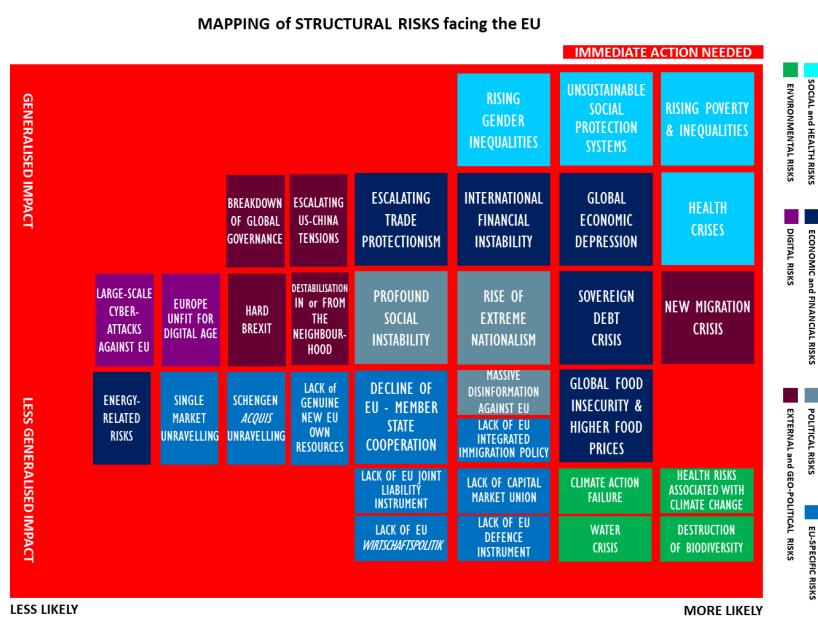




European Parliament

Towards a more resilient Europe post-coronavirus

Capabilities and gaps in the EU's capacity to address structural risks



STUDY

EPRS | European Parliamentary Research Service
with the Directorates-General for Internal Policies (IPOL)
and External Policies (EXPO)

Towards a more resilient Europe post-coronavirus

Capabilities and gaps in the EU's capacity to address structural risks

The current coronavirus crisis emphasises the need for the European Union to devote more effort to anticipatory governance, notably through analysis of medium- and long-term global trends, as well as structured contingency planning and the stress-testing of existing and future policies. In order to contribute to reflection on and discussion about the implications of the coronavirus pandemic for EU policy-making, this paper builds on an initial 'mapping' of some 66 potential structural risks which could confront Europe over the coming decade. Taking 33 risks which are assessed as being more significant or likely, it looks first at the capabilities which the EU and its Member States already have to address those risks, and then looks at the various gaps in policy and instruments at the Union's disposal, suggesting possible approaches to overcome them in the short and medium terms.

SUMMARY

In April 2020, the participants in the inter-institutional European Strategy and Policy Analysis System (ESPAS), which aims to identify and analyse medium- and long-term global trends facing the European Union, were invited by the Vice-President of the European Commission responsible for foresight to offer 'food for thought' on issues arising from the current coronavirus pandemic, with a view to helping refine collective thinking on how to increase the long-term resilience of the Union over the coming decade. In this context, this paper follows on from 'An initial mapping of structural risks facing the EU' which set out some 66 potential structural risks confronting the European Union in the aftermath of the coronavirus crisis. It looks at those risks from the mapping seen as more immediate and significant, and considers ways in which the EU and Member States could address them, either with existing capabilities or through filling gaps in policies and instruments.

AUTHORS

Production of this paper was coordinated by Étienne Bassot, Franck Debié, Stanislas de Finance, Monika Nogaj and Astrid Worum of the Directorate-General for Parliamentary Research Services (DG EPRS). Contributions come from the following policy analysts in DG EPRS:

Suzana Anghel, Krisztina Binder, Naja Bentzen, Stanislas de Finance, Angelos Delivorias, Costica Dumbrava, Ralf Drachenberg, Gregor Erbach, Vivienne Halleux, Fabia Jones, Monika Kiss, Marie Lecerf, Rafał Mańko, Nora Milotay, Mar Negreiro, Eamonn Noonan, Lauro Panella, Anja Radjenovic, Rachele Rossi, Nicole Scholz, Leopold Schmertzing, Rosamund Shreeves, Carla Stamegna, Branislav Stanicek, Marcin Szczepanski, Jana Titievskaia, Alex Wilson, Ionel Zamfir.

The draft was reviewed by colleagues from the Directorates-General for Internal Policies (DG IPOL) and External Policies (DG EXPO) under the coordination of Adolfo Barberá Del Rosal.

Furthermore, following the presentation of a final draft to participants at the ESPAS 'Away Day' on 4 September, the Secretariat of the European Committee of the Regions availed of the opportunity to make comments which are now reflected in the text.

To contact the publisher, please e-mail eprs@ep.europa.eu

LINGUISTIC VERSIONS

Original: EN

Manuscript completed in September 2020.

DISCLAIMER AND COPYRIGHT

This document is prepared for, and addressed to, the Members and staff of the European Parliament as background material to assist them in their parliamentary work. The content of the document is the sole responsibility of its author(s) and any opinions expressed herein should not be taken to represent an official position of the Parliament.

Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy.

Brussels © European Union, 2020.

PE 652.024

ISBN: 978-92-846-7181-6

DOI:10.2861/950396

QA-02-20-812-EN-N

eprs@ep.europa.eu

<http://www.eprs.ep.parl.union.eu> (intranet)

<http://www.europarl.europa.eu/thinktank> (internet)

<http://epthinktank.eu> (blog)

Contents

EU capacity to prevent and react to risks: Summary table.....	1
EU capabilities in respect of 33 specific potential structural risks: Summary analysis.....	3
Avoiding future health crises	5
Countering rising poverty and inequalities	8
Reinforcing social protection systems	11
Ensuring long-term financial sustainability of social protection systems	14
Promoting gender equality	17
Avoiding global economic depression	20
Using European integration as an engine for recovery	23
Promoting international financial stability	26
Avoiding a post-coronavirus sovereign debt crisis	29
Confronting energy-related risks	32
De-escalating trade protectionism	35
Improving global food security and avoiding higher food prices	38
Addressing the rise of extreme nationalism.....	41
Defending Europe from systemic disinformation campaigns.....	44
Safeguarding social stability.....	47
Reversing any decline in EU–Member State cooperation	50
Addressing any unsustainable lack of resources for the EU	53
Preventing the single market from unravelling	56
Safeguarding the Schengen <i>acquis</i>	59
Developing a stronger EU economic policy	62
Promoting capital market integration	65
Promoting a more integrated EU immigration policy.....	68
Developing a European defence instrument.....	71
Compensating for the lack of a joint liability instrument	74
Promoting effective climate action	77
Addressing the water crisis.....	80
Halting the destruction of biodiversity	83
Minimising health risks associated with climate change	86
Making Europe fitter for the digital age	89
Preventing large-scale cyber-attacks.....	92
Forestalling a new migration crisis.....	95
Strengthening global governance	98
Stabilising the EU neighbourhood	101
Limiting the impact of US–China geo-political competition	104

EU capacity to prevent and react to risks

Summary table

	Regulatory capacity to prevent and react (SMALLER)	Regulatory capacity to prevent and react (LARGER)
Financial or administrative capability to prevent and react (LARGER)	<ul style="list-style-type: none"> European Social Fund and structural and cohesion funds to prevent and mitigate the risk of rising inequalities EIB packages to support small and medium-sized European companies, and prevent and mitigate risks of a credit crunch leading to a further rise in inequalities, unemployment and poverty Emergency funds and mechanism for health and health research, and strengthened coordination of EU structures to prevent and mitigate the risk of new health crises in the EU EU interinstitutional media strategy to prevent and mitigate the risk of constant disinformation against the EU Europol and EU anti-terrorist coordination to prevent and mitigate the risks associated with organised crime and terrorist organisation and with profound social unrest Rules and funding for democratic European political parties and foundations to prevent and mitigate the risk of extreme nationalism 	<ul style="list-style-type: none"> - Macro-prudential policy to prevent and mitigate the risk of financial instability - ESM instruments to prevent and mitigate the risk of a sovereign crisis in EMU - ECB monetary policy to prevent and mitigate the risk of a global depression - EU bilateral trade agreements and EU trade defence instruments to prevent and mitigate the risk of escalating trade protectionism, and the risks of escalating tension between the US and China - EU environmental/climate policies and financing instruments, including emission targets, EU development policy to prevent and mitigate the risks of global climate action failure, the resulting destruction of biodiversity and health risks associated with them - EU CAP, environmental policy and development instrument to prevent and mitigate the risks of destruction of a large part of the remaining biodiversity in the EU and beyond and of global food insecurity - EU/EIB funds, guarantees and aid available for infrastructure investments, EU strategic reserves and energy sector rules, networks to prevent and mitigate energy risks associated with dependency and safety - European Commission enforcement capacity and sanctions to prevent a silent unravelling of single market rules
Financial capability to prevent and react (SMALLER)	<ul style="list-style-type: none"> EU Wirtschaftspolitik to reduce and mitigate the risk of economic depression, financial instability and sovereign debt crisis Permanent EU unemployment re-insurance to prevent and mitigate the risk of rising inequalities EU sustainability rules for social protection systems Joint liability instrument to prevent and mitigate the risk of a sovereign debt crisis in the euro area EU defence instrument to prevent and mitigate the risk of destabilisation in or from the EU's neighbourhood Integrated EU migration policy to prevent and mitigate the risk of a new migration crisis as well as the risk of growing inequalities within the Member States Genuine capital markets union to prevent and mitigate the risks of financial instability and the investment gap in Europe EU 'FBI' to prevent and mitigate the consequences of profound social unrest (growth of cross-border crime, hate movement, racism, terrorism) EU common identity policy (education, history, symbols) to prevent and mitigate the risk of increasing extreme nationalism EU contingency plan in case of hard Brexit 	<ul style="list-style-type: none"> - Further steps in EU integration to prevent the EU economy from shrinking by an estimated 17 to 22 % of GDP (arising from the potential cost of non-Europe and European added value) - EU investment in digital technologies and infrastructure and regulatory framework to prevent and mitigate the risk of an EU unfit for the digital age - Framework of e-democracy at EU level to prevent and mitigate the risk of increasing nationalism and populism - Further improvements in EU anti-discrimination rules to prevent and mitigate the risk of rising gender inequalities, and the growth of development of sexism, racism, xenophobia and hate speech - True EU Schengen governance and efficient border management by decentralised agencies to prevent and mitigate the risk of an unravelling of the Schengen acquis - Further integration of different parts of water policy (financing of large infrastructures, strategic reserves, fight against waste, sectoral rules, safety) to prevent and mitigate the risk of a major water crisis in the EU and beyond - Further efforts by EU diplomacy in support of multilateralism, increased EU diplomatic and financial support to multilateral institutions to prevent and mitigate the risks of a breakdown of global governance and of rising US-China tensions

EU capabilities in respect of 33 specific potential structural risks

Summary analysis

NB: Budget figures in the following pages concerning programmes within the 2021-2027 Multiannual Financial Framework (MFF) come from the political agreement among EU Heads of State or Government, as detailed in the European Council conclusions of 21 July 2020, and are expressed in 2018 prices. Legislative instruments for the individual programmes have still to be agreed between the European Parliament and Council.

Avoiding future health crises

Introduction

EU Member States are responsible for their own health policies and the organisation and delivery of healthcare, which includes Covid-19 response activities. In many Member States, regional and/or local authorities are mostly or partially responsible for the management, operation and funding of health systems. The framework for EU action on preparedness, early warning and response is the **Cross-border Health Threats Decision** (No 1082/2013/EU). The EU-level response is coordinated by the Health Security Committee, made up of representatives from each of the Member States as well as the European Commission.

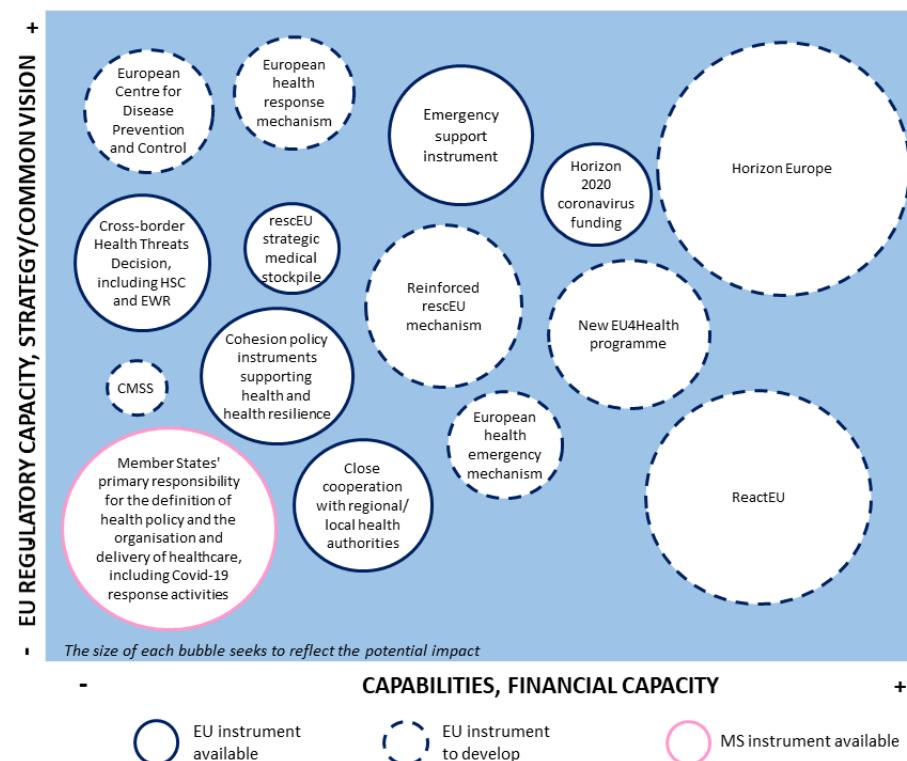
For health crises, the EU's capability to respond is based both on regulatory and financial instruments and on a common vision and willingness to act. While the overall framework for health emergencies is already in place, Covid-19 has underlined the value of European cooperation between all levels of governance – EU, national, regional and local – and demonstrated that there is a need for the EU to build up its capacity to respond to crises and build resilience to future shocks.

The new, self-standing Health programme, **EU4Health**, will strengthen health security and improve cooperation. EU4Health notably provides for new actions that will fill in gaps that the pandemic has revealed, in terms of the manufacturing of medicinal products, the adequate supply of equipment in hospitals and sufficient medical staff, the uptake of digital tools that enable continuity of care, and the need to maintain access to essential goods and services. In the recovery instrument, **Next Generation EU**, the Commission also seeks to address the lessons of the crisis. **rescEU**, a part of the Union's civil protection mechanism, will be expanded in view of future crises. (In March 2020, the Commission created a **rescEU** strategic medical stockpile, hosted by one or several EU Member States, to enable swift distribution of medical equipment, such as ventilators, personal protective equipment, vaccines and therapeutics, and laboratory supplies.) The **ReactEU** programme will allow Member States and regions to finance health entities directly. The forthcoming EU programme for research and innovation, **Horizon Europe**, will be reinforced to fund research in health and resilience, among other topics.

The idea of a **Covid-19 clinical management support system** (CMSS) is based on the experience and know-how gained with the European reference networks (ERNs) – virtual platforms for voluntary cross-border collaboration between specialists in rare and complex diseases. The CMSS aims to create rapid connections across Europe among the hospitals indicated by the Member States as reference centres for treating Covid-19 patients. It could serve as a basis for developing ERNs on rare and low-incidence infectious diseases, as proposed in a Commission feasibility study.

The **European Centre for Disease Prevention and Control** (ECDC) is playing a crucial role in the unfolding pandemic. The European Parliament has called for the ECDC's competences, budget and staff to be strengthened. Parliament also suggested the **creation of a European health response mechanism** to better prepare and respond in a common and coordinated way to any type of health crisis, providing complementary executive capacity at EU level.

The **European Health Union** concept – recently highlighted by Commission President Ursula von der Leyen in her State of the Union address – touches on competences at all government levels. According to regional and local actors, achieving it requires the 'active subsidiarity' approach proposed by the European Committee of the Regions (CoR); that is, an intense dialogue across levels of government on the scope of future EU action in this field.



Instrument	Size
European health response mechanism , as proposed by Parliament	-
Cross-border Health Threats Decision (No 1082/2013/EU). Includes the Health Security Committee (HSC) and the Early warning and response system (EWRS)	-
European Centre for Disease Prevention and Control with strengthened competences, budget and staff, as called for by Parliament in an April 2020 resolution	€60.4 million ECDC budget for 2020
Proposal to reinforce Horizon Europe to fund research in health and resilience, among other topics. Under the Horizon 2020 annual work programmes, existing EU-funding for research projects on preparedness and response to outbreaks, including emergency coronavirus research funding	€80.9 billion proposed for Horizon Europe. ¹ €48.2 million to 18 projects on coronavirus under Horizon 2020
Synergies with cohesion policy instruments, including ReactEU , to support health systems and infrastructure, research and development, skills and training in the health sector, as well as fostering cooperation and reducing health disparities between EU regions	€47.5 billion for ReactEU (providing additional funding for health entities at local/regional level) ²
EU4Health proposal to strengthen health security and prepare for future crises	€1.7 billion
The emergency support instrument for coronavirus response, a European top-up for existing national and other European measures to tackle the crisis, provides direct support to help Member States, especially in the healthcare sector, mitigate the pandemic's consequences and anticipate future needs	€2.7 billion from the EU. Member States and other donors can make contributions
Proposal to reinforce rescEU , a part of the Union's civil protection mechanism. The rescEU strategic medical stockpile has enabled swift distribution of medical equipment	€3.0 billion to reinforce rescEU. ³ Up to €380 million for medical stockpile
Covid-19 clinical management support system (CMSS) to allow healthcare professionals a quick exchange of knowledge and experiences	-

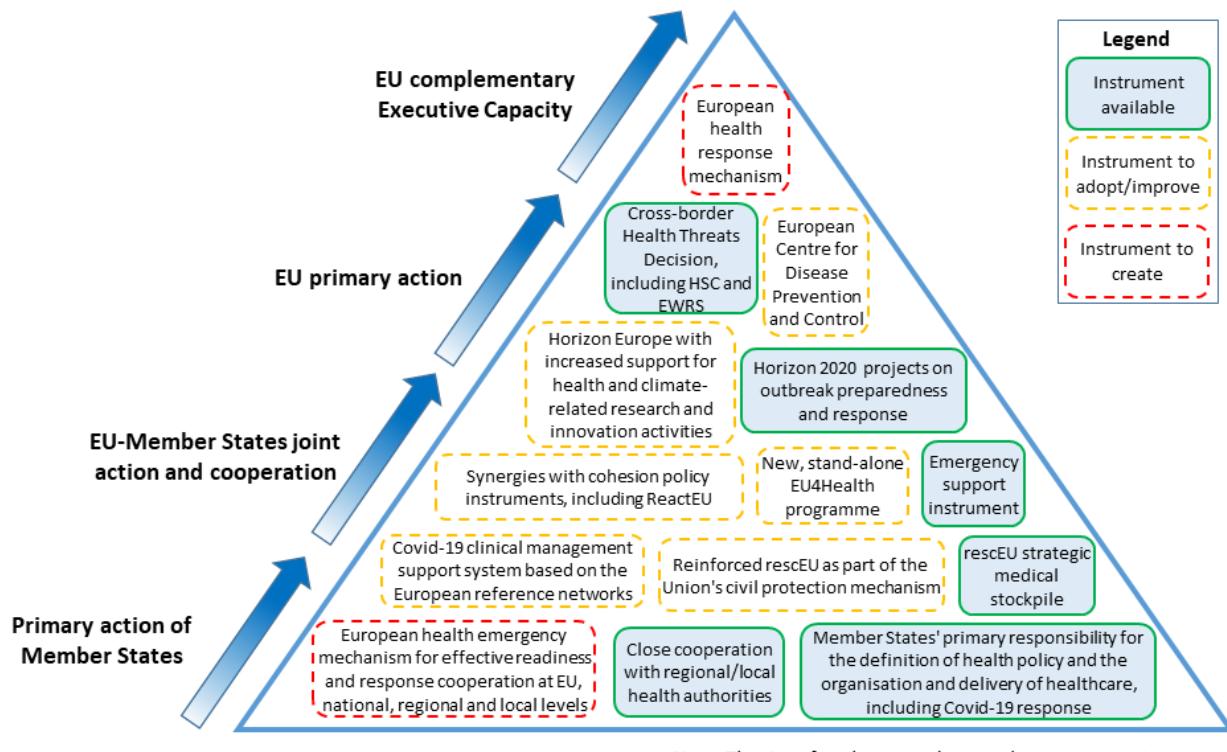
¹ Of which €75.9 billion from the MFF and €5 billion from the recovery instrument NGEU.

² Entirely financed from NGEU.

³ Of which €1.1 billion from the MFF and €1.9 billion from NGEU.

	EU health emergency mechanism , as proposed by the European Committee of the Regions	-
	Close cooperation with regional/local authorities responsible for management, operation and funding of health systems and healthcare in their territories	
	Member States' primary responsibility for the organisation and delivery of healthcare , including Covid-19 response activities	-

Pyramid of instruments at the disposal of the EU and its Member States



Countering rising poverty and inequalities

Introduction

In the coming years, large inequalities - including generational ones - will most probably increase between EU Member States as well as imbalances within Member States. Low-skilled workers, low-paid employees and people in precarious or non-standard forms of employment are most at risk. For those in sectors that do not fully recover, the risk of long-term unemployment and poverty is high. Furthermore, gender inequalities may deteriorate and a further rise in child poverty is to be expected.

In this context, it is essential that all instruments at EU, Member State and local and regional levels remain ready to be activated to prevent a large increase in poverty and inequality. The EU and the Member States have already taken initiatives to address immediate needs and mitigate negative impacts on employment and social policy, focusing their efforts on supporting businesses to stay afloat, protecting and retaining employment, and protecting people's income. These tools include support to the most disadvantaged groups. In the long run, special attention should be given to income support, in particular the EU minimum wage initiative.

Young workers and students are at risk of becoming the next lost generation, and according to [findings](#) the coronavirus crisis has even worsened the picture. EU instruments in this area include the [Youth Employment Initiative](#) and [Youth Employment Support](#), the latter of which was created during the pandemic. These instruments should be further reinforced.

