consumption and social media – not to mention the **weaponisation of information** – have become major threats to finding common ground and agreeing on compromises, both of which are necessary for democracy to function.
- Anti-democratic actors – both within and outside of Europe – have seized on this opportunity **to amplify division and conflict** to the detriment of democracies

and societal cohesion. The past few years have seen unprecedented **foreign meddling in elections** across the globe. Spearheaded by Russia, attempts to undermine democracies and sway electoral results using bots, trolls, disinformation and fake accounts, have become increasingly common.

- Societal polarisation has reached new heights, as the political fringes have strengthened and the centre weakened. **Populists on the left and right are feeding off citizens' economic insecurities** and cultural anxieties. And when in government, they are often **using their democratic mandate to undermine the very institutions that got them into office** in the first place, for instance by compromising judicial independence or media freedom.
- Europe's **political landscape has become increasingly fragmented** as the big political groupings of the 20<sup>th</sup> century have lost ground. **Reduced trust** in established institutions and experts, as well as in the media makes it more difficult to build societal consensus, generating ambiguity around policy priorities. This has made governing significantly more difficult, with **governments taking longer to form and finding it harder to maintain the consensus** throughout their mandate – with several Member States having to resort to minority governments.

## The quality of democracy is declining in EU countries

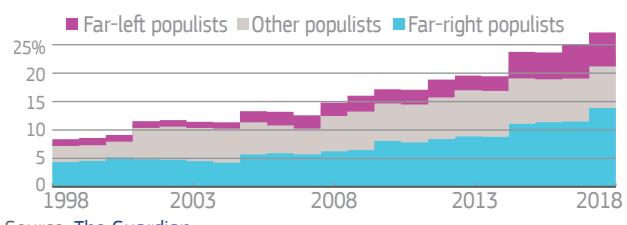
Quality of democracy sub-indexes, on a scale of 0 (low) to 10 (high).