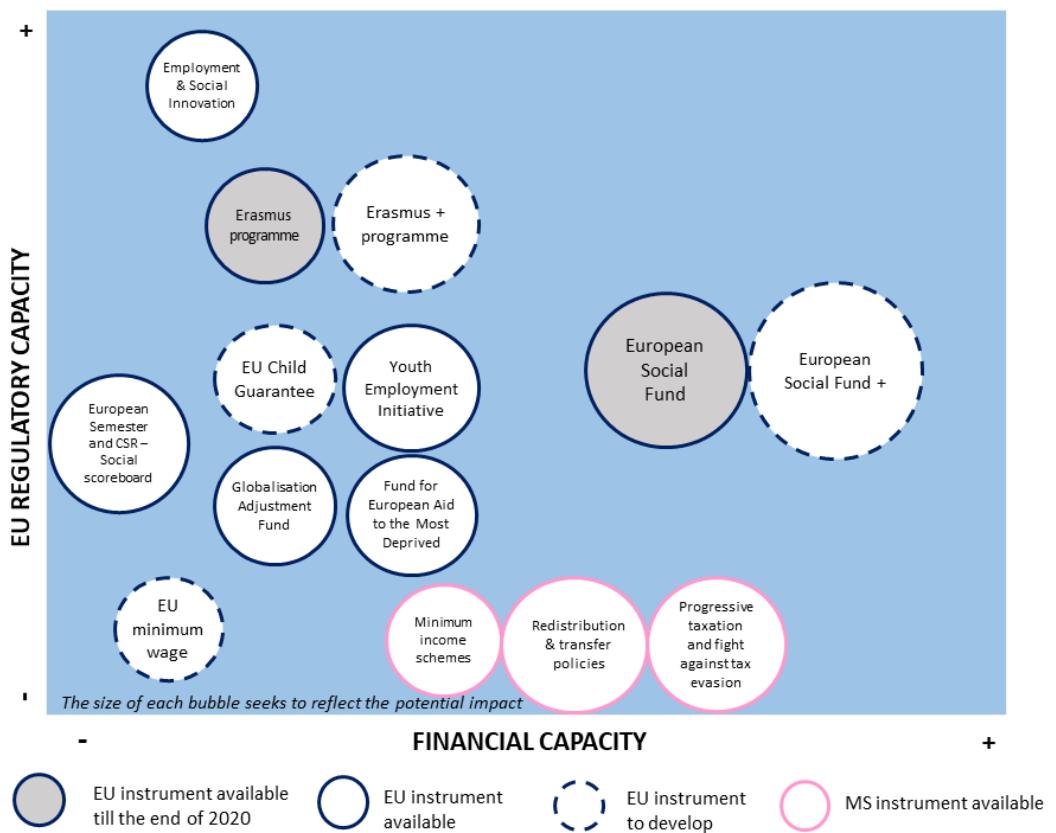
During the coronavirus crisis, the European instrument for temporary [Support to mitigate Unemployment Risks in an Emergency](#) (SURE) has been developed in order to finance short-time work schemes. In the long run, SURE should be replaced by a European unemployment reinsurance scheme (EURS), which it is hoped can be finalised by the end of 2020.

Given that children are already the population group with the [highest at-risk-of-poverty rate](#), there is a need for a rapid scaling-up in support for children whose families' income is insecure, and to provide the social protection they need, through a [child guarantee](#).

There is also room for improvement concerning the reduction of gender inequalities. It can be observed that the EU and many national governments are making only [partial use](#) of gender mainstreaming tools, particularly [gender budgeting](#). It would be essential to apply these tools in post-Covid recovery plans and funding programmes. As women are over-represented and underpaid in a number of front-line jobs, there is a need for pay transparency measures in order to close the gender pay gap.

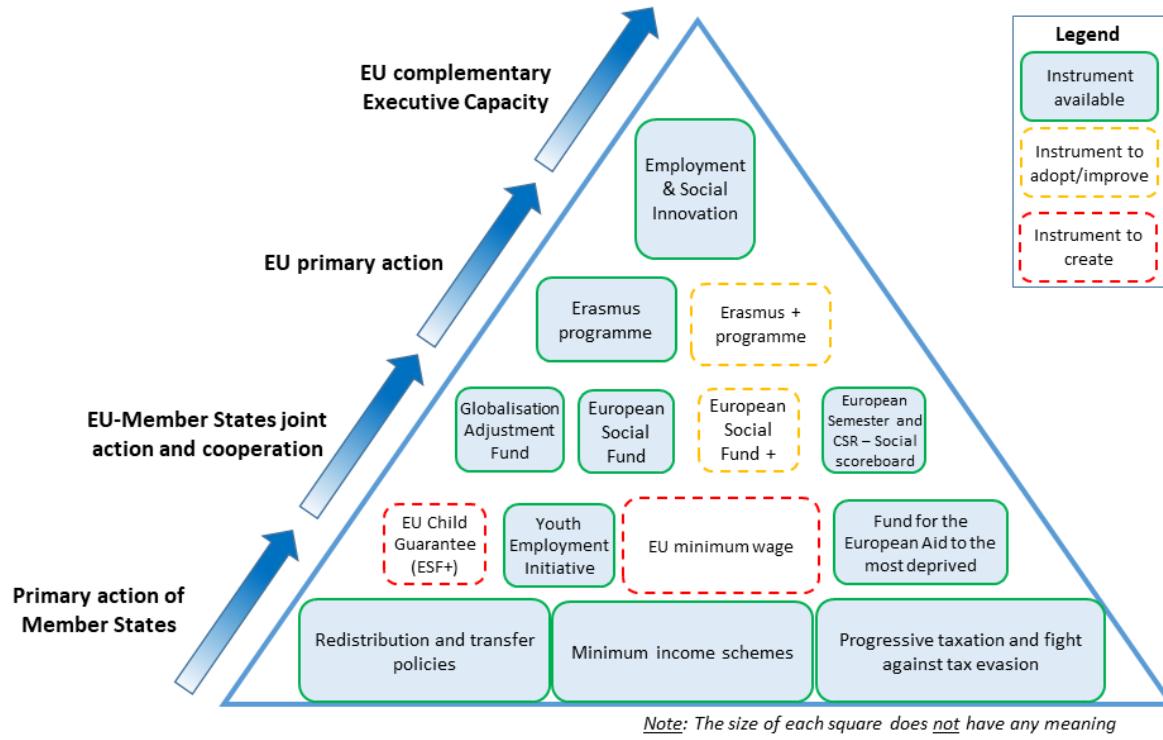
As part of the annual [European Semester](#), the economic and social policy recommendations should be used to support gender equality, active labour market policies, education and lifelong learning, progressive taxation, minimum income schemes and redistribution and transfer policies, in order to combat deep-rooted causes of poverty and social exclusion more efficiently.

The proposed [recovery plan for Europe](#), based on an emergency European recovery instrument ('[Next Generation EU](#)') and a [reinforced multiannual financial framework for 2021-2027](#), should strengthen the responsiveness of the EU to unforeseen challenges, as well as the flexibility of EU funds, such as the [EU Solidarity Fund](#) (EUSF), now to be replaced by the Solidarity and Emergency Aid Reserve in the coming years, and the [European Globalisation and Adjustment Fund](#) (EGF).



Instrument	Size
Employment and Social Innovation (2014-2020)	€0.9 billion
Erasmus + programme (2014-2020)	€13.9 billion
Erasmus + programme (2021-2027)	€21.2 billion
European Social Fund (2014-2020)	
European Social Fund Plus (2021-2027)	€88 billion
EU Child Guarantee	
Youth Employment Initiative	€4.5 billion
European Semester and CSR - Social scoreboard	
Globalisation adjustment fund (2014-2020)	Up to €0.17 billion per year
Globalisation adjustment fund (2021-2027)	Up to €0.186 billion per year
Fund for European Aid to the Most Deprived (2014-2020)	€3.8 billion
EU minimum wage	
Minimum income schemes	
Redistribution and transfer policies	
Progressive taxation and fight against tax evasion	

Pyramid of instruments at the disposal of the EU and its Member States



Reinforcing social protection systems

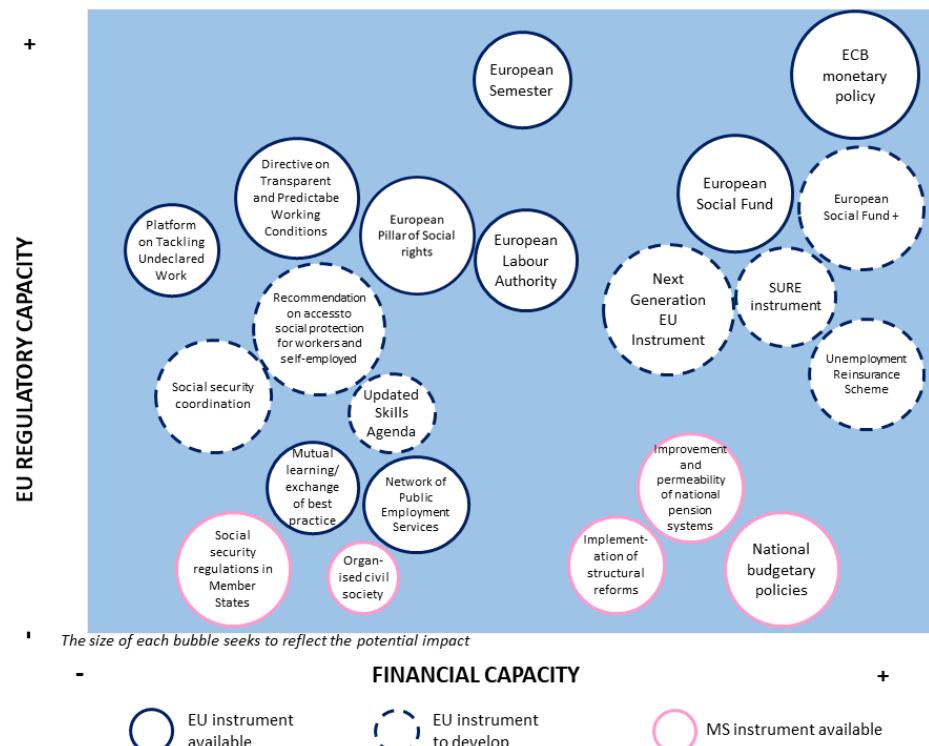
Introduction

Due to the Covid-19 crisis and the related economic and social measures, differences between the social protection standards of workers have further escalated. Those in traditional forms of employment (full-time workers with open-ended contracts) with already sufficient social protection were more able to cope with the consequences of the pandemic, while workers in [non-standard work forms](#) (such as platform workers, part-time workers, and workers with fixed-term contracts) suffered more from these consequences. However, according to [statistics](#), non-standard work forms are expanding steadily, which creates [inequitable treatment](#) of workers based on their employment status, and also erodes the financial sustainability of social protection provisions.

In addition, the EU population is ageing rapidly: according to [estimates](#), in 2030, 25.5 % of Europe's population will be over 65. The working population of the EU shrank for the first time in 2010 and is [expected](#) to decline every year until 2060. In parallel, the old-age dependency ratio (those 65 and over compared to those 15-64) will continue increasing. This will have serious implications across a range of areas, including healthcare and pensions. The healthcare and pension systems of EU Member States will need thorough [revision](#) and reinforcement in order to cope with this situation, and their coordination will need to be further developed. The pan-European pension product (PEPP) is already a step in this direction. As also stated in the European Commission's [Report on the Impact of Demographic Change](#), the development of a larger and more inclusive labour market is needed, through measures concerning the reconciliation of work and family life, opening up the labour market to people with disabilities, low educational levels, or coming from outside the EU, as well as making further progress in bringing older workers into employment. In regions (for instance rural areas) with a declining population, initiatives concerning accessibility, connectivity and infrastructure will be needed in order to stimulate employment. Upskilling and reskilling of older workers, in particular concerning [digital skills](#) will also have to be ensured. The new [European Skills Agenda](#) will certainly contribute to this goal.

As an answer to the Covid-19 crisis, the EU came up with comprehensive and tailored [packages](#), which also support employment, such as the [Youth Employment Support](#). However, they can be difficult to access for those in alternative work arrangements, as well as for posted or trans-frontier workers, or '[part-time unemployed](#)' (jobseekers with intermittent or part-time employment). Social security measures at both EU and Member State level have to be [extended](#) in order to include all these groups, as also requested by the [Council Recommendation on access to social protection for workers and the self-employed](#). The [coordination of social security systems](#) of Member States needs to be pursued as well.

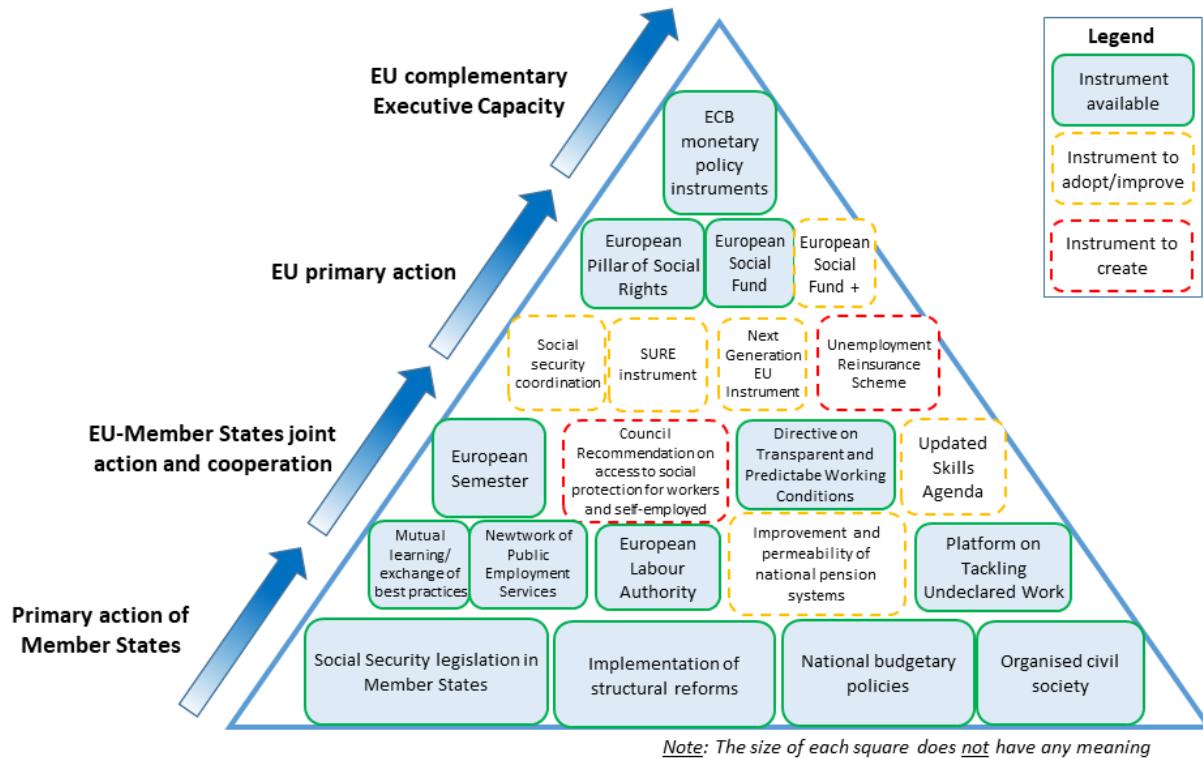
During the pandemic, the European Commission created the Support to mitigate Unemployment Risks in an Emergency (SURE) instrument in order to finance short-time work schemes with up to €100 billion in loans. In the long run, SURE needs to be replaced by a European Unemployment Reinsurance Scheme (EURS), which it is hoped will be finalised by the end of 2020. Active labour market policies (such as creating [transparent and predictable working conditions](#), [tackling undeclared work](#), and the [European Labour Authority](#)) need to be further strengthened. As [highlighted](#) by the European Economic and Social Committee (EESC), organised civil society is also a key player in the recovery from the pandemic and the inclusion of social groups lagging behind.



Instrument	Size
ECB monetary policy	Over €2.5 trillion for 2020-2021
European Social Fund (2014-2020) for EU-28	€95.8 billion
European Social Fund + (2021-2027) for EU 27	€88 billion
European Pillar of Social Rights	-
Next Generation EU instrument (EU Recovery Instrument) (particularly REACT-EU and Just Transition Fund to focus on vulnerable sectors, regions and small and medium-sized enterprises)	€750 billion (REACT-EU €47.5 bn; Just Transition €10 bn ⁴)
Temporary SURE instrument to mitigate unemployment risks in an emergency	€100 bn in loans
Social security coordination	-
Unemployment Reinsurance Scheme	-
European Semester	-
Council recommendation on access to social protection for workers and self-employed	-
Directive on transparent and predictable working conditions	-
Updated Skills Agenda	-
Mutual learning through exchange of best practices	-
Network of Public Employment Services	-
European Labour Authority	-
Platform on tackling undeclared work	-
Improvement and permeability of national pension systems	depending on MS
National financial and budgetary policies	depending on MS
Social security legislation in Member States	-
Implementation of structural reforms	-
Organised civil society	-

⁴ In addition to Next Generation EU funding, the Just Transition Fund also receives €7.5 billion from the MFF.

Pyramid of instruments at the disposal of the EU and its Member States



Ensuring long-term financial sustainability of social protection systems

Introduction

Balance between expenditures and revenues over the long term is crucial to the sustainability of social protection systems. There are at present many challenges on both sides of this equation. The ageing of the EU population has long-term implications for public spending, notably in relation to healthcare, long-term care and pension entitlements. On the revenue side, one dilemma is the expansion of non-standard work forms (e.g. platform workers, part-time workers, workers with fixed-term contracts). Often, this means reduced social contributions from workers, and none at all from the businesses involved. The systematic use of aggressive tax planning also has detrimental impact on the revenue side.

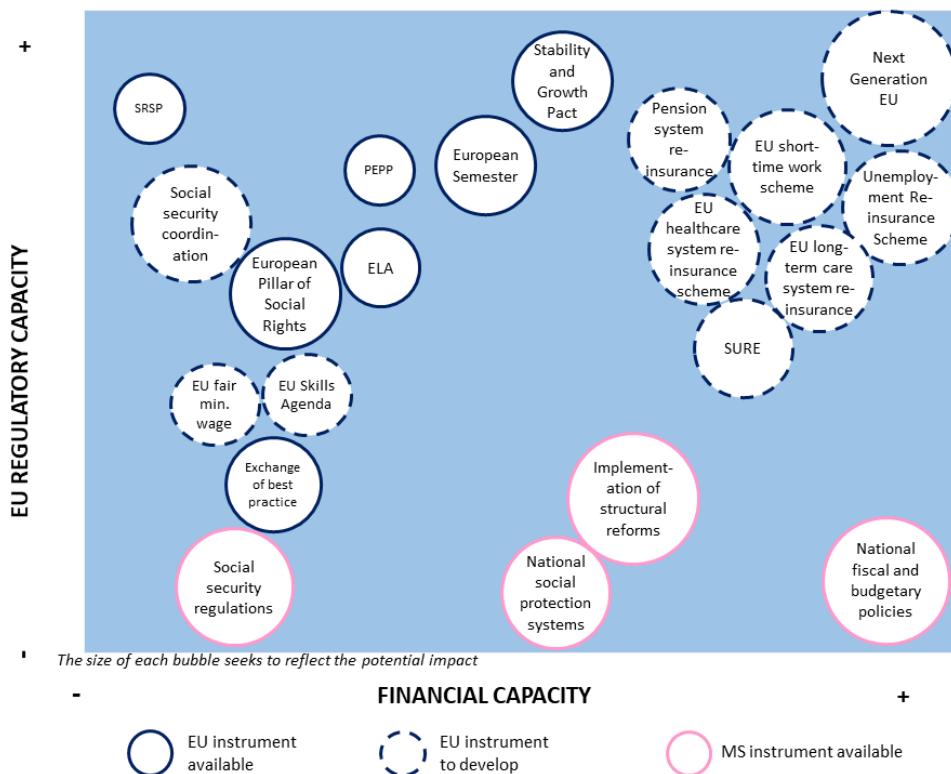
The coronavirus pandemic and lockdown measures imposed to protect the population will put further strain on EU social protection systems, especially in Member States with little fiscal space and high levels of public debt at the outset. In these cases, there is limited scope to carry additional expenditure in the short to medium term, and [compromising on care options is rarely realistic](#). The crisis has driven up expenditure on several fronts. Government-funded short-time working schemes are especially in demand, at a time when healthcare and long-term care systems face exceptional strain. All this creates a severe threat to sustainability.

Decisive policy action is needed to protect social protection systems while maintaining [fairness, sustainability and adaptability](#). This means steering a course that avoids a sovereign debt crisis, on the one hand, and a large-scale social crisis, on the other. Cost-efficiency is one side of the challenge; resilience to future shocks is another – and these two goals can tend to conflict. Cost-control and harnessing of technological advances are part of the way forward. The potential of cross-EU coordination and cooperation to provide greater protective capacity should be exploited.

The EU's economic governance framework has been a useful tool to identify risks and vulnerabilities, and to better coordinate fiscal and economic policies. Within the European Semester, country-specific recommendations (CSRs) can have a positive impact on the long-term sustainability of social protection systems. This framework can be further developed to incentivise the implementation of structural reforms. Creating a targeted programme or fund – similar to the proposed Recovery and Resilience Facility – within the long-term EU budget would be an option to consider. The Commission recently presented an [EU Skills Agenda](#) to support reskilling and upskilling older workers, in view of the digital transition. On the revenue side, coordinated action against large-scale tax avoidance is needed.

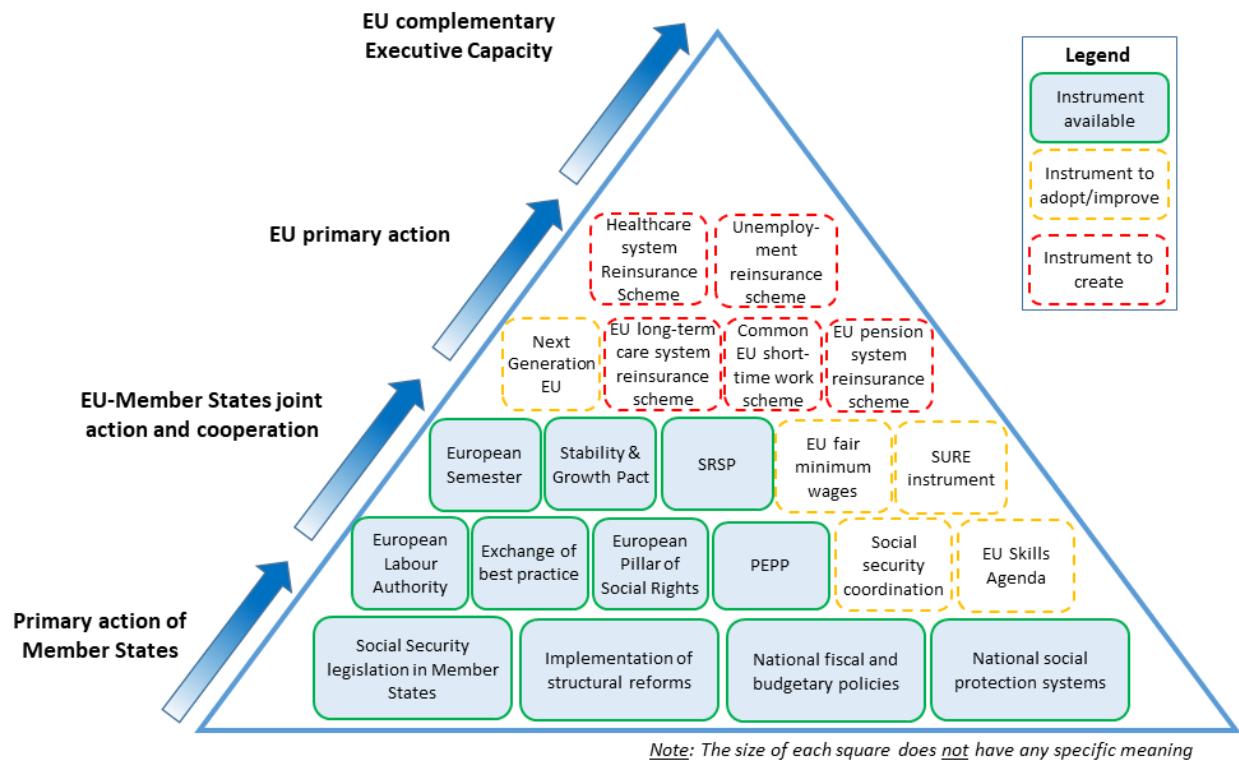
In response to these acute challenges, the Commission tabled an initiative establishing the Support to Mitigate Unemployment Risks in an Emergency (SURE) instrument in order to finance short-time work schemes with up to €100 billion in loans. Replacing SURE with a permanent European Unemployment Reinsurance Scheme (EURS) may also help the long-term resilience of social protection systems. Similar instruments in the areas of healthcare, long-term care and pensions could mitigate the fiscal risks for Member States facing a future shock. Funding would need provisions to limit moral hazard, such as long-term convergence criteria for social protection, akin to the Maastricht criteria set for the adoption of the single currency.

Another option is a [common short-time work scheme for the EU](#), to supplement existing national schemes. Such a scheme would limit economic crisis with a stabilising effect on disposable income and aggregate demand. This in turn would reduce the pressure on social policies and complement national schemes.



Instrument	Size
Next Generation EU instrument (Recovery and Resilience Facility) <ul style="list-style-type: none"> - grant support for a programme financing recovery and economic and social resilience through support to reforms and investments - loans to the Member States for a programme financing recovery and economic and social resilience via support to reforms and investments 	up to €312.5 billion up to €360 billion
Permanent EU unemployment reinsurance scheme <i>(Cost of non-Europe estimated at €17 billion per annum)</i>	-
EU pension system reinsurance scheme	-
EU healthcare system reinsurance scheme	-
EU long-term care system reinsurance scheme	-
Common short-time work scheme for the EU	-
Structural Reform Support Programme (SRSP) 2017-2020	€0.228 billion
European Pillar of Social Rights	-
Temporary SURE instrument to mitigate unemployment risks in an emergency	€100 billion
Social security systems coordination	-
Commission initiative on fair minimum wages in the EU	-
European Semester and implementation of country-specific recommendations related to the sustainability of social protection systems	-
Stability and Growth Pact	-
Pan-European Personal Pension Products	-
EU Skills Agenda	-
Mutual learning through exchange of international best practices	-
European Labour Authority to help combat fraud, abuse and undeclared work	-
National fiscal and budgetary policies	-
Social security legislation in Member States	-
Implementation of structural reforms	-
National social protection policies including a national minimum wage	-

Pyramid of instruments at the disposal of the EU and its Member States



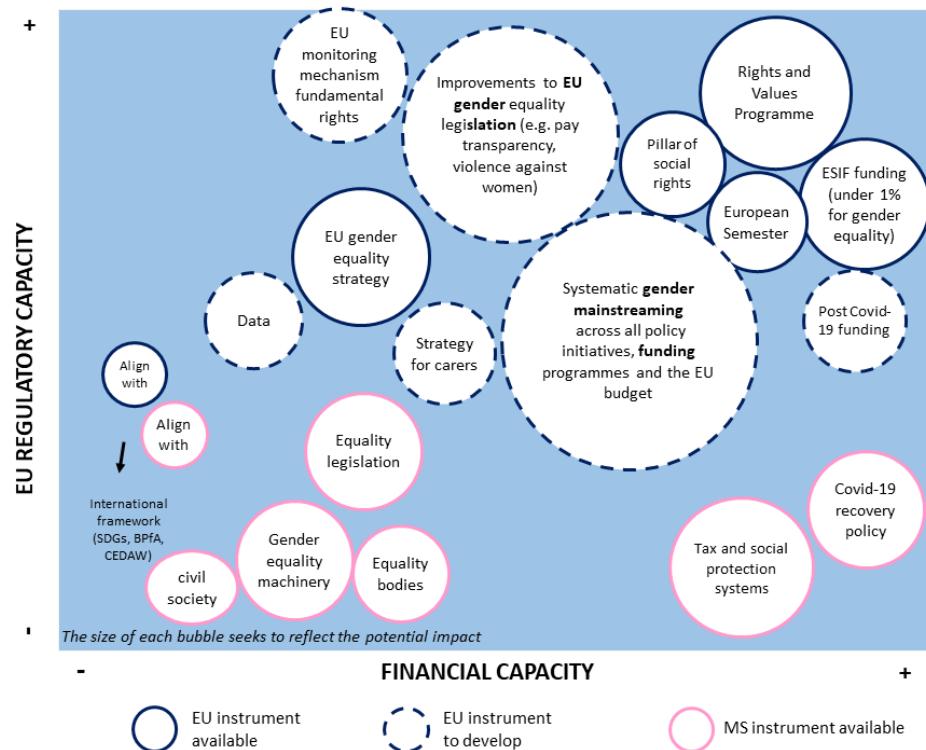
Promoting gender equality

Introduction

The United Nations is [warning](#) that the Covid-19 pandemic could reverse global gains in gender equality, just when the international community was set to provide new impetus in this area. The EU, which launched an ambitious new [five-year gender equality strategy](#) in March, faces similar risks. Internally, the key challenge for the EU and its Member States will be to retain or develop the capacity to address persistent gender inequalities and potential gendered impacts of new challenges, such as climate change and digitalisation, while also ensuring a gender-sensitive approach to the Covid-19 recovery that avoids exacerbating inequalities. [Forecasts](#) show that women are likely to be at higher risk of unemployment and income loss in view of their over-representation in sectors badly hit by the pandemic. This could erase progress on closing the gender employment and pay gaps. The existing gender divide in unpaid care work has [worsened](#) during lockdowns, increasing work-life conflict for women, particularly mothers of young children. If this pattern persists, it could also have long-term impacts on women's work and pay. Lockdowns have inadvertently led to an increase in [violence against women](#). These are all areas where targeted policy responses could make a significant difference to outcomes, and where the EU and the Member States have, or could further develop, their capacities.

A range of structures and instruments is already available at international, [EU](#) and national levels, including legal and policy frameworks, gender mainstreaming tools and longstanding mechanisms for cooperation and mutual learning. However, there is room for improvement in a number of areas. International frameworks such as the United Nations Convention on the Elimination of All Forms of Discrimination against Women ([CEDAW](#)), [Beijing Declaration and Platform for Action](#) and [2030 Agenda for Sustainable Development](#) have set standards and measurable targets for achieving equality between women and men and [gauging progress](#). However, more could be done at EU, national, and local and regional levels to align policies fully with these instruments. The EU has a solid framework of non-discrimination and equality law, but its effectiveness could be improved by filling gaps in areas such as [violence against women](#) and establishing a [monitoring mechanism](#) to prevent [backsliding](#) on existing rights. Above all, the EU and many national governments are making only [fragmented use](#) of gender mainstreaming tools, especially [gender impact assessments](#) and [gender budgeting](#), which help to ensure that a gender perspective is applied across all policies. There is also scope for further use of these tools by [regions, cities and municipalities](#). Further steps are also required to improve the collection of the sex-disaggregated and [intersectional](#) data needed to inform policy and evaluate its impacts. To ensure that support is equitable, it will be crucial for all these tools to be applied in post-coronavirus recovery plans and funding programmes. The European Parliament, amongst others, has [stressed](#) the need to introduce a clear method for tracking funding for gender equality across the different EU instruments. [Other](#) concrete measures could include cooperating at EU level to [invest in carers and care infrastructure](#) and sharing good practices for tackling gender aspects of the pandemic.

There are significant social and economic costs to gender inequality and benefits from action at EU and national levels. Cost of non-Europe [research](#) has estimated that, by 2030, lack of further action to close the gender pay gap could result in a GDP loss of €240 billion, while violence against women could lead to a GDP loss of €30 billion. Conversely, in 2018, [research](#) by the EU's Institute for Gender Equality (EIGE) found that narrowing the gender gap in the EU could lead to an increase in GDP of up to €3.15 trillion by 2050 and an extra 10 million jobs. EIGE also stressed that holistic action is likely to have more positive impacts than tackling each aspect of gender inequality separately, as gender equality in one domain has spill-over effects into other domains.



FINANCIAL CAPACITY

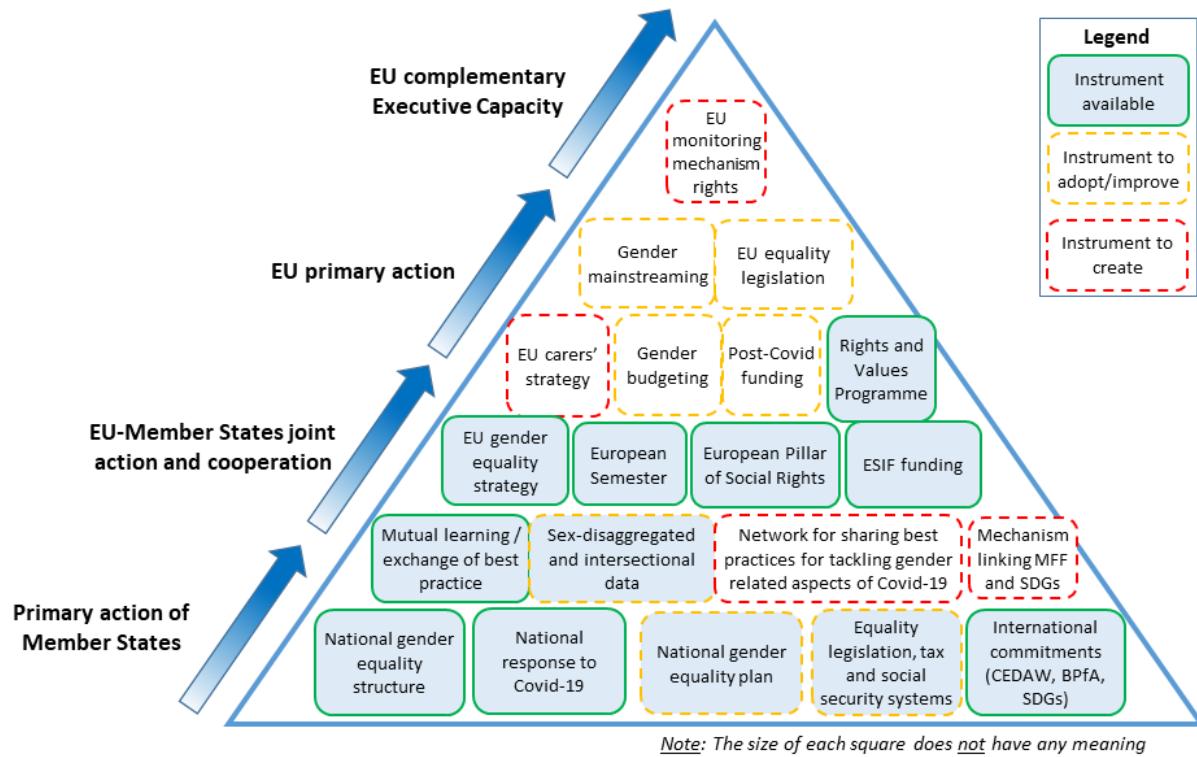
EU instrument available

EU instrument to develop

MS instrument available

Instrument	Size
EU mechanism for monitoring fundamental rights to ensure respect for gender equality commitments	-
EU legislative framework could be expanded through binding measures to reduce the gender pay gap and ensure equal protection for victims of gender-based violence	-
Gender mainstreaming could be applied more systematically across all policy areas and in the EU's post-Covid-19 response to ensure gender equal outcomes	-
EU funding: could be leveraged more effectively to support gender equality goals, by applying gender budgeting to the EU budget and all funding programmes	-
MFF 2021-2017: Rights and Values Programme: funding to promote gender equality, gender mainstreaming and combat violence against women	€0.8 billion
MFF 2021-2017: ESIF funding: for employment, work life balance. <u>Under 1 %</u> of ESIF funding was earmarked for promoting gender equality in the Commission proposal.	€88 billion overall (ESF+)
Post Covid-19 EU funding (e.g. CRII, CRII+, SURE, Next Generation EU): to mitigate social and economic impacts of the pandemic; should include a gender perspective	-
EU gender equality strategy 2020-2025: action at EU and national levels to combat persisting inequalities and meet emerging challenges	-
Pillar of Social Rights: scoreboard monitors gender equality in the labour market	-
European Semester: adapt to address growing inequalities and include more gender mainstreaming in country-specific guidance	-
EU strategy for carers to help meet their needs and recognise their contribution	-
Network for sharing best practices for tackling gender-related aspects of COVID-19	-
Mutual learning through exchanges of good practice	-
Collection of sex-disaggregated and intersectional data	-
Better implementation and enforcement of EU equality legislation	-
More gender equal tax, social protection and work-life balance systems	-
National responses to Covid-19 could include gender impact assessments and be aligned with the gender equality plans and international commitments	-
National and sub-national gender equality plans (with clear objectives, targets and indicators)	-
National machinery for gender equality and instruments at local and regional level	-
National gender equality commitments (CEDAW, Beijing Platform for Action, Agenda 2030 - SDGs)	-

Pyramid of instruments at the disposal of the EU and its Member States



Avoiding global economic depression

Introduction

The OECD forecasts the most severe global economic recession since the 1930s due to the pandemic crisis. The world's GDP is expected to collapse by 6 % in a 'single-hit' scenario, or even by 7.6 % if a second wave of infections with renewed lockdowns hits before the end of 2020. For advanced OECD economies, the picture is even worse with a projected GDP contraction of between 7.5 % and 9.3 % depending on the scenario envisaged. At the same, it will likely take at least a few years before the world economy fully recovers, albeit with lasting scars on investment, on human capital due to fast increasing unemployment, and on global trade due to heightened uncertainty (supply chain disruptions and trade tensions).

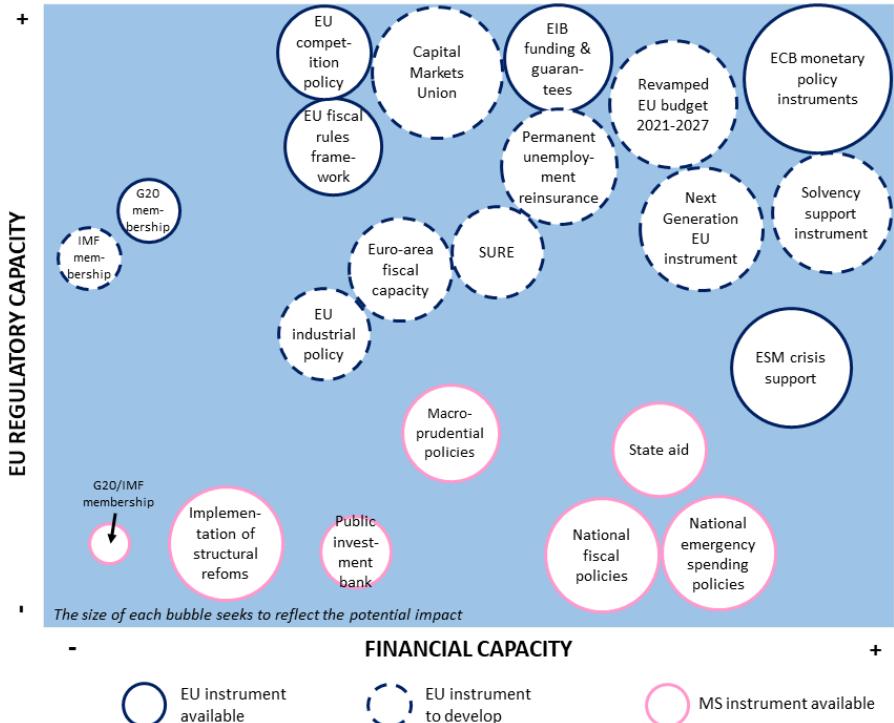
A steep economic downturn will likely put substantial pressure on public finances and the social protection systems of advanced economies. It may also reveal vulnerabilities in some emerging-market economies – such as high indebtedness, volatile currencies and volatile commodity prices – which could in turn reinforce the global recession through contagion and negative spill-overs given the overall interconnectedness of the world economy.

In response to a potential economic depression, the EU and its Member States have to use all the tools at their disposal. These include fiscal stimulus and emergency spending plans to support the economy, in accordance with the EU fiscal framework. These policies should be coordinated at EU level and, where possible at G20 level, in order to kick-start the global economy. At the same time, national governments should implement growth-enhancing and structural reforms to increase productivity and strengthen the resilience and competitiveness of their economies.

In addition, the EU's long-term budget, including a substantial recovery fund, aims to support a lasting recovery while meeting the challenges of the green and digital transitions. Investments will be crucial in this regard. The EIB's response to scale up its support to small and medium-sized European enterprises by providing additional financing will be important to help the EU economy recover. Viable companies in areas most affected and in need of capital because of a crisis may also need to be supported, for example through the creation of a specific instrument. At the same time, the EU should also remain vigilant and ready to support solvent companies operating in strategic sectors and in need of capital due to a crisis so that foreign (state-owned) companies do not acquire them.

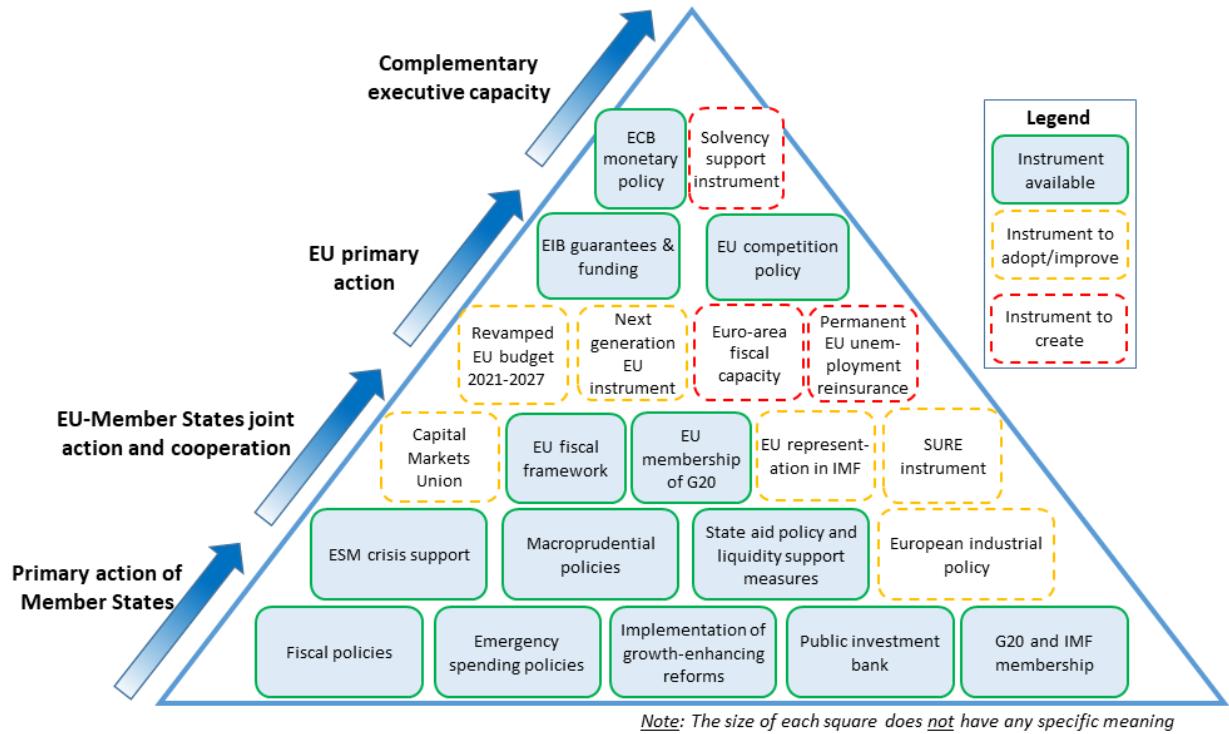
Additionally, both a euro-area fiscal capacity and a permanent EU unemployment re-insurance mechanism could provide further macroeconomic stabilisation.

Lastly, in the event of a severe global economic depression, the ECB would likely have to take additional accommodative measures to sustain growth across the euro area while preventing financial conditions from tightening, and provide liquidity support to the financial system. Likewise, it has already taken measures to prevent the emergence of the redenomination risks to safeguard the single currency. Coordination among major central banks is also important, through, for instance, the easing of swap lines, to help to safeguard international financial stability.