Source: Bertelsmann Stiftung

## Populist parties have more than tripled their support in Europe in the last two decades

Combined vote share by year for 31 countries, as per last parliamentary election

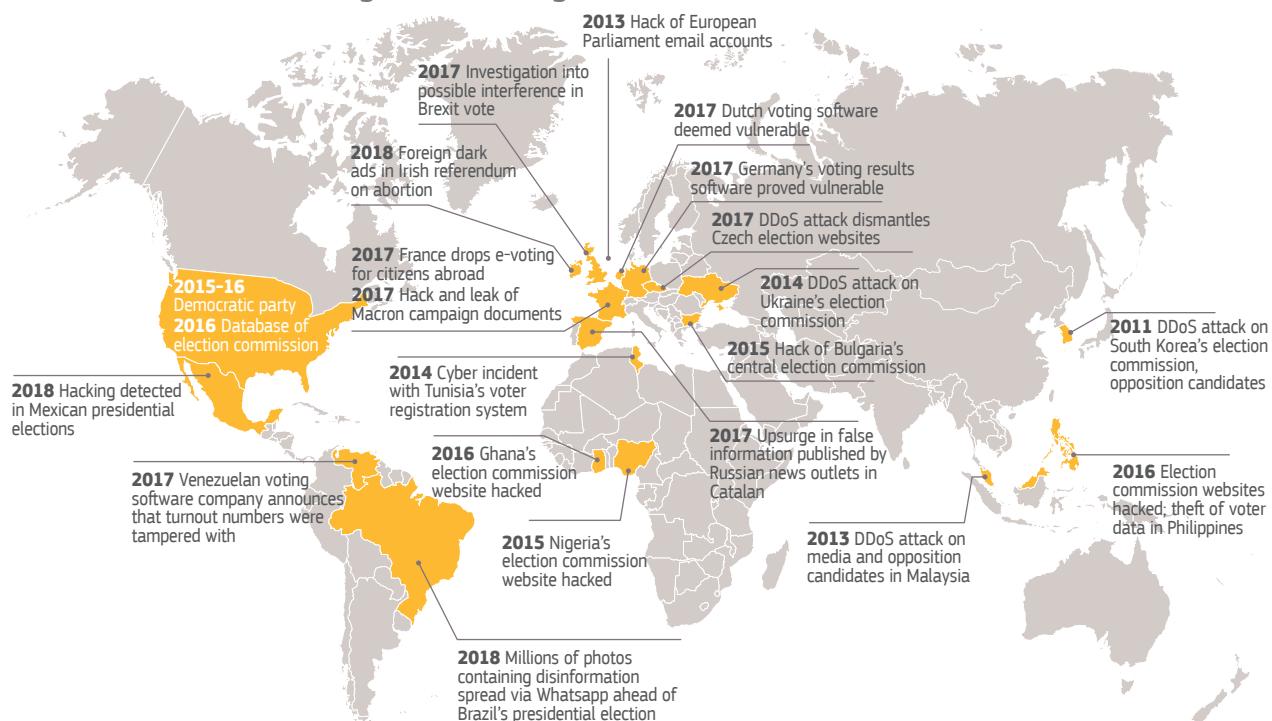




## Why Member States cannot deliver alone

- **Rule of law and democracy in the EU are only as strong as their weakest link. National courts are *de facto* ‘Union courts’.**<sup>3</sup> If one fails, it has knock-on effects in all Member States, jeopardising predictability, legal certainty and mutual trust. This endangers the most basic principles of the EU, such as equal rights and liberties for all EU citizens, as well as the legal underpinnings of the Single Market, impacting the overall investment climate, especially in countries that compromise the rule of law.
- As European democracy and sovereignty come under attack from **authoritarian foreign actors**, such as Russia, North Korea, Turkey, China or Saudi Arabia – many of which are also **meddling** in Europe’s neighbourhood, from the Western Balkans, to North Africa and the Middle East – European countries will have greater leverage to withstand political interventions by standing together and exhibiting unity. Jointly, EU Member States can also provide better and more complete intelligence about foreign actors activities’ across EU and neighbourhood territories.
- As technology becomes central to democracy in the digital era, there is a growing need for the EU to ensure **the defence of democratic principles in the digital space**, which – as inherently cross-border – cannot be tackled at national level.
- **Populist narratives must be countered through facts, while responding to the real grievances expressed by those Europeans who are – or feel they are – being left behind** in the ongoing economic transition. Joint action at EU level enables governments to better support and empower workers and citizens in today’s fast-changing world.

## Election interference is a global challenge



Source: European Political Strategy Centre, based on media reports

## Three potential scenarios for the future

### ▼ Worst case: Nativist dominos

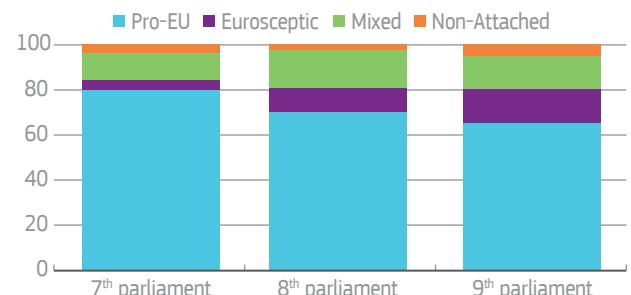
- An internally divided EU refrains from taking strong action aimed at holding Member States accountable for upholding democratic values and rule of law at national level. This not only feeds a sense of impunity among offending countries, but leads to declining trust in European institutions among citizens.
- EU Member States fail to rapidly and effectively implement a forceful strategy to fend off disinformation and election interference ahead of the European elections, leading to heightened polarisation, contested electoral results and the most fragmented European Parliament to date. Elections in Member States remain vulnerable to third-country interference, often turning into divisive acts rather than a show of democracy.
- Growing economic polarisation in Member States translates in social unrest in daily life and increasing fragmentation of the political landscape.
- In many countries, it becomes difficult to form stable governments, leading Member States to focus their political capital on domestic issues. In others, those elected engage in a form of politics that is 'sovereignist' and nationalist on the outside and paternalistic, majoritarian and anti-democratic from within. Europe's illiberals paralyse the Council and the European Parliament, and place pressure on the European Commission.
- The questioning of EU institutions becomes much more aggressive, leading to an open rejection of EU policies, from the euro to migration, as well as flagrant violations of European democratic standards and rule of law. Decisions of the European Court of Justice are ignored by nativist Member States which vow to 'take back control'.
- This dynamic steadily hollows out European integration and strips it of most of its attributes. A number of Member States exploit the European Court of Justice precedent on Brexit to trigger Article 50 as a bargaining chip in a bid to extract greater benefits and fewer obligations from the membership. The end result is an EU in permanent disruption and introspection, unable to deliver on citizens' needs. This leads to a vicious cycle which further erodes trust in democratic governance and institutions.