Instrument	Size
ECB monetary policy instruments (conventional and unconventional) including purchases of assets (e.g. PEPP), non-standard refinancing operations, collateral easing, forward guidance, swap lines with the US Federal Reserve and so on	Over €2.5 trillion in 2020-2021
EU solvency support instrument of significant size to help viable companies match their recapitalisation needs, which are at risk in the event of a crisis	€720 billion (estimate)
EU competition policy and temporary framework to use the full flexibility of state aid rules	-
EIB mobilisation through guarantees and funding	Over €70 bn
Revamped EU budget 2021-2027	€1 074 bn
Next Generation EU instrument (until end-2023)	€750 bn
Permanent EU unemployment reinsurance (<i>Cost of non-Europe estimated at €17 bn</i>)	-
Temporary SURE mechanism to mitigate unemployment risks in an emergency	€100 bn
Range of measures to set up a real capital markets union (<i>Cost of non Europe estimated at €137bn</i>)	-
Ambitious European industrial policy	-
Set criteria (and date) of renewed application of EU fiscal rules and surveillance framework and flexibility thereof	-
Euro area fiscal capacity	-
EU membership of G20 to steer global coordination and for instance create a G20 debt relief mechanism for the poorest countries of the world	-
Improve EU representation in IMF , also to steer debates and push for reforms, for example on IMF's Special Drawing Right	-
ESM crisis support (Pandemic crisis support available until 2022)	€240 bn
Macroprudential policies to release banks' capital buffers to ease funding pressures faced by businesses and households	€20 bn
State aid policy and liquidity support policies for the real economy	-
National fiscal policy	-
Emergency spending policies	-
Implementation of growth-enhancing reforms	-
National public investment bank	-
National representation in G20 and IMF	-

Pyramid of instruments at the disposal of the EU and its Member States



Using European integration as an engine for recovery

The coronavirus health and economic crisis is going to have a disruptive effect on the European economy. Forecasts for 2020-2021 project a GDP shrinkage of 8.7 %,⁵ with soaring unemployment and productivity losses in all industrial sectors. Next Generation EU, the strategy proposed by the Commission to foster recovery, is an important starting point to move forward together. The Recovery and Resilience Facility (RRF), coupled with investments in the green economy and strong pushes for digitalisation will significantly help Member States mitigate losses and set the stage for future growth. Although, these will not be sufficient if Member States do not act together and pool resources, as leaving any behind would entail significant losses for all others, due to the interconnectedness of our economic system.

In fact, the main driver of recovery will be European integration. To grasp the magnitude of its potential, we make use of two concepts: 'European Added Value' (EAV) and 'the Cost of Non-Europe' (CoNE). These are complementary sides of the same coin, as EAV refers to the benefit that could be reaped if further EU-level action was to be taken in a specific policy area, while CoNE identifies the foregone potential of not undertaking any such action. They leverage the same processes, identifying the GDP gains (or losses) that would be generated through more efficient use of existing public resources. These gains would stem from increased coordination among Member States, which would enable the exploitation of economies of scale, the achievement of truly European public goods and benefits from spill-over effects, thus generating 'growth without debt'.⁶

The first estimates of EAV can be traced back to the Albert-Ball⁷ and Cecchini⁸ reports, which attempted to quantify the benefits of establishing the single market. Forty years ago, they predicted that it would generate additional GDP growth of between 4.5 % and 6 %. They were actually underestimating its potential, as the ECB recently calculated **a GDP increase of between 12 % and 22 % for each Member State just from participating in the single market**.⁹ Overall, thanks to European integration, trade flows have tripled¹⁰ and European citizens benefit from €840 per capita in welfare gains each year.¹¹

Looking at what has already been achieved can give an idea of the potential of further integration. The European Added Value Unit in the European Parliament has been mapping the economic impact of an even closer Union since 2014. Their latest comprehensive report – published in 2019 – analyses 50 policy areas, for an overall figure reaching as high as **€2.2 trillion per year, or some 14 % of total EU GDP (2017)**.¹² The breakdown by policy area is presented in Table 1. The greatest gains would stem from the creation of a truly digital single market (€713 billion), the green revolution and optimisation of energy markets (€502 billion), and a fully functioning economic and monetary union (€322 billion).

⁵ ECB, Spring Economic Bulletin 2020, 2020.

⁶ EPoS, Reducing the cost of non-Europe, European Parliament, 2019.

⁷ Albert M. and Ball R.J., [Towards European Economic Recovery in the 1980s](#), Report presented to the European Parliament, 31 August 1983.

⁸ Cecchini P., Catinat M., and Jacquemin A., The European Challenge 1992: The benefits of a Single Market. Aldershot: Wildwood House, 1988.

⁹ European Central Bank, Baldwin vs. Cecchini revisited: The growth impact of the European Single Market, Working Paper series, 2020.

¹⁰ Mayer T., Vicard V. and Zignago S., [The Cost of Non- Europe, Revisited](#), CEPII Working Paper, 2018.

¹¹ Bertelsmann Stiftung (ed.), Giordano Mion and Dominic Ponattu, [Estimating economic benefits of the Single Market for European countries and regions](#), 2019.

¹² European Parliamentary Research Service, [Europe's two trillion euro dividend: Mapping the Cost of Non-Europe, 2019-24](#), April 2019.

The additional 14 per cent of GDP, if all these actions advocated by the European Parliament had been taken earlier, would have significantly helped in responding to the crisis, giving the Union and each Member State greater fiscal capacity. This estimated €2.2 trillion dividend could fuel the engine of a European recovery, as it would promote growth, create jobs and better the lives of all European citizens.

Table 1: Cost of Non-Europe (CoNE) by policy area

POLICY AREA	CoNE (€)
<i>Classic single market</i>	713 billion
➤ Completing the single market for goods	183 billion
➤ Completing the single market for services	297 billion
➤ Guaranteeing consumer rights	58 billion
➤ Promoting the collaborative or sharing economy	50 billion
➤ Addressing corporate tax avoidance	85 billion
➤ Combatting value added tax fraud	40 billion
<i>Digital economy</i>	178 billion
➤ Completing the digital single market	110 billion
➤ Promoting internet connectivity	58 billion
➤ Cyber security	10 billion
➤ Economic and Monetary Union (EMU)	322 billion
➤ Better coordination of fiscal policy	30 billion
➤ Completing Banking Union	75 billion
➤ Common deposit guarantee scheme	5 billion
➤ Common unemployment insurance scheme	17 billion
➤ Building more integrated capital markets	137 billion
➤ Pan-European pension product	58 billion
<i>Environment, energy and research</i>	502 billion
➤ Climate change	under assessment
➤ Strengthened water legislation	25 billion
➤ More integrated energy market with greater energy efficiency	231 billion
➤ Promoting research and innovation	40 billion
➤ Robotics and artificial intelligence	206 billion
<i>Transport and tourism</i>	51 billion
➤ Single European Transport Area	6 billion
➤ Developing tourism policy	6 billion
➤ Stronger passenger rights	0.4 billion
➤ Odometer manipulation in motor vehicles	9 billion
➤ Liability rules and insurance for autonomous vehicles	30 billion
<i>Social Europe, employment and health</i>	142 billion
➤ Reducing the gender pay gap	43 billion
➤ Better information for and consultation of workers	12 billion
➤ Social enterprises and mutual societies	15 billion
➤ Addressing health inequalities	72 billion

<i>Citizens' Europe</i>	58 billion
➤ Free movement of economically active EU citizens	53 billion
➤ Creativity and cultural diversity	0.5 billion
➤ Cross-border voluntary activity	0.06 billion
➤ Protection of children, family and property relations	0.6 billion
➤ Establishment and mobility of companies	0.26 billion
➤ Legal cooperation and litigation in civil and commercial matters	4 billion
➤ EU law on administrative procedure	0.02 billion
<i>Justice and Home Affairs (Migration and borders)</i>	55 billion
➤ Legal migration	22 billion
➤ Asylum policy	23 billion
➤ Border control and visa policy	10 billion
➤ Citizenship and residency by investment schemes	under assessment
<i>Justice and Home Affairs (Security and fundamental rights)</i>	125 billion
➤ Combatting violence against women	23 billion
➤ Equal treatment and non-discrimination	0.5 billion
➤ Fighting organised crime, corruption and cyber-crime	82 billion
➤ Coordinated action against terrorism	16 billion
➤ Procedural rights and detention conditions	0.2 billion
➤ Data protection	3 billion
<i>EU external policy</i>	67 billion
➤ Less duplication in security and defence policy	22 billion
➤ Improved coordination of development policy	9 billion
➤ Improved common consular protection for EU citizens	0.9 billion
➤ Promoting international trade	35 billion

Promoting international financial stability

Introduction

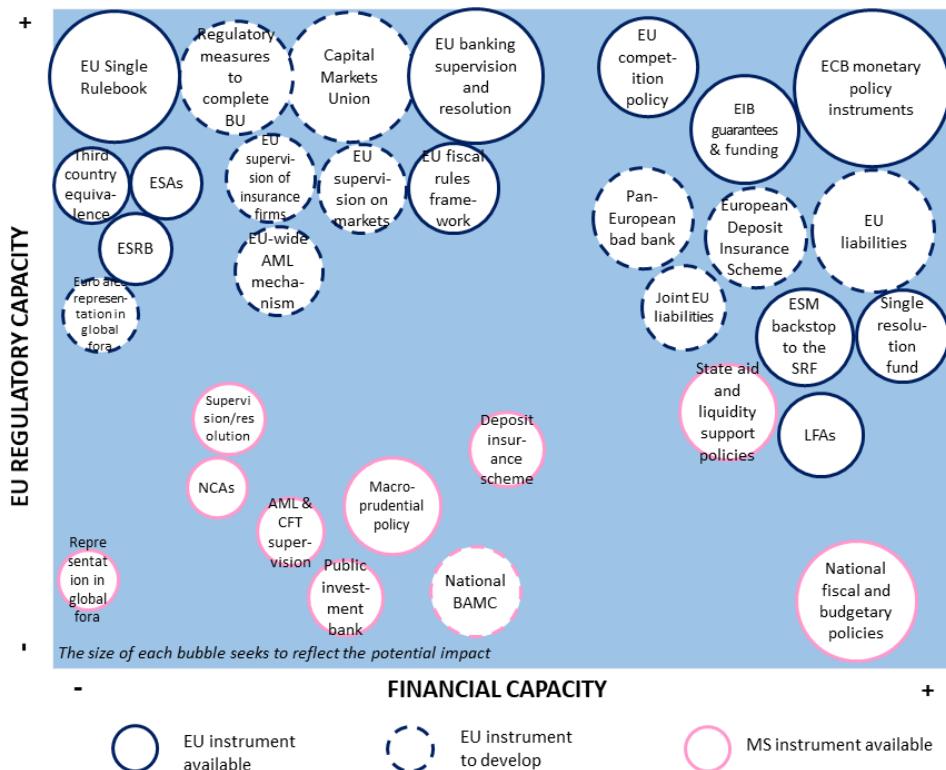
The onset of the coronavirus pandemic and the introduction of lockdown measures have posed challenges to economic and financial stability, with an abrupt tightening of global financial conditions, higher market volatility and heightened uncertainty. With the most severe global economic recession expected since the 1930s and only a very gradual recovery in the years to come, the risk of another major financial crisis should not be ruled out. Admittedly, banks are better capitalised than in 2008 and have had broad access to liquidity thanks to central banks' actions. Nonetheless, vulnerabilities in the financial system, including amongst non-bank entities, may be exposed in the event of a sharp downturn and further tightening of financial conditions. Further economic and financial distress would also reveal just how resilient financial institutions are.

In this context, preserving financial stability and supporting EU economies is crucial. The ECB has in its arsenal a wide range of conventional and unconventional instruments to address financial turbulence. They include, *inter alia*, purchases of assets, standard and non-standard open market operations, forward guidance, and swap lines with other major central banks including notably the US Federal Reserve. The European banking union – albeit incomplete as it still relies on national deposit insurance schemes – has enabled consistent and efficient supervision of financial institutions and resolution of failing banks in accordance with EU rules on capital requirements, recovery and resolution, thereby minimising the costs of possible bank failures for taxpayers and the real economy. In addition, a real capital markets union would help unlock capital and channel it to businesses so that they can grow and create jobs. It would also help businesses to be less reliant on banks, as over 80 % of corporate funding comes from banks in the EU. Savers and investors would also have new opportunities.

Overall, the EU and its Member States have an array of instruments at their disposal to make the economy more resilient to financial shocks and help tap the potential of large EU market. These instruments would also further prevent macro-financial feedback loops from emerging.

Nevertheless, additional instruments would be worth developing in order to help address financial instability at EU level. For example, a pan-European bank-asset management company could help deal with an increase in non-performing loans held by EU financial institutions (caused by the coronavirus crisis) and clean up their balance sheets so that they can continue lending to the real economy in challenging times. In addition, the creation of an EU-wide anti-money-laundering supervision mechanism could strengthen efficiency and credibility of EU action in this area, which has been in the limelight in recent years due to several money-laundering scandals involving European banks.

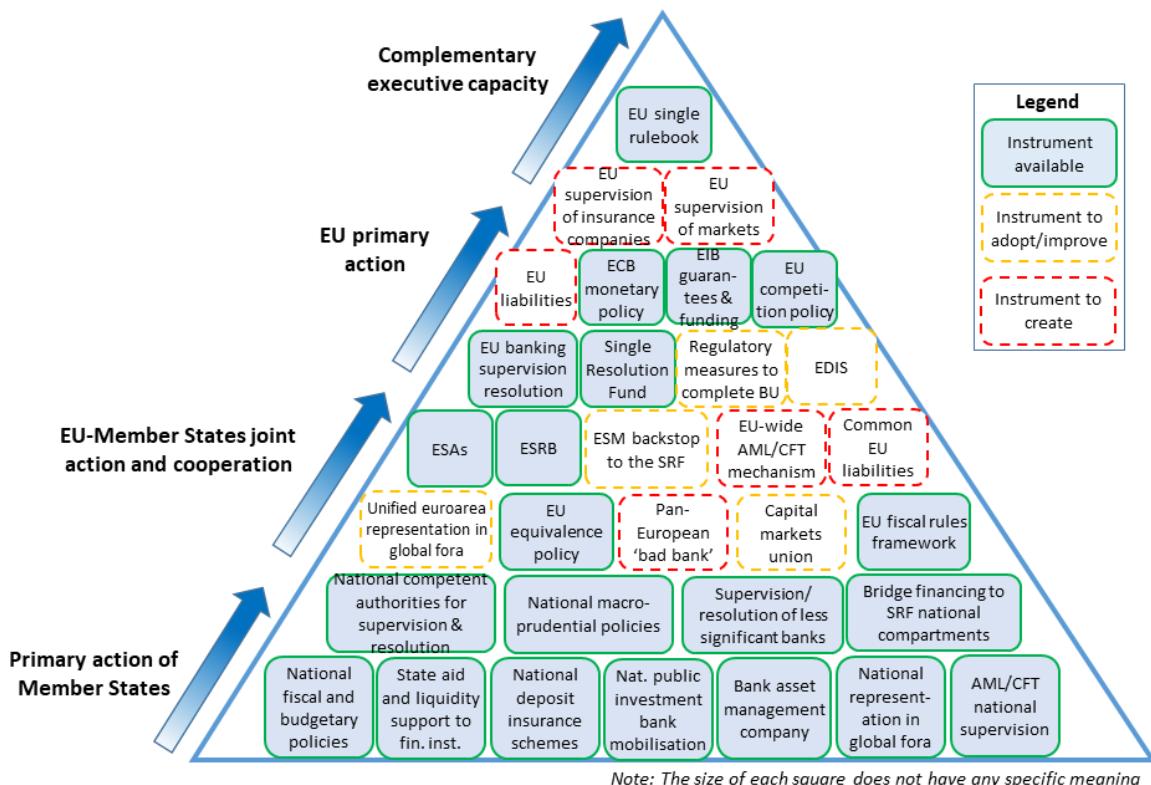
Furthermore, as an important part of financial activity has shifted from banking to the less regulated non-banking sector in recent years, stricter centralised supervision in this field would be beneficial, including when it comes to insurance activity carried out by financial conglomerates operating across national borders.



Instrument	Size
EU single rulebook	-
EU banking union including the EU single supervisory and resolution mechanisms	
EU competition policy and temporary framework to use full flexibility of State aid rules	-
EIB mobilisation through guarantees and funding	Over €70 bn
ECB monetary policy instruments including purchases of assets, open market operations, collateral easing, forward guidance, swap lines with the US Federal Reserve	
Single Resolution Fund (SRF)	€55 bn (in 2024)
Regulatory measures to complete the banking union	-
EU supervision on markets	-
EU supervision on insurance companies	-
EU liabilities	
European Supervisory Authorities (EBA, ESMA, EIOPA)	-
European Systemic Risk Board	-
European Deposit Insurance Scheme (Cost of non-Europe estimated at €5 bn)	0.8 % of covered deposits
Range of measures to set up a real capital markets union (Cost of non-Europe estimated at €137 bn)	-
A pan-European bank asset management company (or bad bank)	-
EU-wide anti-money laundering mechanism	-
Set criteria (if not done) for renewed application of EU fiscal rules and surveillance framework and flexibility thereof	-
Unified euro-area representation in global fora (IMF) and global standard-setters (BCBS, IOSCO, IAIS, FSB)	
Bridge financing to SRF national compartments (Loan facility agreements)	
European Stability Mechanism backstop to the Single Resolution Fund	€68 bn
National competent supervisory and resolution authorities	-
Supervision and resolution of less significant financial institutions	-
Third-country regime for provision of financial services within the EU/equivalence	-
Common EU liabilities	-
National fiscal and budgetary policies	-

State aid policy and liquidity support policies to financial institutions	-
National deposit insurance scheme	-
National bank asset management company to purchase troubled assets from banks so that they focus on normal banking operations	-
National public investment bank mobilisation	-
Anti-Money-Laundering/Counter-Terrorist Financing national supervision	
National representation in global fora (IMF) and global standard-setters (BCBS, IOSCO, IAIS, FSB)	-

Pyramid of instruments at the disposal of the EU and its Member States



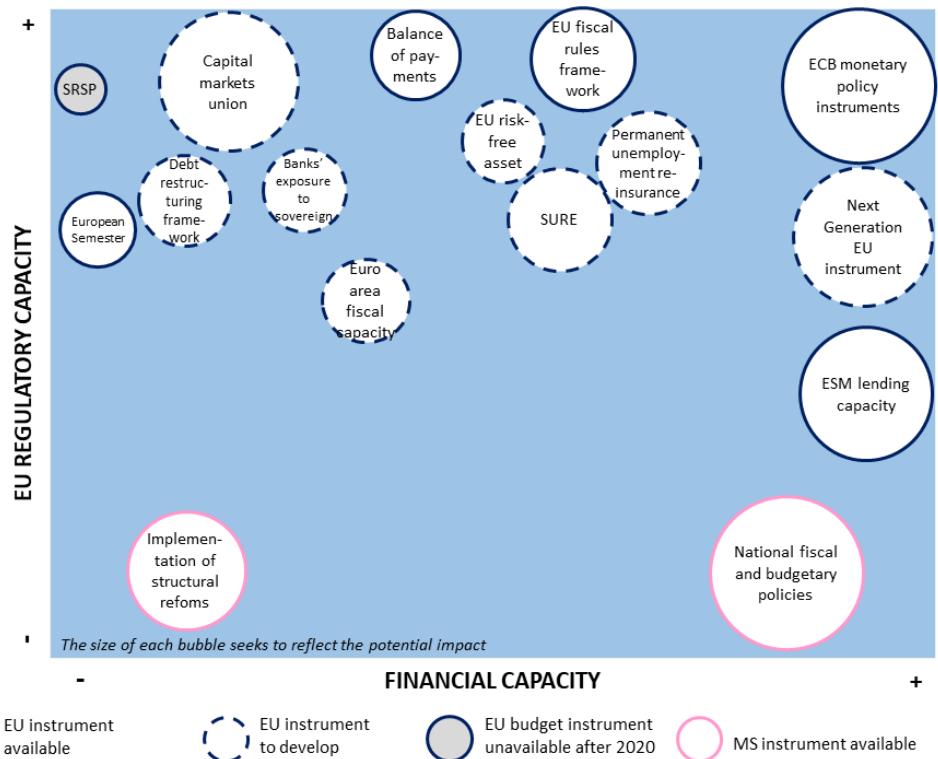
Avoiding a post-coronavirus sovereign debt crisis

Introduction

The OECD forecasts the most severe economic recession since the 1930s. The euro-area economy is expected to contract by 9.5 % in 2020 in a 'single-hit' scenario or even by 11.5 % if a second wave of infections with renewed lockdowns hits before the end of the year. The recovery in the coming years is likely to be gradual despite strong fiscal and budgetary support, while it will take several years for the EU economies to reach pre-crisis GDP levels. As a result, government deficits and debt will increase substantially. Public debt is projected to increase by up to 26 percentage points between 2019 and 2021 in the euro area. For the hardest-hit major economies that already had high levels of public debt and little fiscal space before the pandemic crisis, there may be heightened risks related to sovereign debt, especially if issues with additional negative impact are factored in such as anaemic growth prospects and a fragile banking sector.

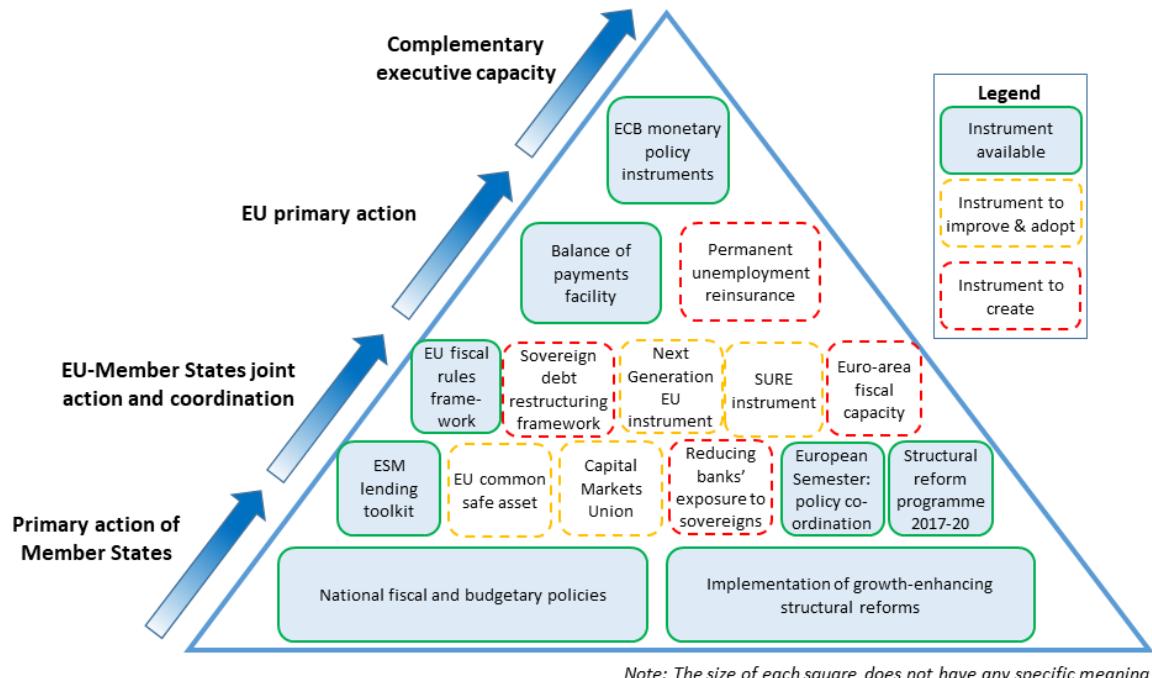
In this context, it is essential that all instruments at EU and Member State levels remain ready to be activated to prevent a sovereign debt crisis from materialising again. On the one hand, Member States should conduct responsible fiscal policies and implement growth-enhancing structural reforms to bring debt onto a sustainable path, and to retain access to financial markets to service their outstanding obligations. On the other hand, in the event a Member State is threatened by severe financing problems, several instruments are already in place to safeguard financial stability. These include assistance from the intergovernmental European Stability Mechanism (tied to conditionality). With a view to boosting economic growth prospects, EU Member States will also benefit over the 2021-2023 period from the €750 billion recovery fund, and temporary financial support from the new SURE mechanism to mitigate unemployment risks. Making the latter permanent would strengthen the EU architecture. For Member States outside the euro area, the Commission's balance of payments assistance facility has been available, with medium-term loans tied to conditionality. Last but not least, the ECB has a broad range of unconventional instruments of substantial firepower at its disposal to withstand risks including, *inter alia*, its outright monetary transactions (also tied to conditionality attached to an ESM programme) and other purchase programmes (including PEPP, PSPP) and non-standard refinancing operations (such as TLTROs) to provide liquidity to banks.

Nevertheless, it has been argued that new instruments such as a common sovereign safe asset or a euro-area fiscal capacity would respectively contribute to safeguarding financial stability and stabilising an economy – and even the whole euro area given the high externalities across integrated economies – in the event of a shock. In addition, a credible framework for orderly sovereign debt restructuring could be critical in cases where the level of public debt of a Member State is deemed unsustainable. In those situations, legal certainty and rapidity in decision-taking could avoid a crisis building up. Likewise, limiting EU banks' exposures to sovereigns by, for example, capping their holdings of sovereign debt would further help sever the bank-sovereign feedback loop.



Instrument	Size
ECB monetary policy instruments including Outright Monetary Transactions (OMT) with unlimited firepower, Asset Purchases Programmes, non-standard refinancing operations (e.g. TLROs), swap arrangements with the US Federal Reserve, forward guidance, etc.	TLTRO III: €1.3 trillion PEPP: €1.35 trillion & PSPP
Balance of Payments assistance facility to EU countries outside the euro area that are experiencing or threatened by difficulties regarding their balance of payments. It takes the form of medium term loans and is tied to conditionality	€50 billion
Creating an EU common safe asset to help stabilise financial markets in times of turmoil and contain volatility in the spreads between sovereign bond yields.	-
Permanent EU unemployment reinsurance (<i>Cost of non-Europe estimated at €17 bn</i>)	-
Establishing an EU sovereign debt restructuring framework	
Range of measures to create a real Capital Markets Union , including e.g. harmonising insolvency frameworks for banks and corporates across the EU, reducing further reduce the mechanistic reliance on credit ratings	
Temporary recovery instrument Next Generation EU	€750 billion
SURE instrument proposed by the Commission to mitigate unemployment risks in an emergency. Loans granted from the EU to the Member States facing sudden increases in public expenditure to preserve employment	€100 billion of loans
Reducing the exposure of banks to sovereigns e.g. by capping holdings of sovereign debt	
Set criteria (if not date) of renewed application of EU fiscal rules and surveillance framework and flexibility thereof.	-
Structural Reform Support Programme (2017-2020)	€0.22 billion
The ESM toolkit (e.g. loans as part of a macroeconomic adjustment programme to MS that have lost market access, other lending tools such as purchasing bonds on markets, recapitalisation of financial institutions. ESM loans are always tied to conditionality.)	€500 billion
European Semester for economic and fiscal policy coordination	-
National fiscal and budgetary policies carried out by Member States and implementation of growth-enhancing structural reforms , of which many take the form of Council recommendations under the European Semester.	Depends on Member State's fiscal space

Pyramid of instruments at the disposal of the EU and its Member States



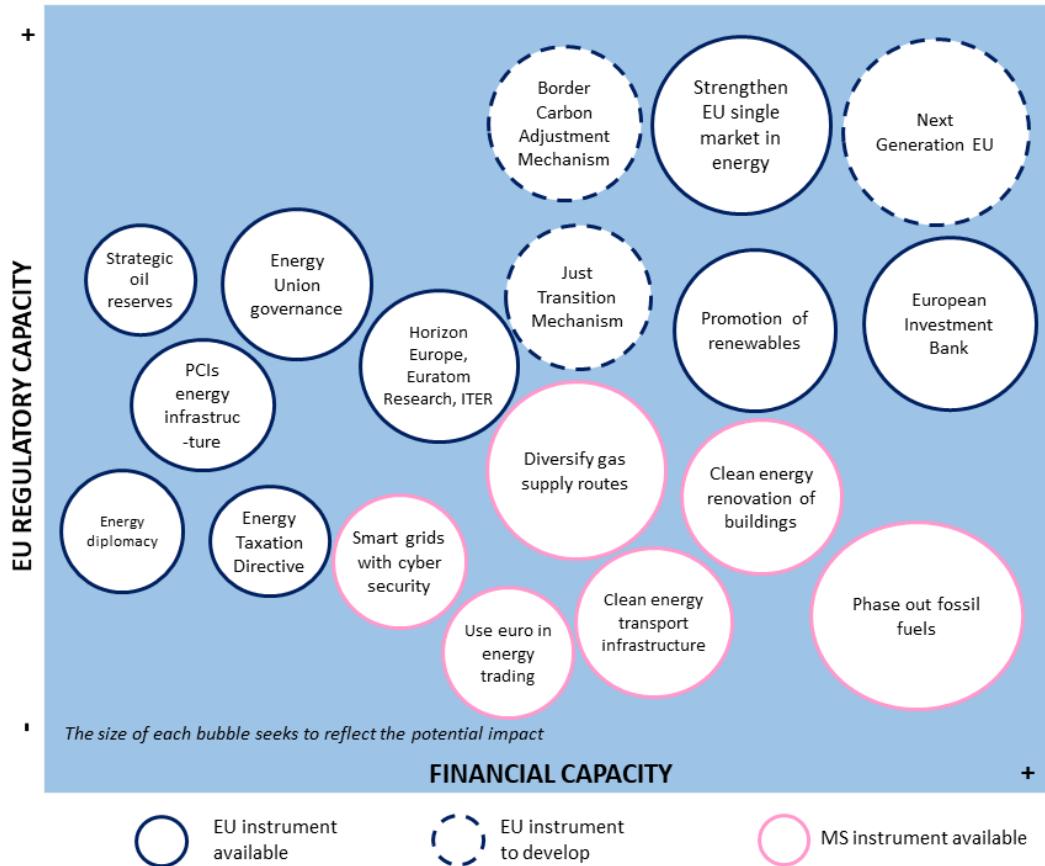
Confronting energy-related risks

Introduction

The EU and its Member States have always faced inherent risks in the energy sector. The most prominent risk has been security of supply, where the EU has a mandate to guarantee that secure energy supplies are maintained in all Member States, even during a supply crisis. The EU has developed various tools to address security of supply risks in the gas, electricity and oil sectors.

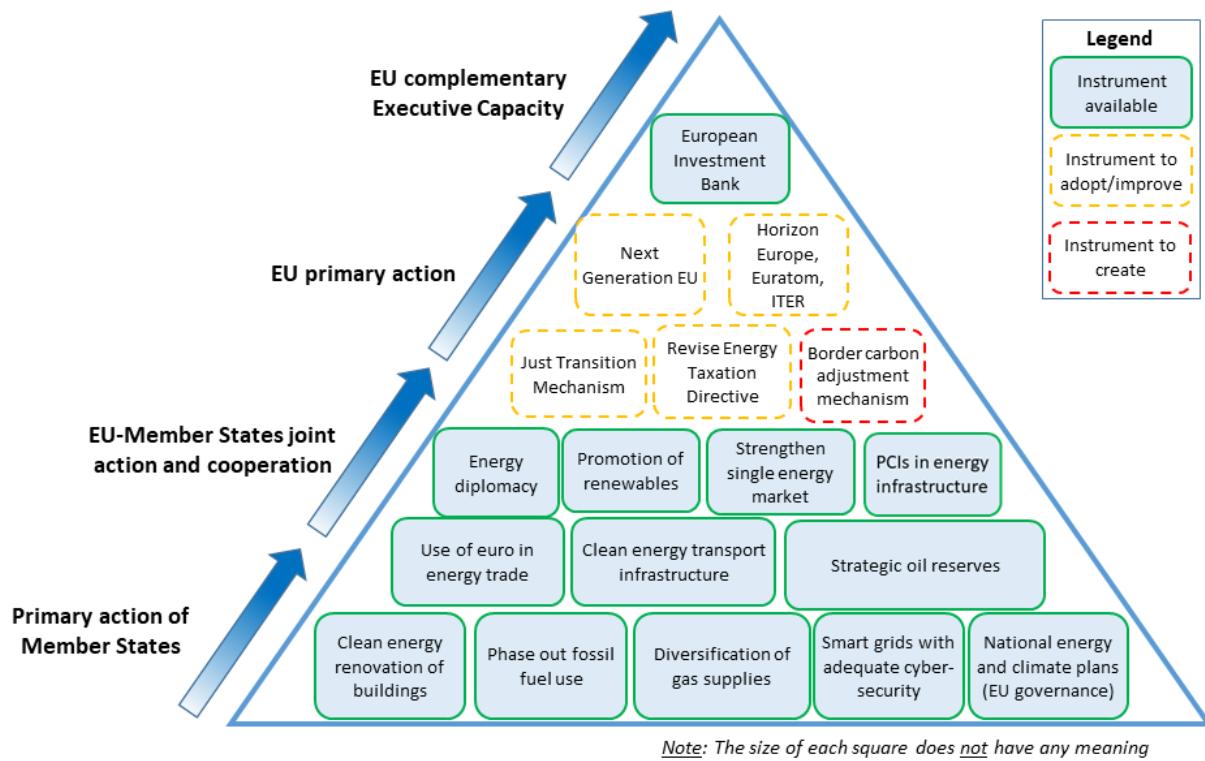
EU legislation ensures that households and essential services are prioritised in the event of a supply interruption; Member States have access to energy supplies from a wider range of suppliers; intergovernmental agreements in the energy sector are compatible with the EU internal market; and that national actions to enhance security of supply do not negatively impact neighbouring countries. The EU ensures that all Member States have strategic oil reserves, consistent with International Energy Agency requirements. However, particular risks remain in the gas sector where the EU needs to continue working to diversify gas supply routes, facilitate access to LNG supplies and ensure sufficient gas storage capacity. To maintain a secure electricity supply with a much higher share of solar and wind power, flexible smart grids need to be developed with a high level of cybersecurity to prevent hacking by private or state actors. Encouraging use of the euro in energy trade would do much to reduce currency risks, while stronger coordination between EU and Member States would allow more robust energy diplomacy vis-à-vis third countries and in international fora. A more integrated single market in energy and greater interconnection capacity between Member States would further reduce energy risks, as would greater investment in research and innovation on clean energy technologies. The EU has the tools to deal with many of these challenges; the question is whether there is always sufficient political will to use these tools to their fullest extent.

The main future challenge for the EU is how to transform its energy markets in a way that fully supports the clean energy transition towards carbon neutrality by 2050, and avoid the major risk of the EU not delivering on its climate and energy goals. The EU has a strong legal basis to act in this field and a series of instruments at its disposal, while yet more instruments are being improved or created to meet this challenge. The clean energy transition will require vast levels of public and private financing, including through the EU funding programmes under the planned next Multiannual Financial Framework (2021-2027). These instruments include the Next Generation EU recovery fund that will prioritise the clean energy transition; substantial loans for clean energy projects from the European Investment Bank; and the Just Transition Fund to support economic development in regions that are historically dependent on fossil fuel production. In terms of new trade policies, the proposed border carbon adjustment mechanism will seek to ensure that goods imported from third countries meet the same environmental standards (including energy use) as those produced in the EU. The EU institutions have agreed in principle to revise the Energy Taxation Directive in a way that facilitates the clean energy transition. Yet a major obstacle to revising the ETD in the past has been the unanimity requirement in Council for decisions relating to taxation, together with the limited (consultation) role of the Parliament. A further constraint on the ambition of EU energy policies under the present Treaties is that any decision on whether to phase out fossil fuel energy sources remains a legal competence of Member States, who may face considerable domestic difficulties in eliminating altogether their reliance on fossil fuels. Greater pressure and support from the EU could therefore help some Member States overcome the political and economic obstacles that stand in the way of their clean energy transition.



Instrument	Size
European Investment Bank funding of clean energy projects and infrastructure.	
Next Generation EU instrument to support economic recovery with an emphasis on measures that support the European Green Deal, including clean energy projects	€750 billion (total budget)
EU research programmes that prioritise low carbon and new energy technologies: Horizon Europe + Euratom Research Programme + EU contribution to ITER project.	€87.7 billion (incl. €5 bn NGEU)
Just Transition Fund to support people and regions that could be negatively affected by the clean energy transition.	€17.5 billion (incl. €10 bn NGEU)
Reform of EU Energy Taxation Directive that encourages the take-up of low carbon fuels, discourages fossil fuel use and avoids distortion of the single market in energy.	
Border Carbon Adjustment Mechanism to avoid trade distorting competition from third countries that use more polluting energy sources in their production of goods.	
Promotion of renewable energy sources in the EU and all Member States.	
Strengthening EU single market in gas and electricity	
Security of oil supply , maintain national strategic reserves (EU Oil Stocks Directive).	
EU projects of common interest in cross-border energy infrastructure	€5.2 billion
Alternative fuels infrastructure to support clean energy mobility across borders.	
Use of euro in energy trading to reduce risks associated with pricing in US dollars.	
Financing of energy efficient building renovations by the EU and Member States.	
Strengthening energy diplomacy to improve EU and Member State coordination.	
Diversification of gas supply routes , including access to LNG terminals and storage.	
Phase out use of fossil fuels in the energy supply of EU Member States.	-
Develop modernised smart grids with adequate cyber security capabilities	-
Implement national energy and climate plans (EU energy union governance)	-

Pyramid of instruments at the disposal of the EU and its Member States

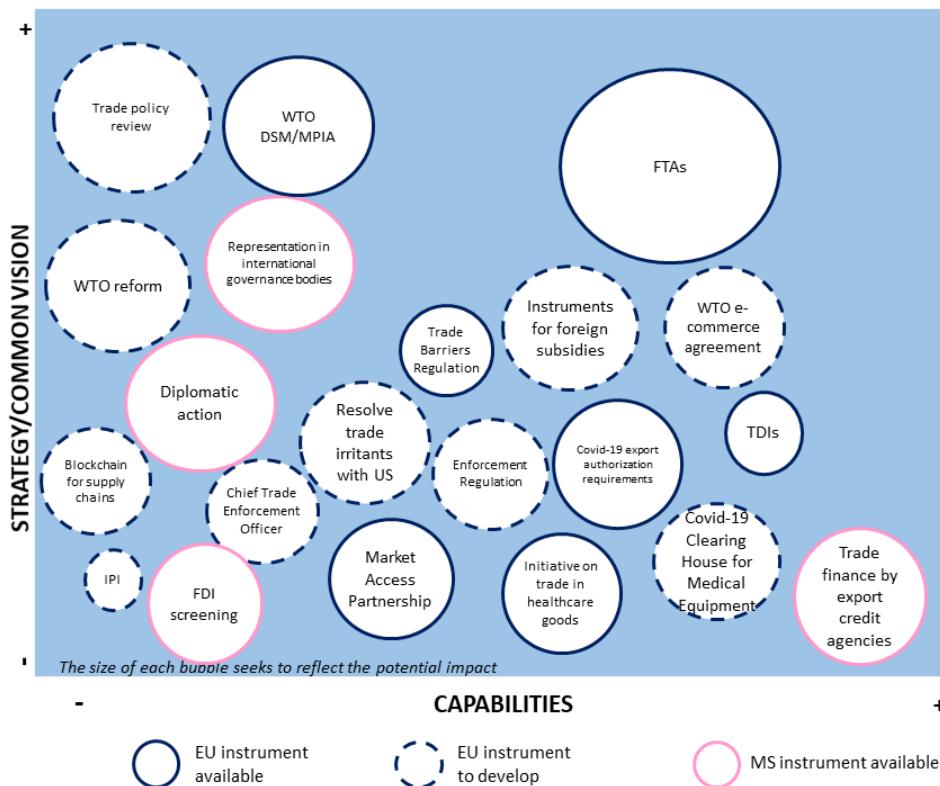


De-escalating trade protectionism

Introduction

The European Commission forecasts a 10-16 % drop in global trade, and the WTO estimated a 13-32 % trade decrease in 2020. The main cause behind the collapse is the coronavirus pandemic, although cross-border trade flows were already declining in the previous years, in part due to escalating trade protectionism around the world. The European Commission's Trade and Investment Barriers report for 2020 identifies a rise in the number of barriers, and increasing difficulty in tackling them as the paradigm of protectionism has settled in. Protectionist measures can mean import or export bans, border taxes, as well as non-tariff barriers to trade – domestic, behind-the-border measures limiting European companies' ability to do business – or unilateral tariff increases. Contemporary protectionism is also expressed in growing scepticism towards multilateral solutions, such as the WTO.

While the EU cannot oblige trade partners to liberalise, a wide array of instruments can encourage trade openness in partner countries, most importantly **diplomatic action, dispute settlement** and **EU free trade agreements** (FTAs). More broadly, the EU can tackle protectionism through **WTO reform and agreements** (for example, the ongoing WTO negotiations on e-commerce or forthcoming talks on healthcare goods). At times, in the face of escalating protectionism, the EU too will need to resort to protecting its industry, for instance with available **trade defence** instruments, or encourage reciprocal market opening as with the **international procurement instrument (IPI)**. The development of instruments to tackle foreign subsidies could help the EU to tackle behind-the-border protectionism and level the playing field. Since trade policy consists largely of regulatory capacity (FTAs but also trade regulations), as well as litigation in cases of disputes and soft tools such as negotiation to address barriers, the budgetary aspect is limited with the exception of trade financing by Member States. As an exclusive competence of the EU, Member States also play a more limited role compared to other policy areas, but remain key players when it comes to diplomatic efforts and investment policy. In order to establish a common vision to tackle the key risks in the area of international trade, the Commission has launched a trade policy review that will define the strategy for the years to come.



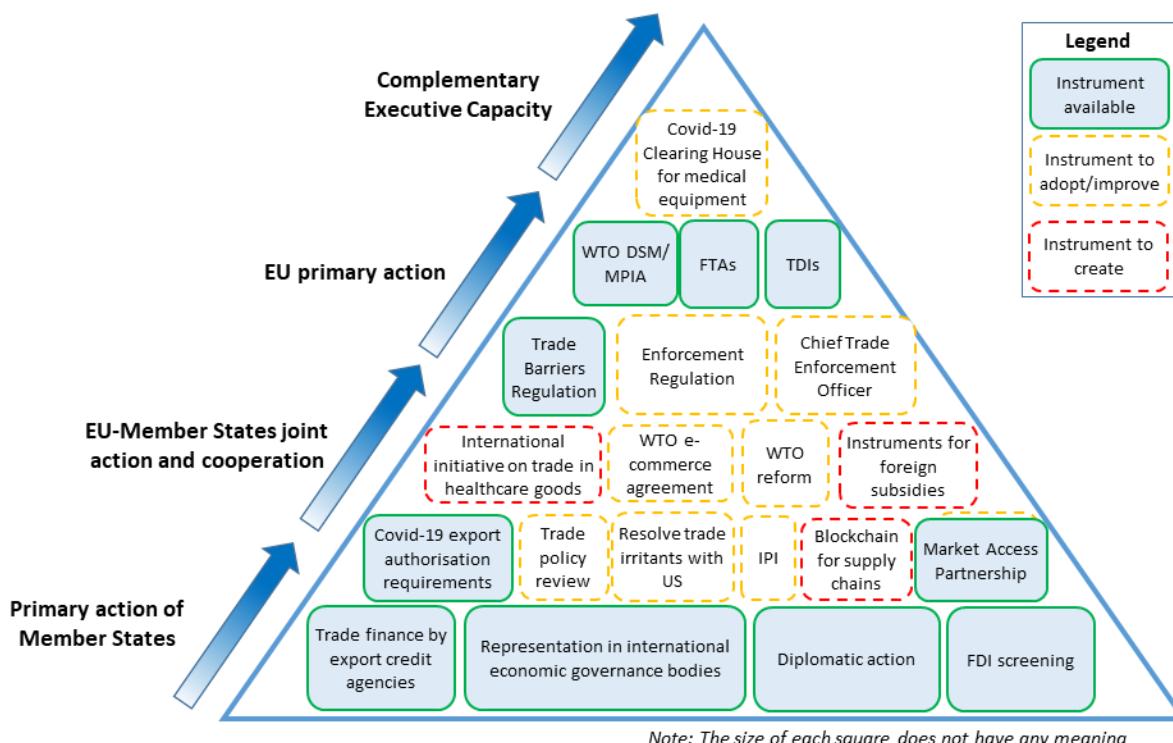
Instrument	Size
Build on the experiences of Covid-19 Clearing House for medical equipment as a model for crisis management	N/A
Negotiate and conclude new EU free trade agreements (FTAs) that eliminate trade barriers, improve intellectual property protection, enable bilateral dispute settlement and trade defence action (e.g. United Kingdom, Australia and New Zealand)	€250 bn ¹³
Selectively use modernised EU trade defence instruments (TDIs) to protect EU industries from sudden and unforeseen dumping and subsidies from third countries	N/A
Regular two-step WTO dispute settlement mechanism (DSM) allows EU to launch proceedings against unfair and illegal protectionist measures while the Multi-party interim appeal arbitration arrangement (MPIA) , set up by EU and 15 WTO members, temporarily rectifies the absence of Appellate Body due to US blockage of appointments	N/A ¹⁴
Revise the EU Enforcement Regulation which allows EU to take countermeasures in case bilateral or multilateral dispute settlement malfunctions	N/A
Examine alleged trade barriers in the context of the EU Trade Barriers Regulation	N/A
Improve enforcement and implementation of existing preferential trade agreements including through the EU Chief Trade Enforcement Officer	N/A
Endeavour to reform the WTO , in particular with regards to industrial subsidies, to re-establish it as a forum to the development of new rules (e.g. fisheries subsidies) and developing country status that can lead to disguised protectionism	N/A
Tackle growing digital trade barriers such as forced technology transfers and data localisation requirements by seeking progress in the WTO plurilateral e-commerce agreement negotiations by end of 2021	N/A
Spearhead an international initiative to facilitate trade in healthcare products (pharmaceuticals and medical goods) with a group of WTO partners	N/A
Propose new instruments to tackle distortive effects foreign subsidies as outlined in the EU White Paper on foreign subsidies in the single market	N/A

¹³ For indication only: Estimated annual GDP increase in 2015 from the conclusion of ongoing negotiations with countries such as US, Vietnam, Japan, Thailand, Malaysia, Morocco and India by European Commission, [How Trade Policy and Regional Trade Agreements Support and Strengthen EU Economic Performance](#), 2015, p. 7.