### ■ Status quo: Fractured polities

- Despite internal divisions, the EU continues proceedings against those Member States that are infringing on the rule of law at national level, further boosting trust in European institutions among citizens – a trend already apparent in 2018<sup>4</sup>, when 42% of Europeans surveyed said that they tend to trust the EU institutions, against just 34% saying the same of their national institutions.
- A number of Member States continue to test progressive, democratic practices with a view to adapting governance models to the digital age, and giving a greater voice to growing numbers of citizens wishing to engage in the democratic debate. However, these experiences remain limited in scale and do not catch on throughout the EU.
- The debate leading up to European elections is more European than ever, focusing on the broader challenges facing the Union. However, existing tensions among Member States – migratory issues in particular, and divisions on social and economic policies – remain central.
- This leads to both an increase in voter turnout and a rise in extremist and nationalist tendencies.<sup>5</sup> While in the short-term there is no major turnaround in the EU agenda, inter-institutional agreements become even harder to build, limiting the level of ambition of EU integration. Many files meet with resistance – in particular those relating to migration, euro area governance or security, as negotiations become sustained electoral campaigns amidst permanent political jockeying.
- In a number of Member States, citizen, populist and fascist movements, frustrated with the status quo, coalesce to challenge the elites. Democratic governance becomes increasingly unmanageable in an

### A shrinking pro-EU majority in parliament

% of seats by EU stance



Note: data on the 9th European Parliament are projections

Sources: Pollopolls; Politico; The Economist Intelligence Unit

ever-more fragmented political landscape, **reducing the effectiveness of policies**, in particular those seeking to tackle social and regional inequalities.

- Within Europe, the social agenda – crucial to tackling the roots of this discontent – remains largely blocked, as Member States are unable to overcome fears of social dumping and bridge disparities among national social systems.

#### ▲ Best case: Digital democracy

- The EU succeeds in protecting the ‘infrastructure’ of democracy and **tackling disinformation through a comprehensive strategy** that also ramps up support to vibrant and independent pluralistic journalism, engaging with think tanks and civil society organisations, and protecting freedom of expression.
- **Digital technologies are mobilised to better engage with citizens**, and make the EU and governments more transparent and accountable. Europe-wide (digital) skills and literacy programmes are scaled up. The EU institutions themselves experiment with new digital tools to enhance democratic participation, forging new relationships between institutions and local residents, and **civil servants increasingly become ambassadors for a revitalised discussion about the EU**. The disconnect – perceived and real – between political elites and citizens shrinks, and protest movements wanes.

- A younger generation of Europeans who have been brought up with the benefits of a united Europe, put pressure on their governments and the European Parliament to design a **new consensus for coordinated political action at EU level**. The results are visible in elections across Europe, with new pro-EU majorities and a reinvigoration of EU integration, which builds trust and confidence at home and abroad.
- The EU’s institutional set-up, as well as the system of checks and balances it has put in place are effective. This includes a clear rule of law conditionality for the receipt of EU funds. As a result, **Member States refrain from crossing red lines when it comes to democracy and rule of law**.
- The improved political environment in turn provides Member States **greater bandwidth to address the underlying social and economic needs of Europeans** and adopt the necessary frameworks to ensure that economic and technological change do not result in new patterns of inequality and exclusion. Among others, they agree on common standards determining the employment status of the growing throngs of ‘non-standard’ workers, such as digital platform workers, providing greater access to social protection to this precarious group, while enabling businesses to fully tap the potential of a single European digital market.