¹⁴ Currently under WTO Secretariat budget

Lead by example by quickly lifting the temporary coronavirus-induced export authorisation requirements on personal protective equipment as agreed in the G20	N/A
EU trade policy review 2021	N/A
Resolve trade irritants with US , e.g. seeking a negotiated solution to the imposition of US tariffs on US\$7.5 billion of EU goods following WTO ruling in favour of US in the Airbus case or retaliate following the likely EU-favourable judgment in the parallel Boeing case / lifting steel and aluminium tariffs	N/A
Induce reciprocal market opening in partner countries for public procurement tenders by adopting the International Procurement Instrument (IPI)	€10 bn ¹⁵
EU Market Access Partnership brings together Commission, Member States and EU businesses to identify and remove barriers in third countries, including during Market Access Days and the maintenance of EU Market Access Database	N/A
Develop common principles towards the use of blockchain technologies for supply chains and trade to remove barriers to trade by enhancing trust and interoperability	N/A
Implement guidance on FDI screening regulation and strengthen Member State coordination	N/A
Diplomatic action between Member States, the EEAS, the Commission and industry through a network of EU delegations and Member State embassies to tackle trade and investment barriers through negotiations, technical projects, high-level missions, exchanges of letters, ministerial and presidential actions	N/A
National representation in international governance bodies such as UNCTAD, G20, G7, IMF, as well as development of trade and taxation approaches in the OECD	N/A
Enable national export credit agencies to provide trade finance to EU companies in case of credit crunch	N/A

Pyramid of instruments at the disposal of the EU and its Member States



¹⁵ Amount of international tenders won by EU companies per year in the absence of IPI or reciprocal market opening

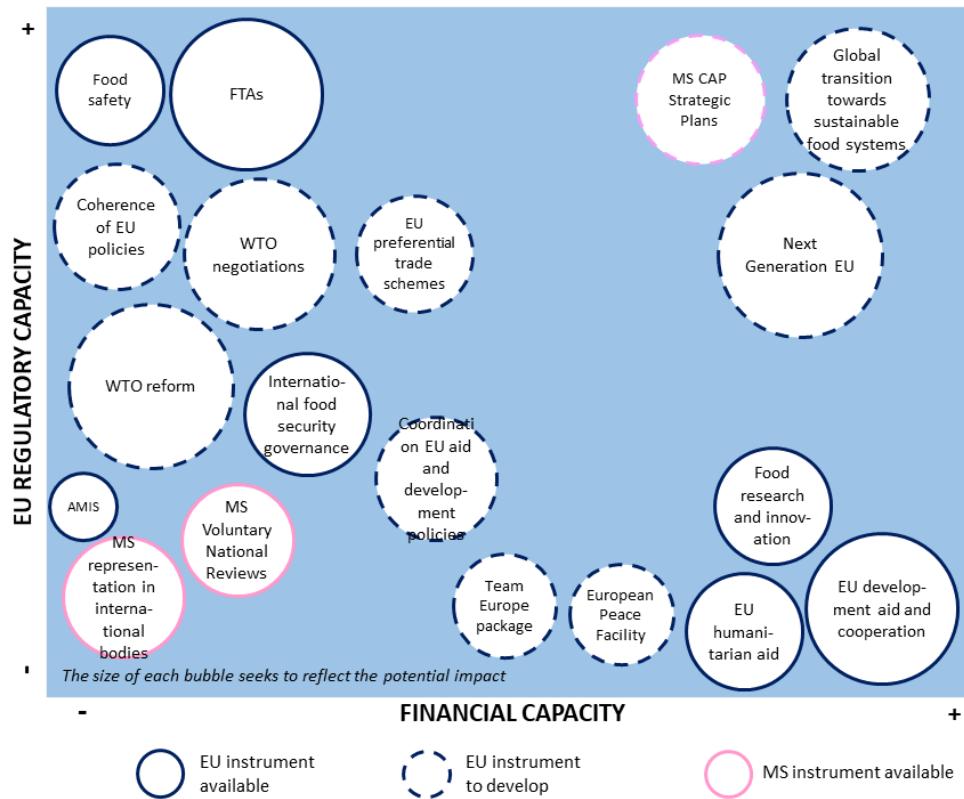
Improving global food security and avoiding higher food prices

Introduction

Despite the severe [economic](#) and [trade downturn](#) associated with the Covid-19 containment measures, the [food export restrictions](#) introduced at the early stage of the pandemic have had only a [limited adverse effect](#) on global agricultural markets. However, analysts note that the risk of a global food emergency cannot be excluded. Although global food production [outlooks are positive](#) and prices of internationally traded foodstuffs are low, the UN considers that, in the longer term, the combined effects of the pandemic itself, the measures taken to control it and the emerging global recession could hinder the functioning of food systems. Breakdowns in supply chains which may lead to higher prices, as well as falling revenues due to depressed economic activities and increased food waste (due to transportation restrictions, harvesting problems and disruption in markets), would have a significant impact on the food access of the vulnerable populations already experiencing hunger and [other crises](#), in particular in the [least developed](#) and food import-dependent countries.

The EU is [committed](#) to keeping trade flowing and supply chains functioning. However, the prompt recovery of disrupted trade flows is unthinkable without a global economic recovery, a key objective of the [Next Generation EU](#) instrument, as well as without a stable and predictable multilateral rules-based trading system. Reinforced international cooperation on trade, namely, the reform of the WTO, is essential in this respect. Free trade agreements (FTAs) also play an important role, as they not only boost economic growth but also reduce trade barriers that hinder the flow of goods. Moreover, the detrimental impact of protectionist measures such as export restrictions could be counter-balanced not only by increasing [transparency](#) through notifications, but also by extending the network of FTAs, which would allow a diversification of supply markets. Furthermore, the [EU's preferential trade schemes](#) contribute to the more effective integration of developing countries into international trade.

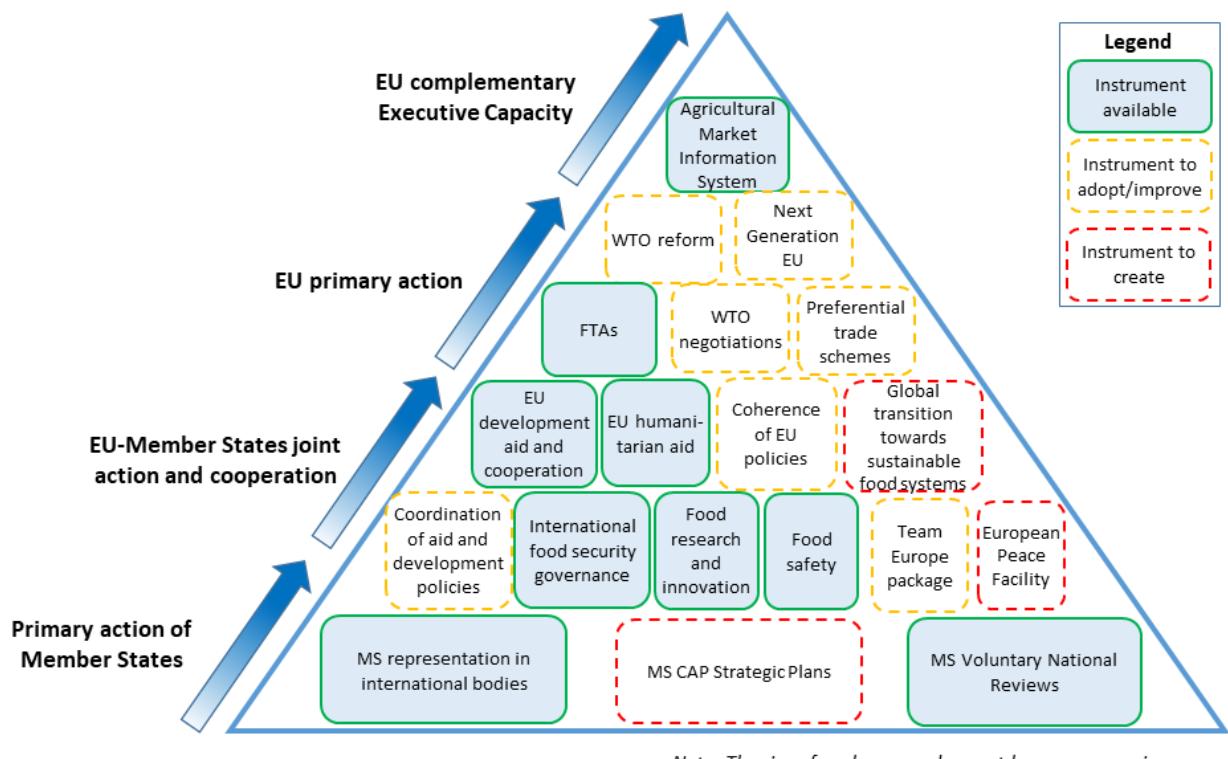
Regarding the tools which go beyond trade policy, in addition to supporting various humanitarian food assistance operations, the EU and the Member States also have the opportunity to finance food security-related development cooperation activities in different parts of the world. The [new common agricultural policy](#) (CAP), together with EU Member States' State-aid schemes will play a key role in stabilising agricultural markets and ensuring food security at both European and global level (given the EU's prominent role in world food trade). The CAP will at the same time promote more sustainable agriculture favouring climate change mitigation and adaptation, as a key instrument of the EU's [Farm to Fork strategy](#) and [biodiversity strategy](#) which aim at promoting the global transition towards sustainable food systems. Finally, other instruments at the EU's disposal to increase food availability in the world include the funding of [research and innovation](#), for instance on strengthening the adaptation to climate change.



Instrument	Size
Agricultural Market Information System (AMIS) launched by the G20 Agricultural Ministers to enhance food market transparency and policy response for food security	N/A
Uphold the rules-based multilateral trading system by addressing the challenges that the WTO faces through concrete reform proposals	N/A
Next Generation EU to ensure a lasting and sustainable recovery from the economic crisis	€750 bn
Free trade agreements (FTAs) to stimulate economic activity and facilitate the flow of goods	N/A
Active engagement in negotiations within the WTO on issues affecting global food supply and in particular developing countries, such as agricultural and fisheries subsidies	N/A
Making easier for developing and least developed countries to export their products to the EU via the EU's preferential trade schemes (GSP)	N/A
Provide development aid and engage in development cooperation with partner countries at different stages of development, covering also food assistance and food security needs	NDICI €70.8 bn
Deliver humanitarian food assistance to people affected by food crisis around the world, and contribute to reducing the risk of famine	Humanitarian Aid €9.8 bn
Increase the coherence of EU development policy and other policies, e.g. agricultural and bioenergy policy, as it plays an important role in achieving the 2030 Agenda on food security	N/A
Promote the global transition towards sustainable and resilient food systems in line with the new Farm to Fork Strategy, being at the heart of the EU Green Deal	CAP €343.9 bn
Maximise the efficiency of EU and MS aid and development cooperation policies and programs to address food insecurity through better coordination	N/A
Engagement in international food security governance, e.g. the FAO, that allows relevant stakeholders to effectively contribute to the improvement of food security	N/A
Food security research and innovation aimed at finding solutions for food-related challenges	Horizon Europe €80.9 bn

	Contribute to the formulation of benchmarks for food safety, a key element of international food trade and food security	N/A
	Team Europe package to help partner countries to fight the coronavirus pandemic and its consequences, combining resources from the EU, the Member States and other partners	Around €36 bn to 5 June 2020
	Develop European Peace Facility to contribute to the reduction of conflicts in the world, reducing thereby the number of people experiencing or threatened by food crises	Expected to be established as an off-budget instrument
	Member States' representation in international organisations, such as WTO, FAO and IMF	N/A
	Member States' CAP strategic plans, to reflect the objectives of the future CAP	N/A
	Member States' Voluntary National Reviews on the implementation and delivery of the Sustainable Development Goals (SDGs)	N/A

Pyramid of instruments at the disposal of the EU and its Member States



Addressing the rise of extreme nationalism

Introduction

Over recent years, the rise of extreme nationalism has constituted a worrying development, and presented a threat to European democracy in certain cases, both at Member State level and at the level of the EU as a whole. Extreme nationalism, like populism, tends to provide simplistic answers to complex problems and promise easy solutions to the worries of citizens, claims to represent the true will of 'the people', and draws a sharp distinction between supporters and foes (often including domestic elites, migrants and minorities), thereby amplifying differences of opinions and polarisation in society. Past experience, following the financial and migration crises, has shown that extreme discourse finds fertile ground in those parts of the population or regions most affected by the crisis. Such political parties or movements – on both the extreme left and extreme right side of the political arena – tap into people's fears about a loss of their identity, further increased by a perceived uncontrolled level of immigration, as well as a feeling of being 'left behind' economically, as a result of rising unemployment and decreasing social cohesion. The threat to democracy rises when populist parties reach high office at regional or national level and gain the legal and operational capacity to start dismantling the system from within, by challenging independent institutions such as the media or judiciary, thereby undermining the rule of law. The phenomenon is often linked to the use of fake news and disinformation activities.

Extreme nationalism is a horizontal challenge that goes beyond a single policy area and requires a combination of instruments from different policy fields, as well as horizontal tools to be counteracted. Overall, the EU and its Member States currently have only a limited number of instruments directly aimed at addressing the potential threat to democratic systems. However, many instruments can contribute to reducing the attractiveness of populist movements and to strengthening democratic processes. In order to address the feeling some citizens have of being 'left behind' or challenged in their identity, Member States and the EU need to show that they can deliver on citizens' needs and communicate these achievements together with messages about European values. Strengthened output performance needs to be supplemented with tailored policies that promote a political and cultural sense of European belonging, bring bottom-up initiatives centre stage and thus help to engender a European public space.

Central in this context is fostering European mobility and exchange across all age groups, and encouraging civic participation as well as European historical remembrance, including by means of EU instruments such as the [Erasmus+ programme](#), the [Rights, Equalities and Citizenship programme](#) and the [Civil Society Empowerment programme](#). In all Member States, an active and strong civil society is needed in countering extreme nationalism. Citizens becoming involved more actively in political processes and policy-making at all levels is of particular importance. [Analysts](#) rightly suggest that 'making local, national, and supranational governance more participative and accountable will lead to better responses to problems of inequality and identity'. Some already existing instruments are the [European citizens' initiative](#), the [citizen's dialogues](#) and the [Spitzenkandidaten process](#). Experts [argue](#) that new technologies and digitalisation can support the quality of participation and the level of responsibility in modern democracy by increasing transparency of and knowledge about political activities. The resulting framework of e-democracy and e-participation allows citizens to connect to the political process and the activities of their elected representatives, thus helping to mitigate the risk of extreme nationalism and/or populism.

Citizens' participation needs to be supported by the availability of trustworthy and objective information. Together with an independent and pluralist media sector, this can also help in fighting fake news and disinformation. Free and pluralistic media and a strong and independent justice system are the bedrocks of democratic systems; their proper functioning is essential in addressing

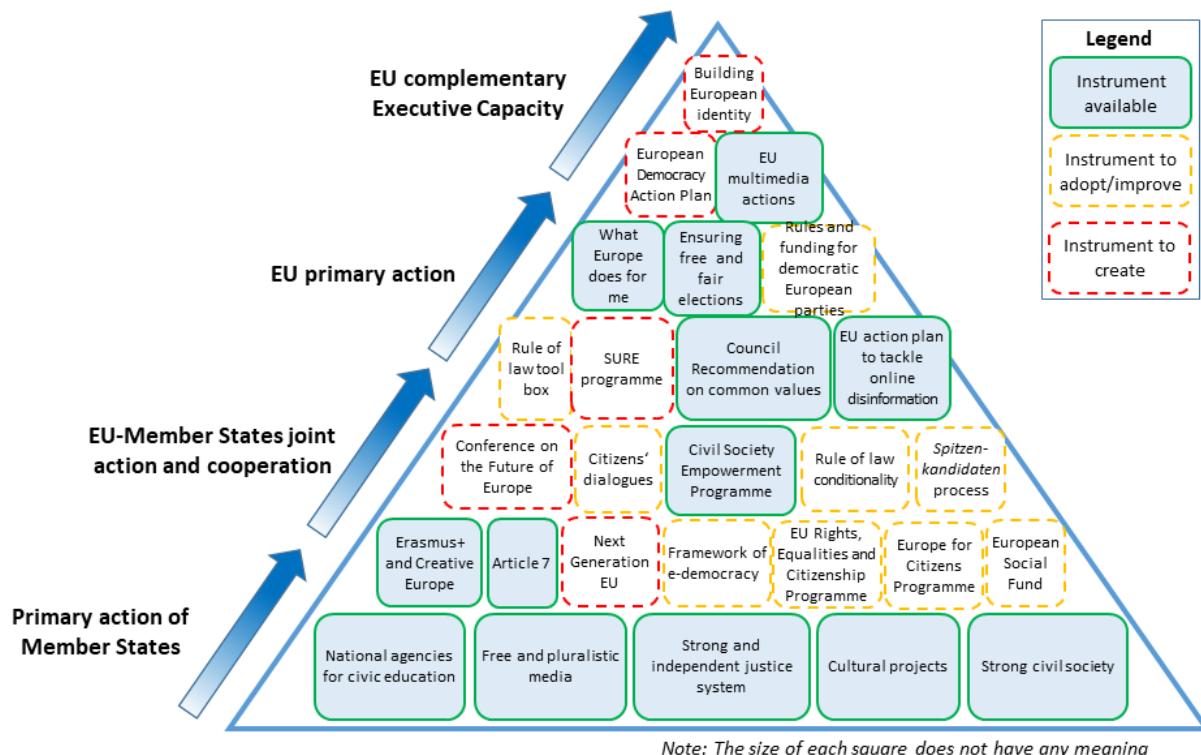
the rise of extreme nationalism. Additionally, EU instruments, such as the [Article 7 procedure](#), the rule of law [tool box](#) and the planned [rule of law conditionality in EU funding](#), can contribute to strengthening the rule of law and promoting democratic principles. [Research](#) also shows that economic decline, social instability and limited levels of education are some of the most significant factors explaining increased support for extreme nationalists throughout the EU. In addition to the necessary activities at national level, the EU's [social](#), [education](#) and [youth](#) programmes can contribute to creating and maintaining a cohesive European society.

Instrument	Size¹⁶
Building European identity (education, history, symbols) would help strengthening an European sense of belonging	N/A
European Democracy Action Plan will tackle some of the key challenges for European democracy, notably external interference and manipulation in elections, media freedom and pluralism and the fight against disinformation	N/A
The EU multimedia actions strengthen news reporting on EU affairs from pan-European points of view	€18 million (in 2020)
Initiatives like What Europe does for me can show the positive impact of the EU on citizens' quality of life and on prosperity	N/A
Ensuring fair and free EU elections is a central feature of our democracies	N/A
By regulating the funding and governance of political parties, through the rules and funding for democratic European political parties , the EU can help to make political parties comply with democratic principles and help to ensure free and fair elections	N/A
To address systemic threats to the rule of law in some Member States, the EU has adopted a rule of law tool box that prevents emerging threats to the rule of law to escalate to the point where the Commission has to trigger Article 7	N/A
SURE programme will help to fight negative economic and social consequences of the coronavirus outbreak and prevent people from feeling 'left behind'.	Up to €100 billion in loans
Council Recommendation on Common Values, Inclusive Education and the European Dimension of Teaching seeks to strengthen social cohesion, to fight xenophobia, radicalisation, divisive nationalism and the spread of fake news	N/A
Misleading or outright false information is a major challenge for Europe, which the EU action plan to tackle online-disinformation aims to address	N/A
The Conference on the Future of Europe can help to both increase citizens' participation in political processes and make EU policies even more tailored to peoples' needs	N/A
Citizens dialogues involve citizens more actively in political processes and policy-making	N/A
The EU Civil Society Empowerment programme supports civil society and grass roots organisations in their fight against populism	€6 million
Rule of law conditionality in the EU budget could lead to the suspension of payments and commitments in Member States if a rule of law deficiency is found	N/A
The aim of the Spitzenkandidaten process is that European citizens not only elect the Parliament, but also have a say over who should head the European Commission	N/A
Erasmus+ and Creative Europe help to foster the awareness of a common European history and to develop a European consciousness by raising awareness for Europe's cultural diversity and promoting more interactions between citizens of different Member States (individual mobility schemes, town twinning, school exchanges, etc.)	€22.8 million
When a Member State persistently breaches EU values (respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities), the EU can launch an Article 7 procedure	N/A
Next Generation EU will be an important demonstration of solidarity between European peoples and Member States	€750 billion
Framework of e-democracy helps to connect to the political process and the elected representative and mitigates the risks of nationalism and populism	N/A

¹⁶ The programmes listed have various objectives, of which only some contribute to the fight against extreme nationalism. Consequently, the total amount of funding cannot be attributed to addressing this challenge.

EU Rights, Equalities and Citizenship programme defends the rights and freedoms that people are entitled to under EU law.	€439.5 million
Europe for Citizens programme helps to foster civic engagement and the awareness of a common European history	€187.7 million
European Social Fund helps millions of Europeans to improve their lives by learning new skills and finding better jobs	€88 million
Some Member States have national agencies or foundations for civic education (e.g., Bundeszentrale für politische Bildung and La documentation française), providing information material on political debates and on the political system, and thus strengthening civic participation	N/A
Free and pluralistic media are one of the cornerstones of democracy to allow discussions in public space	N/A
Strong and independent justice systems are another cornerstone of democracy	N/A
Cultural projects help to raise awareness of the problem of populism	N/A
Strong civil society engagement is essential to raise awareness of the problems associated with populism and for strengthening democracy	N/A

Pyramid of instruments at the disposal of the EU and its Member States



Defending Europe from systemic disinformation campaigns

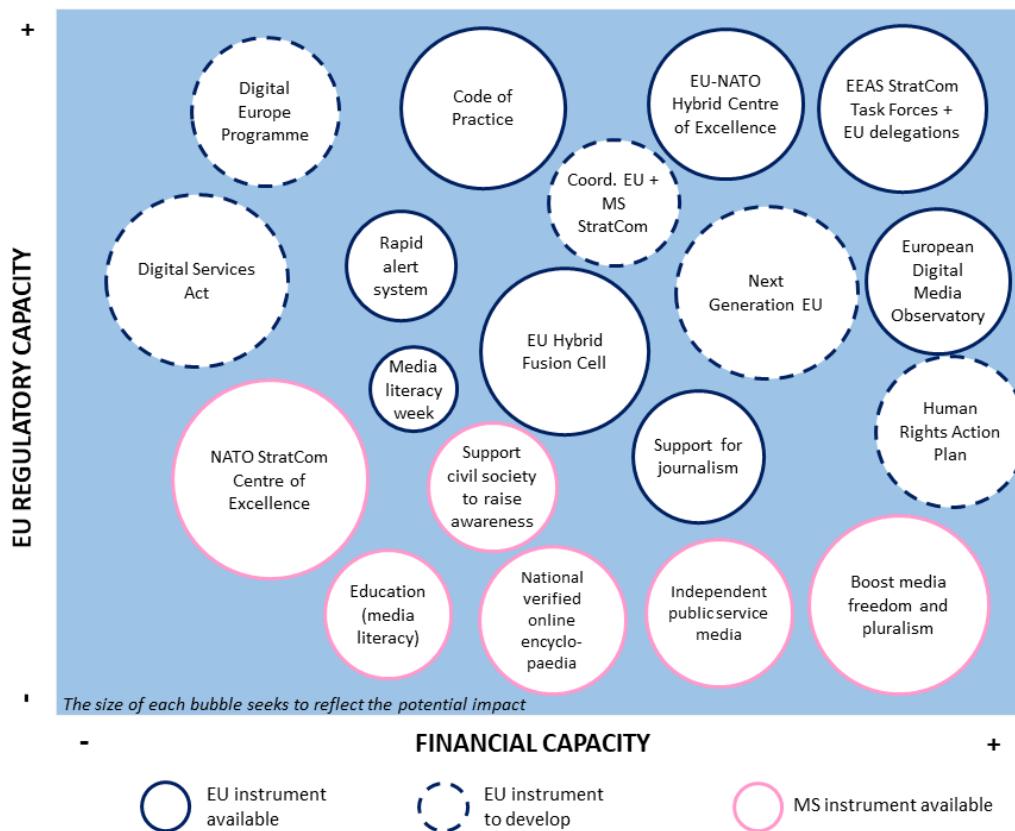
Introduction

The menaces of [online disinformation](#) will become a chronic, systemic geopolitical threat. The '[infodemic](#)' – an over-abundance of both accurate and false information – accompanying the Covid-19 pandemic has illustrated the inherent dangers. Already in 2019, there was [evidence](#) of seven states – China, India, Iran, Pakistan, Russia, Saudi Arabia and Venezuela – engaging in information operations abroad. In ten times as many countries, however, such techniques are used domestically. In addition to an increasing number of disinformants, future risks include further decline of traditional news media, making people even more dependent on social media for news. Moreover, deceptive techniques continue to become faster, cheaper, and more widely available. As the pressure on Europe's infosphere keeps growing, internal and external pressure on the EU to curb disinformation, strengthen its strategic communication efforts, and ensure that people have access to accurate information, whilst at the same time protecting its key values such as freedom of expression and media freedom, will continue to grow.

Since the creation of the [East StratCom Task Force](#) under the European External Action Service in 2015, the EU has stepped up its action to counter third-country disinformation. Amid the pandemic, the EU further [intensified](#) these efforts – as laid out in the June 2020 [Joint Communication](#) on Tackling Covid-19 disinformation – mobilising all players, including online platforms, Member States and civil society. The EU's actions – including the 2018 [Code of Practice](#) as well as those envisaged in the [Action Plan on Human Rights and Democracy](#) and [Digital Services Act](#) – are widely expected to have global standard-setting impact. Cooperation with democratic actors, including in the G7 and NATO, to coordinate counter-disinformation measures and make the digital sphere compatible with democratic values is crucial.

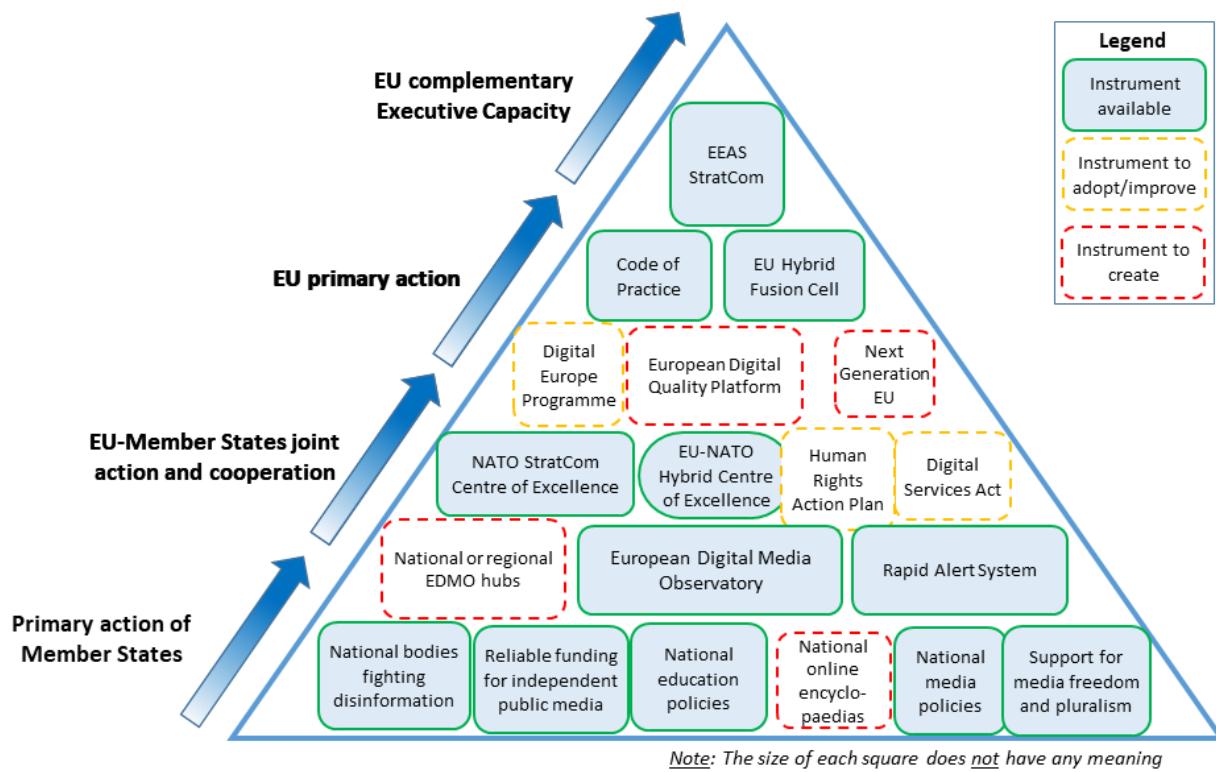
The EU is set to increase support for fact-checkers and researchers, building on the new [European Digital Media Observatory](#) (EDMO). Launched in June 2020 to support the creation of a cross-border and multidisciplinary community of independent fact-checkers and academic researchers, the EDMO will detect, analyse and expose potential disinformation threats, including regarding Covid-19. The plans to set up national or regional hubs across the EU could be further expanded to the Eastern Partnership countries and the western Balkans, potentially even beyond Europe. The European Parliament, which plays a key role in election observation efforts, could push for EDMO infrastructure to be set up permanently and integrated in EU election observation efforts as a uniform, independent network, in cooperation with the OSCE Office for Democratic Institutions and Human Rights.

Looking more broadly at the 'information immunity' of our societies, the EU and its Member States should – in addition to already ongoing efforts to bolster [media literacy](#) – further expand the scope of the citizen-centred approach to boost collective cognitive resilience; making citizens more resistant to manipulated information. In recognition that political disinformation – spread by malign actors – is only a part of the threat to our information sphere, and that erroneous misinformation and conspiracy theories are often spread inadvertently by ordinary people, European and like-minded democracies should support a new wave of collective enlightenment – *Bildung 2.0* – empowering all citizens, across all age groups, through reliable knowledge and trustworthy information. This includes creating networks of reliable sources and knowledge-providers to reinforce a virtuous circle of 'trusted (knowledge) allies'. It is vital to ensure access to quality news and verified general-interest knowledge for all, for example through independent, verified national online [encyclopaedias](#) drawing on academic expertise (examples can be found in [Croatia](#), [Denmark](#) and [Latvia](#)). The EU should further explore [opportunities](#) to [\(co-\)create](#) non-commercial online platforms.



Instrument	Size
EEAS StratCom Task Forces + EU delegations	
Code of Practice	
EU Hybrid Fusion Cell	
Proposed Digital Europe Programme	€1.8 billion (for cybersecurity)
Digital European Platform of Quality Content Providers	€390 000
European Digital Media Observatory	
Next Generation EU	
NATO StratCom Centre of Excellence	
EU-NATO Hybrid Centre of Excellence	
Action Plan on Human Rights and Democracy	
Digital Services Act	
European Digital Media Observatory (EDMO)	
National/regional EDMO hubs	
Rapid alert system	
National bodies fighting disinformation	
Reliable funding for independent public media	
National education policies (media and information literacy)	
National online encyclopaedias	
National media policies	
Support for media freedom and pluralism	-

Pyramid of instruments at the disposal of the EU and its Member States



Safeguarding social stability

Introduction

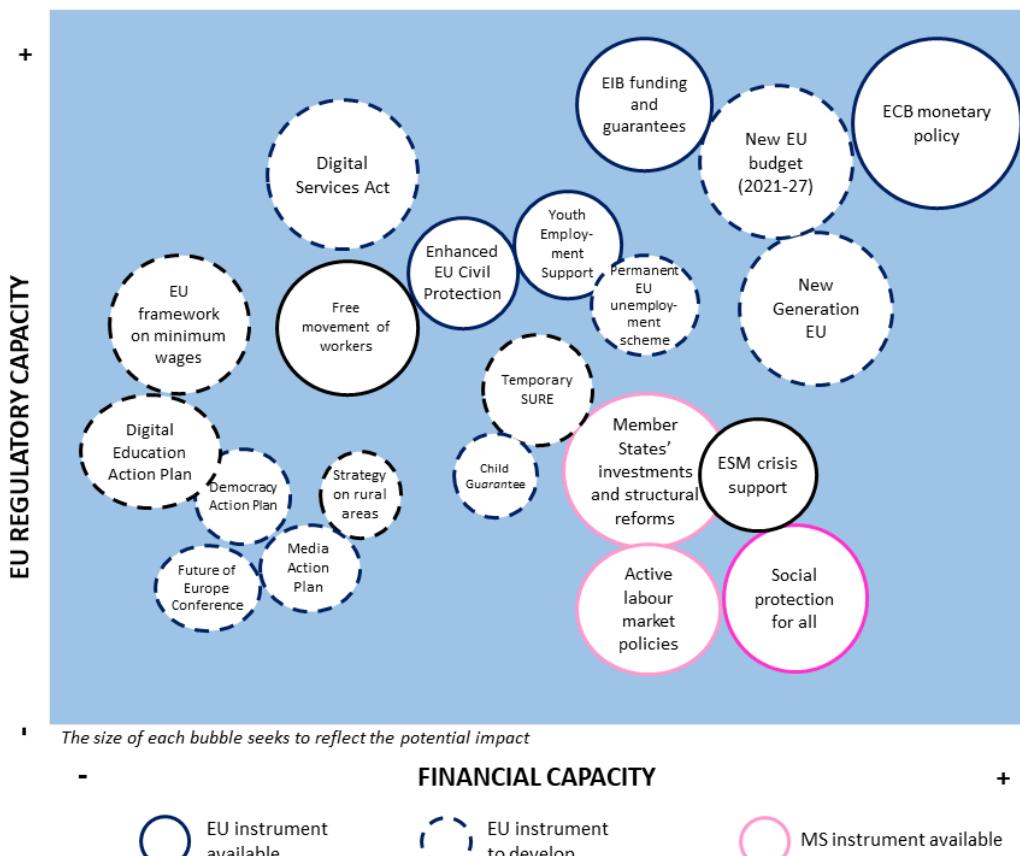
The Covid-19 outbreak and the way the crisis has been managed have affected all segments of the population and regions of the EU, but particularly the most vulnerable (e.g. low-income, young people, children, the elderly and women). It has magnified previous negative trends, in terms of unemployment, inequalities, lack of protection and declining mental health. Economic downturns and collapse figure prominently in [risk indexes](#) for instability and political violence. Indeed, Covid-19 has heightened trends that deepen the risk of violence and instability within states: including democratic backsliding, and the scapegoating of minority communities, and thus erosion of civic trust and increase of unrest. In some contexts, containment measures have provided cover for state-led repression. As confinement measures are eased across the EU, longstanding [differences and political tensions](#) come to the fore. Some of these are about the timing and the details of lifting restrictive measures, but others are about the recovery of democratic rights.

In this context it is vital to restore a sense of security and trust in democracy and its institutions across the EU. Besides strengthening and further widening the [EU Civil Protection Mechanism](#) designed for immediate responses in times of emergency, addressing the economic and social impacts of the crisis is among the most important ingredients to achieve that goal. The huge disruption of the pandemic gives an [opportunity](#) 'to walk the talk' and move towards a more resilient, sustainable and fair economy and society on the way out of the crisis. Ursula von der Leyen had already put forward this idea at the beginning of her mandate, in her [political guidelines](#). Apart from supporting Member States' efforts on reforms, EU instruments can incentivise systemic change, both at EU and national level. In this way, they can support the development of more [system resilience](#), which means not only recovering from shocks but also growing from them in the future. They can not only help to stabilise the economy but also design new processes and structures that allow to start tackling the root causes of the current [triple crisis](#), i.e. the health, economic and environmental crisis, and develop more social cohesion in the Union.

The EU can use all its available instruments to directly support Member States and to coordinate a common approach to the challenges. A common approach might develop a renewed sense of ownership, and thus behaviour across the board, with a stronger sense of solidarity, cohesion and upward convergence. There is some [encouraging evidence](#) showing a move in this direction, for example, in the unified perspective in which Member States have treated unemployment: they have all chosen to introduce or extend short-time work subsidies, instead of dismissal.

The new long-term budget [coupled with](#) the Next Generation EU instrument can generate solidarity among Member States in the coming years by taking practical steps towards [mutualising debt](#), equalising fiscal resources and improving local absorption of asymmetric shocks. The new instrument marks a definite step in this direction: creating the ability to raise funds from the financial markets to manage asymmetric negative economic impacts in Member States, backed by the Union as a whole. It also indicates a possible move towards better '[socialising the budget](#)', i.e. designing and governing it in a way that strikes a better balance between the principles of solidarity, cohesion and upward convergence, on the one hand, and competitiveness, on the other. This governance mechanism can push Member States [towards internal reforms](#) that prioritise a sustainable, fair and green digital transformation, while possibly also giving more responsibility and ownership to [national parliaments](#) and [citizens](#). In addition, actions to give a new push to democracy, through enhancing the transparency and integrity of decision-making processes, and encouraging the voice of European people at all stages of EU policy-making, as well as supporting free and independent media, can further help to (re)generate trust between citizens and institutions. Further actions at EU and Member State level should help to update welfare states to the new realities of work and

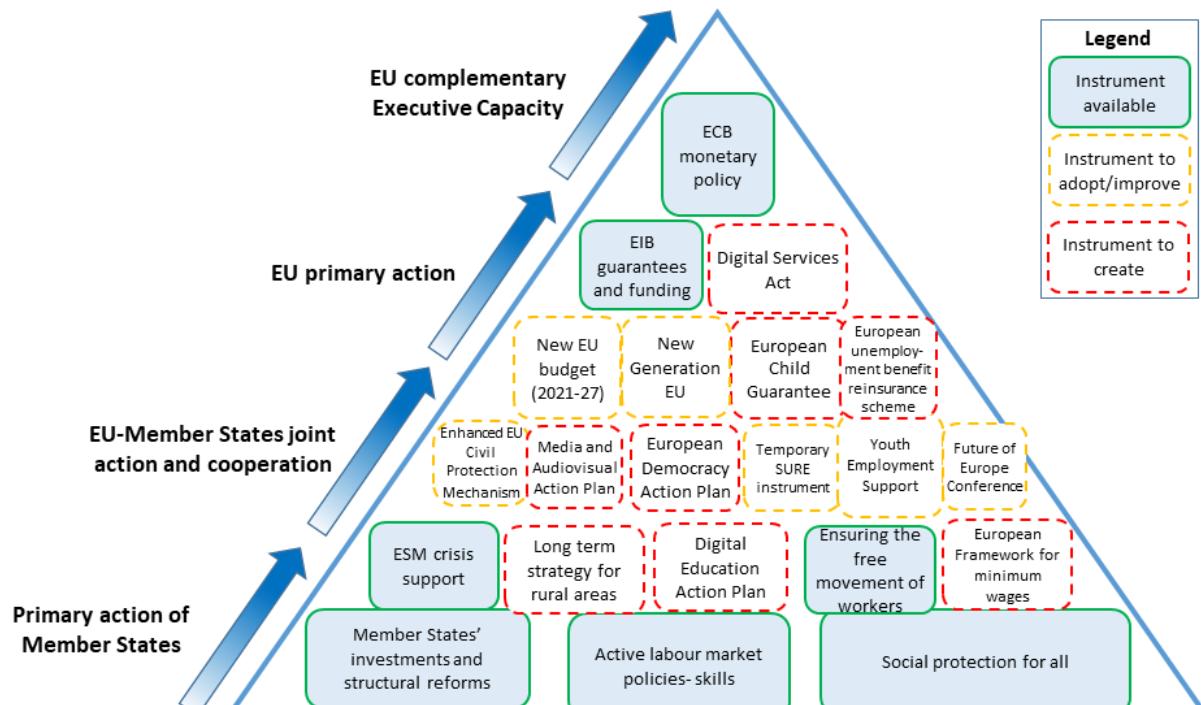
everyday life, to reform labour markets and to promote adequate education and training for all in the digital age.



Instrument	Size
ECB monetary policy	Over €2.5 trillion
New EU budget 2021-2027 (including new design - new governance)	€1 074.3 bn
Permanent EU unemployment benefit reinsurance (<i>cost of non-Europe €17 bn/year</i>)	-
Next Generation EU (NGEU) Instrument (until 2024) (in particular REACT-EU and Just Transition Fund – to focus on vulnerable sectors, regions and small and medium-sized enterprises)	€750 bn (REACT-EU €47.5 bn; Just Transition €10 bn)
EIB mobilisation through guarantees and funding	Over €70 bn
Digital Services Act – to support the integrity of the single market by framing the responsibilities of digital services to address the risks faced by their users and to protect their rights.	-
Media and Audiovisual Action Plan – to support a pluralistic media sector in providing free and independent coverage	-
Two-year Conference on the Future of Europe – to engage with citizens of all ages and follow up on the defined actions	-
European Child Guarantee – to provide access to basic services for the most vulnerable children	-
Temporary SURE mechanism to mitigate unemployment risks in an emergency	€100 bn in loans
Enhanced EU Civil Protection Mechanism – to better prepare and respond in a common and coordinated way to any type of health or other crisis that emerges	€3 bn (including €1.9bn from NGEU)
European Democracy Action Plan – to give a new push to EU democracy and to counter disinformation	-
ESM crisis support	€240 bn
Long term strategy for rural areas – to enable and empower rural communities	-

Active labour market policies – New Skills Agenda – for upskilling, reskilling and digital skills	-
Youth Employment Support – through funding and strategies	-
Ensuring free movement of workers in the single market (if not, loss of €20 bn)	-
Social protection for all , including non-standard workers and the self employed	-
European Framework on fair minimum wages	-
Digital Education Action Plan – to use media safely, including media literacy and an understanding of AI and cybersecurity	-
Member States' investments and structural reforms	-

Pyramid of instruments at the disposal of the EU and its Member States



Reversing any decline in EU–Member State cooperation

Introduction

Under the principle of sincere cooperation ([Article 4\(3\) TEU](#)) EU institutions and the Member States are obliged to show each other mutual respect and assist each other in carrying out tasks that flow from the Treaties. Member States must take all measures to fulfil their Treaty obligations, including those flowing from acts of the institutions, such as European Court of Justice (ECJ) judgments, but at the same time the EU institutions must respect the limits of EU competences ([Article 5](#)) and Member States' [national identities](#) ([Article 4\(2\) TEU](#)). In recent years, both principles of sincere cooperation and [mutual trust](#) have been under attack. A recent example is the [ruling](#) of the German Federal Constitutional Court, in which it explicitly rejected a previous [ECJ ruling](#), claiming it was *ultra vires* (outside EU competences) and questioning its [binding force](#). Other such cases have happened in the past, e.g. in 2012 the Czech Constitutional Court declared the ECJ's [judgment](#) on Slovak pensions to be [ultra vires](#).

The dwindling trust between the EU institutions and Member States is also evidenced by the [activation](#), in 2016, of the pre-Article 7 TEU procedure ([rule of law framework](#)) and then, to the triggering of the Article 7(1) TEU preventive mechanism for the first time ever in 2017 concerning [Poland](#). The Article 7(1) TEU procedure was also launched, by Parliament, with regard to [Hungary](#) over the alleged violation of a number of EU values. The lack of trust between the EU institutions and the Member States had even led to the [proposal](#) providing the possibility to make cuts in EU financing for Member States accused of not respecting the EU value of the rule of law.