1. The independent watchdog organisation Freedom House’s report for 2019 – entitled “[Democracy in Retreat](#)” – finds that democratic principles such as election integrity and freedom of the press are weakening globally for the 13<sup>th</sup> consecutive year.
2. BertelsmannStiftung, ‘[The quality of democracy is declining in many industrialised states](#)’, October 2018.
3. as the ECJ declared in its *Les Verts* case in 1986.
4. Jacques Delors Institute, ‘European Parliament 2019: the Parliament and Europe to Come’, November 2018



# TIME FOR HISTORICAL CHOICES

## It's now or never

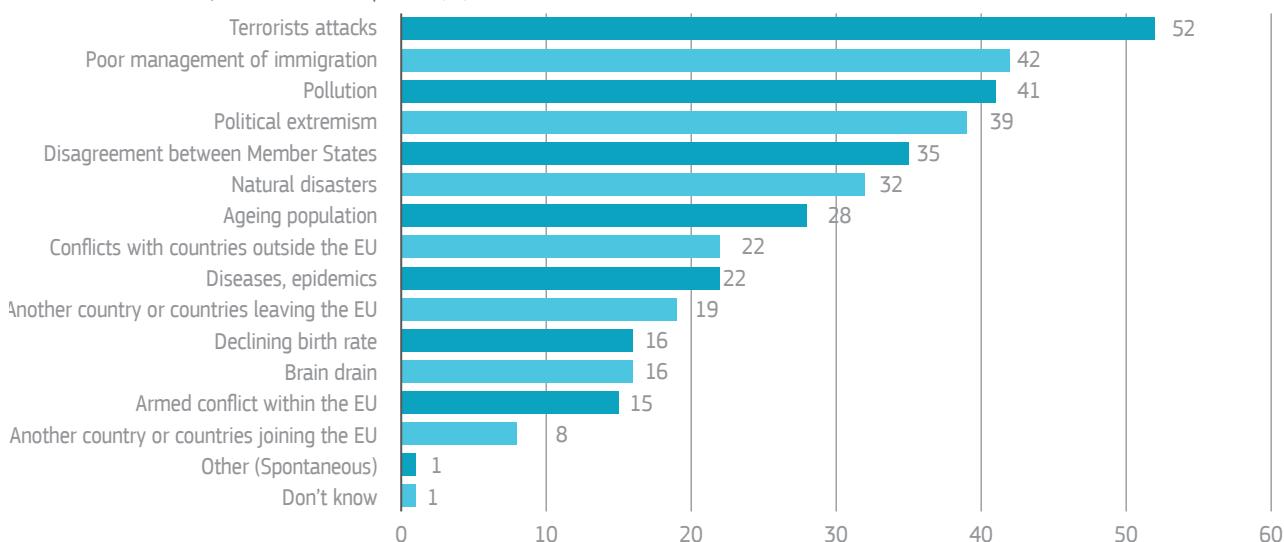
The last decade profoundly altered the economic, political, societal and security context in Europe and the world. Looking ahead, this is unlikely to change. Member States now face an important decision: do they want to weather these challenges alone or together? **If the past is anything to go by, it is when acting together that EU Member States can punch above their individual weight** – whether that's in trade, competition, regulation or the recent experience of Brexit negotiations. **Publicly exhibited – and diligently executed – unity among EU members is the best way to ensure that common priorities are met.** But what are these common priorities that will shape and define our future? Where precisely is it that the EU can ensure that it really is more than the sum of its parts? And what are the areas that most urgently need to be tackled in this volatile and unpredictable world? These are questions that need answers.

In democracies, it is naturally the varied expectations, anxieties and aspirations of citizens that policymakers need to cater to. Surveys and voter preferences seem to suggest that Europeans' priorities converge around feeling safe, being free, living in a clean environment and prosperous and equitable societies, while being in control and having opportunities to advance. **But these preferences cannot be presumed once and for all. Continuous dialogue and engagement with citizens is critical** to ensure the legitimacy of European policies and to obtain the necessary buy-in for political action. Both the priorities that are set and the way they are developed and communicated will be decisive for making the Union stronger.

By decisively focusing the EU agenda towards issues of importance for Europeans and the future of the European continent, the identification of European Common Goods goes beyond the incremental logic of European integration. Building on the European Commission's White Paper of 2017, this approach goes beyond the binary – and reductive – question of whether Member States can be supported by 'more' or 'less' Europe. Rather, it returns to the European Union's founding principle of functional integration – asking first what needs to be done, and then identifying how best

## What are the main risks/threats for the European Union in the coming years?

Maximum five answers, share of total responses (%)



Source: Special Eurobarometer 479 (November 2018)



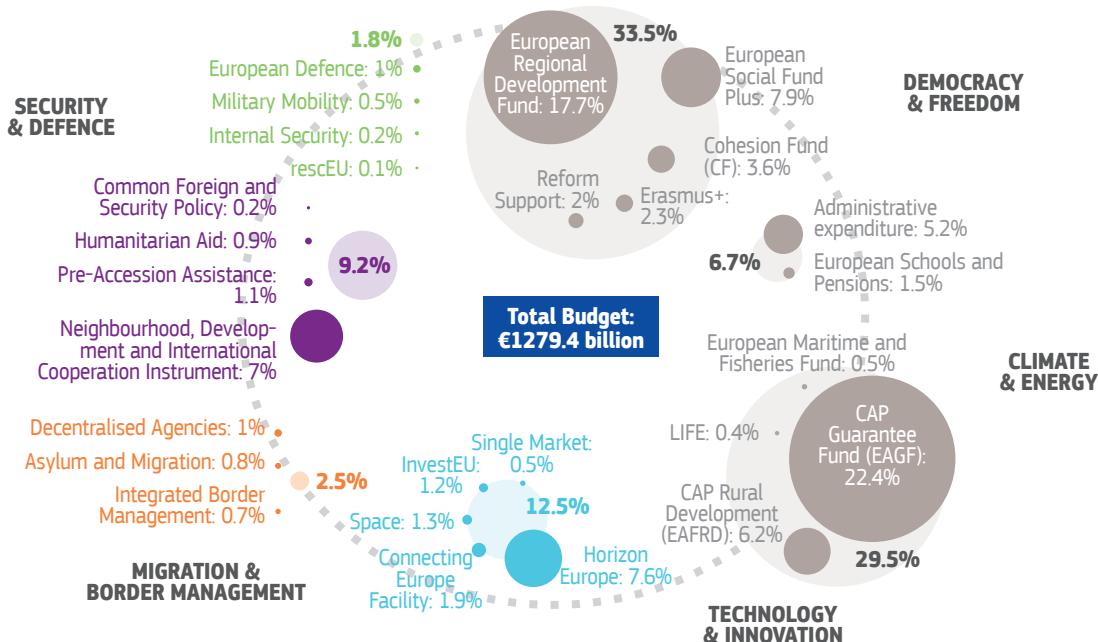
to deliver on jointly defined ambitions. Here, the response is one of scale and a prerequisite of acting in a powerful and decisive fashion in areas of common interest to all Member States. In this way, European Common Goods can be a response to times of greater political complexity, in which shifting voter preferences make it increasingly difficult to arrive at consensus both within Member States and in the EU at large. European Common Goods offer a means of managing political fragmentation in a proactive and forward-looking fashion, and of protecting Europe's fundamentals and core values. **The provision of European Common Goods is perhaps the single best way to ensure that Europe can sustain its way of life over time.** This is of vital importance not only for Europe itself but indeed the wider world, which needs a strong actor for multilateralism, good governance, human-centric technology, democracy and freedom more than ever before. The stakes are high but so are the opportunities. And the time to deliver is now.

### Matching words with deeds

It goes without saying that **ambitions require adequate means**. Policy priorities that are not underpinned by financial resources are not credible and will not be achieved – no matter how often EU leaders express support for 'innovation', 'technology', 'security', 'defence' or 'the need to tackle climate change' and 'the energy transition'. The next **Multiannual Financial Framework** will in many ways define Europe's preparedness for the future in how it earmarks funds for the urgent and overriding challenges facing Europe. But **the pursuit of European Common Goods will also require a careful, honest assessment of the EU institutional setup**, and whether it remains adequate and conducive to deliver in a challenging future and give a much-needed boost to the European way of life.

### European Common Goods in the proposal for the Multiannual Financial Framework 2021-2027

Share of total budget in current prices



Source: EPIS, based on data from the Secretariat of the Committee on Budgets, European Parliament



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## European Political Strategy Centre

The European Political Strategy Centre (EPSC) is the European Commission's **in-house think tank**. It reports directly to President Juncker and operates under his authority.

The mandate of the EPSC includes: **strategic analysis and policy advice**, both short- and long-term, to the President and the College on issues related to the policy priorities of the Juncker Commission (as defined by the President in his political guidelines presented to the European Parliament on July 15 2014); and **outreach** to decision-makers, think tanks and civil society at large.