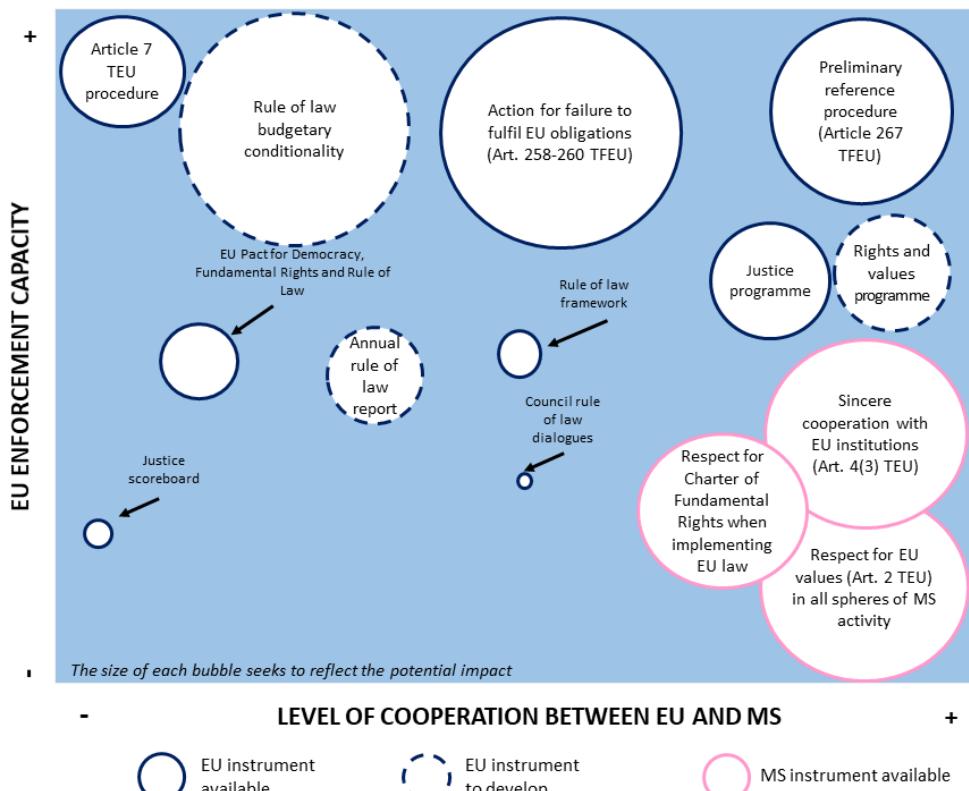
The EU and its Member States have a number of instruments at their disposal to restore mutual trust and sincere cooperation, as required by Article 4(3) TEU. These include both political and legal instruments, as well as EU programmes fostering mutual cooperation, especially in the field of the judiciary. The two judicial instruments available are the **action for failure to fulfil EU obligations** (Articles 258-260 TFEU) which can be launched by the Commission (or by a Member State) against a recalcitrant Member State and can eventually even lead to the imposition of financial penalties (Article 260 TFEU). Likewise, national courts may also refer cases to the ECJ in the framework of the [preliminary reference procedure](#) (Article 267 TFEU), seeking an interpretation of EU law which can allow the national court – acting as a Union court – to assess if the national legislation or executive practice is in line with EU law.

A new instrument, proposed as part of the 2021-2027 multiannual financial framework is the [rule of law conditionalities](#) which could be activated against Member States where generalised deficiencies of the rule of law lead to a threat to EU financial interests and/or hamper the sound financial management of EU funding. The sanctions envisaged in the proposed instrument include the suspension or even withdrawal of EU funds for the Member State in question.

Apart from judicial and financial mechanisms, two new political instruments are in the pipeline: the Commission's [Annual Rule of Law Report](#) and the proposed EU Pact for Democracy, Fundamental Rights and the Rule of Law. The focus of the Annual Rule of Law Report, which is expected to be published for the first time in autumn 2020, will be the functioning of national justice systems – a key prerequisite to the effective application of EU law within the Member States, given that national judges are also Union judges. The Commission will address not only negative developments, but also identify and showcase best practices. Importantly, the report will address the situation in all Member States.

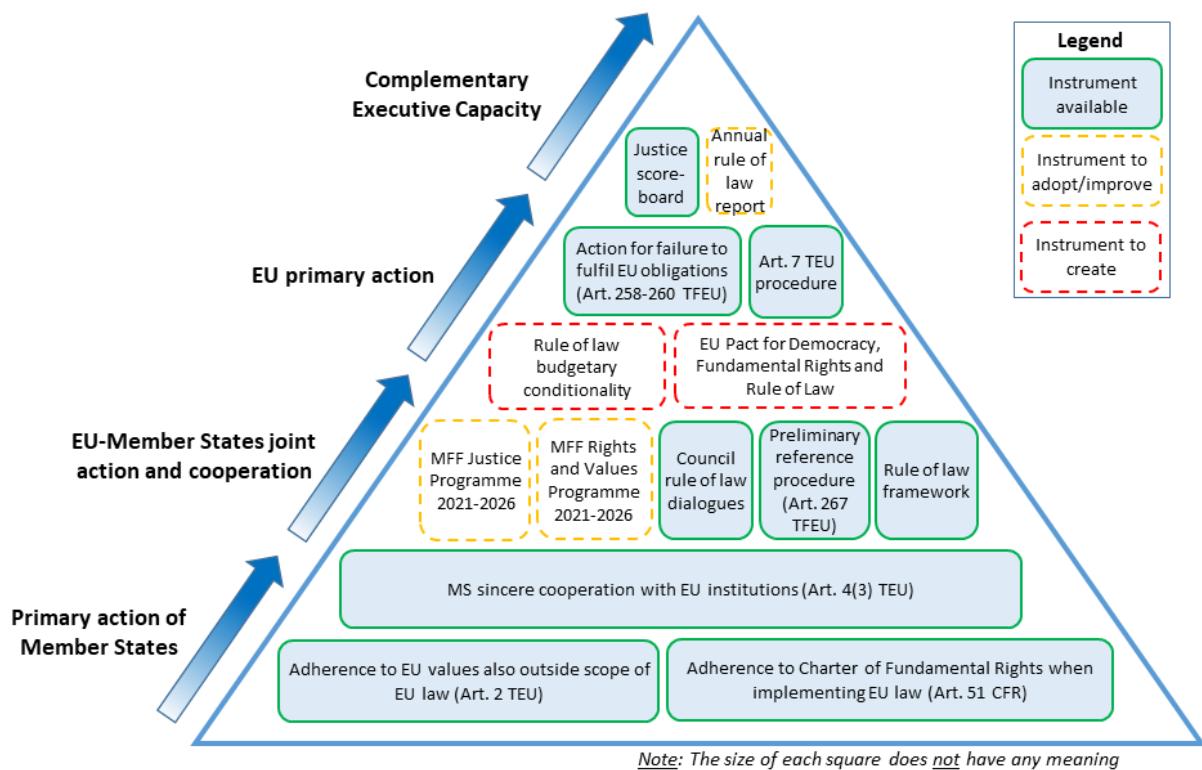
Since [2016](#), the European Parliament has repeatedly (most recently in [January 2020](#)) called for the establishment of an [EU Pact for Democracy, Fundamental Rights and the Rule of Law](#). The Pact, in the legal form of an interinstitutional agreement, would be a comprehensive EU mechanism

integrating, aligning and complementing existing mechanisms protecting democracy, the rule of law and fundamental rights in the EU, thereby contributing to the strengthening of EU–Member State cooperation and addressing the relevant challenges at an early stage.



Instrument	Size
Article 7 TEU procedure leading to the suspension of membership rights of a Member State violating EU values enshrined in Article 2 TEU	-
Action for failure to fulfil EU obligations provided for in Articles 258-260 TFEU, possibly leading to financial sanctions against a Member State concerned	-
Rule of law conditionality proposed as part of the MFF package, possibly leading to suspension or withdrawal of EU funding (proposed regulation)	-
Rule of law framework , also known as the pre-Article 7 procedure, enabling a structured dialogue between the Commission and the Member State concerned	-
Annual Rule of Law Report , prepared by the Commission, first one expected in October 2020	-
Justice scoreboard prepared annually by the European Commission	-
EU Pact for Democracy, Fundamental Rights and the Rule of Law in the form of an interinstitutional agreement (proposed)	-
Preliminary reference procedure provided for in Article 267 TFEU, enabling national courts to receive a binding interpretation of EU law provided by the European Court of Justice	-
Rule of Law Dialogues held at the Council of the EU	-
Rights and Values Programme financed under 2021-2027 MFF	€841 million
Justice Programme financed under 2021-2027 MFF	€841 million
Since cooperation between national authorities and the EU institutions (Article 4(3) TEU)	-
Observance of Charter of Fundamental Rights when implementing EU law (Article 41 CFR)	-
Adherence to EU values (Article 2 TEU) also outside the scope of EU competence	-

Pyramid of instruments at the disposal of the EU and its Member States



Addressing any unsustainable lack of resources for the EU

Introduction

The EU budget complements national budgets with the provision of EU public goods. There have been calls for a fiscal capacity for the euro area to help absorb asymmetric shocks, but that remains to be created. While the European Council agreement of 17-21 July proposed some reforms to the financing of the EU budget on the Own Resources side, and introduced large-scale borrowing to help fund a coronavirus recovery plan, much remains to be done if the EU budget is to be able to respond with sufficient quantity and speed to needs and expectations.

An [analysis of Eurobarometer surveys since 2005](#) indicates that support from EU citizens for greater EU financial means has risen over time. Additional resources needed to tackle the challenges facing the EU were mainly provided through the EU budget and funded through Own Resources until the start of the 2000s. This allowed strategic alignment of EU policy with the wishes of EU citizens through the full involvement of the European Parliament in decision-making, and transparent and democratic scrutiny and control of the resources concerned. However, there have been no increases in the Own Resources' ceiling since then and new challenges have increasingly been financed through off-budget instruments instead. In parallel, the share of Own Resources that can be spent through the EU budget has steadily declined, leaving an increasingly large margin below the Own Resources ceiling to back this ever-growing array of off-budget instruments. This makes it difficult to assess how much resources have increased in total and the extent to which EU spending is in line with needs and expectations. The 17-21 July 2020 European Council agreed the first increase in the Own Resources ceiling since 2000, to allow for Brexit and other current challenges, with an additional temporary increase to allow for yet another new off-budget instrument: Next Generation EU (NGEU).

According to the latest [Eurobarometer survey](#), an absolute majority of Europeans believe the EU should have greater financial means to overcome the consequences of the coronavirus pandemic. The boost to growth and jobs provided by NGEU and the climate mainstreaming of both the MFF and NGEU are likely to be welcomed. However funding for the current top priority of EU citizens – public health – was cut completely from NGEU. And [much lower than expected increases in funding](#) for the research needed for a sustainable recovery, and for migration and border management, and security and defence, and cuts in foreign aid are also out of step with the concerns of EU citizens, who consistently consider immigration and terrorism among their main concerns¹⁷.

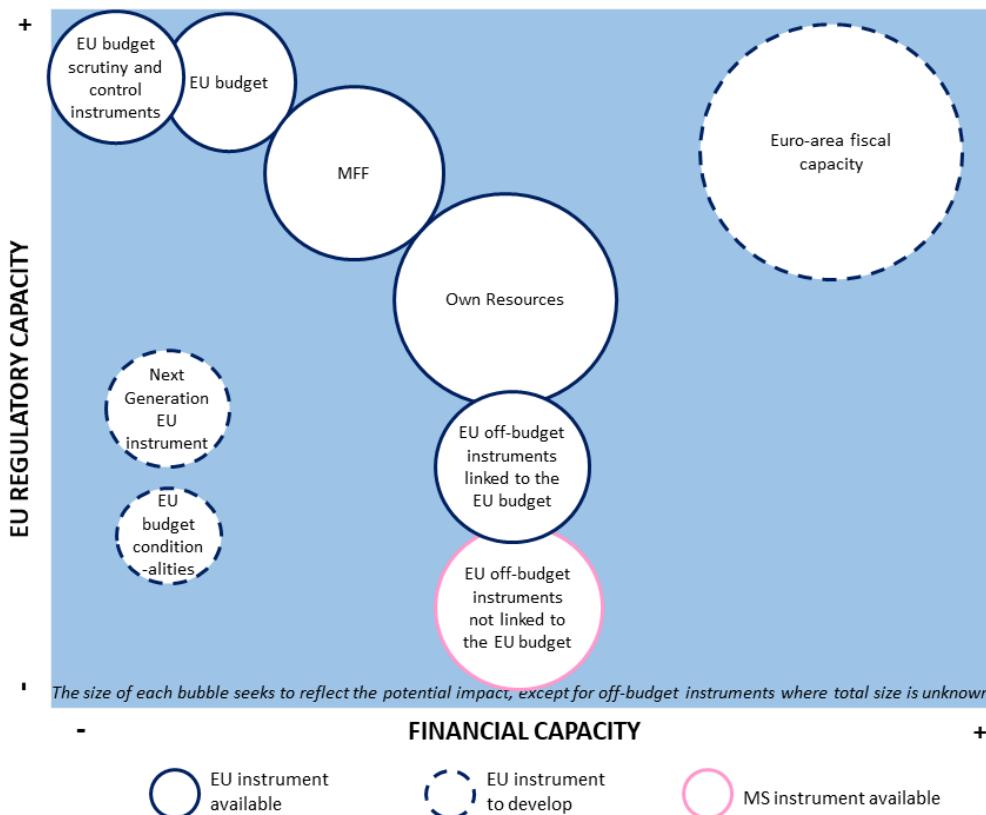
The 2021-2027 MFF agreed by the European Council in July is below the level of the current MFF, despite having to fund NGEU debt interest and repayment. There are thus concerns about the outlook for the EU budget when NGEU runs out.

Regarding the potential boost to EU growth from NGEU, it should be recalled that around ¾ of Own Resources are GNI-based. The positive impact on EU GNI of the recovery plan is thus likely to be offset by the negative impact on EU GNI of increased Own Resources payments unless the Own Resources system is reformed to quickly introduce new Own Resources.

A reform of the way the EU finances are made up is also necessary. It is difficult to assess the full extent of off-budget resources and liabilities backed by the EU budget, and thus the overall picture of EU finances and how well it matches the strategic vision of the EU. There are also issues concerning cost of complexity, democratic scrutiny and control of the current EU financial system.

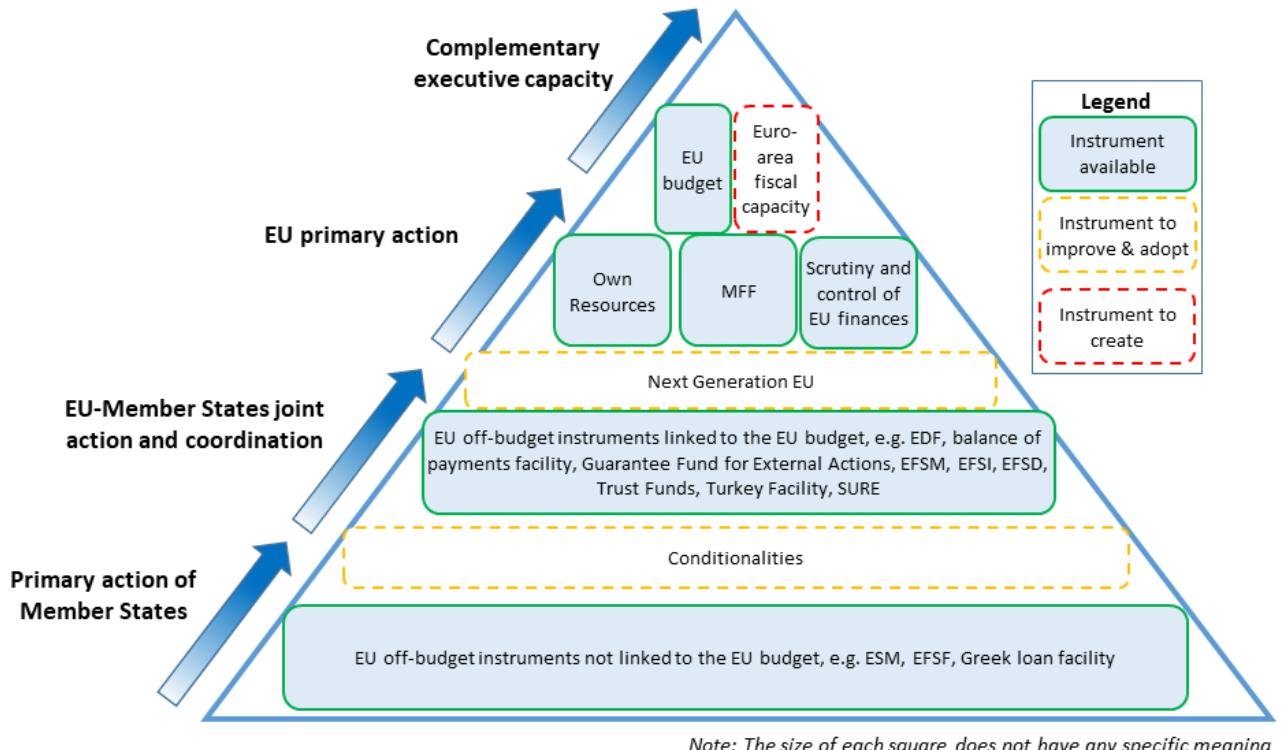
¹⁷ For trends in the main concerns of Europeans, see for example Standard Eurobarometer 92, autumn 2019.

Bringing off-budget instruments into the EU budget and allowing the MFF to increase in line with the challenges facing the EU, under the control of the EP, would allow a much clearer view of how EU finances reflect the strategic vision of Europe and allow citizens to see more clearly the extent to which their concerns are being addressed by the EU. In this sense, the European Council decision to finally budgetise the European Development Fund (EDF) was a step forward, but the creation of a new even more complex off-budget instrument – NGEU – was a step back.



Instrument	Size
EU budget – subject to democratic decision-making, scrutiny and control but limited in size	2020 budget €154 bn (payments)
Euro-area fiscal capacity to help absorb asymmetric shocks remains to be created	1.5-3 % of euro-area GDP
Reform of the size, composition and decision-making structure of Own Resources necessary to allow needs and expectations to be financed	2 % of EU GNI
Reform of the size, composition and decision-making structure of MFF necessary to allow needs and expectations to be financed	€1 074 billion (2021-2027)
Scrutiny and control instruments, including EP scrutiny and control functions, the European Court of Auditors, OLAF, and the European Public Prosecutor's Office (EPPO)	<i>Cost of non-Europe estimate €200 m pa. savings from EPPO</i>
The boost from Next Generation EU is welcome but the design of the instrument could be improved	€750 bn (2021-2023)
EU off-budget instruments linked to the EU budget e.g. balance of payments facility, EIB external lending, EFSM, EFSI, EFSD, Trust Funds, Turkey facility, SURE. Given the multiple governance structures and lack of systematic democratic control, it is difficult to assess the full amount and potential liability for the EU budget involved.	?
Conditionnalities , including existing conditionalities in the fields of cohesion, rural development, fisheries, the Asylum, Migration and Integration Fund and the Internal Security Fund, and the proposed conditionality on the rule of law.	N/A
EU off-budget instruments not linked to the EU budget e.g. ESM, EFSF, Greek loan facility. Given the multiple governance structures and lack of systematic democratic control, it is difficult to assess the full amount of involved.	?

Pyramid of instruments at the disposal of the EU and its Member States



Preventing the single market from unravelling

Introduction

The pandemic has severely impacted the free movement of persons, goods and services in the EU, on which the market is based. While the depth of the economic downturn and the strength of recovery vary across EU Member States, many of those that were hardest hit by the pandemic happen to have the least policy space to respond to it. Importantly, unprecedented levels of State aid deployed at national level are concentrated in the countries which are already well positioned to withstand profound economic damage. This creates pressures on the level playing field, which is a cornerstone of the fair single market. Left unaddressed, an uneven recovery across the EU risks creating divergences, fragmentation and permanent damage to the single market, which will have a negative impact on the EU's recovery as a whole.

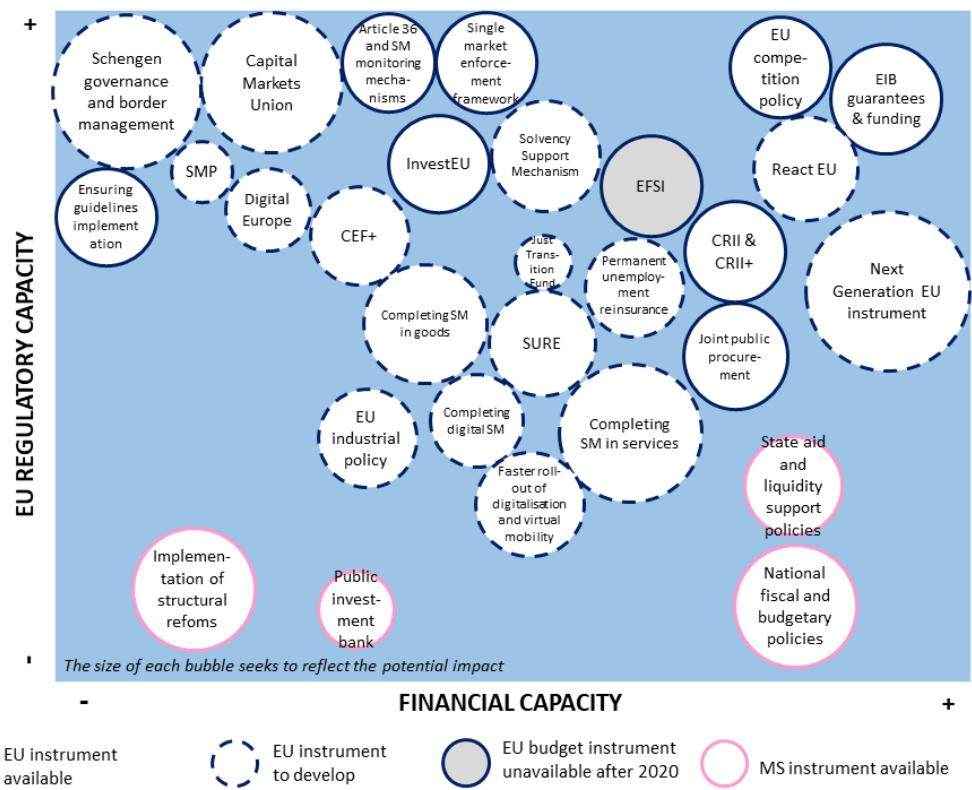
In this challenging context, it is essential that all instruments at EU and Member State levels remain ready to be activated, to prevent permanent damage to the single market. The Commission (and EU courts) have far-reaching powers, aimed at protecting the level-playing field, particularly under competition policy. As regards obstacles to free movement, the Commission has to ensure the effectiveness of the monitoring mechanisms (Article 36 TFEU, Directive 2015/1535) and assess possible legislative changes. These could include changes towards effective and homogeneous implementation of the Commission Guidelines for border management to protect health and ensure the availability of goods and essential services (including the transport dimension).

Fundamentally, the EU is well positioned to address what is essentially an unevenly distributed shock, with large-scale asymmetric support and substantial financial means. Measures to protect the economy, at both national and EU levels, concentrate mainly on keeping companies afloat and preserving employment. These efforts were strengthened by two Coronavirus Response Investment Initiatives (CRII and CRII+), as well as EIB Group funding to companies.

Crucially, the Union must use a mix of existing (for example EFSI funds, EIB leverage, and flexibility to utilise every euro under ESIF funds) and new programmes. With a view to bring about recovery and fair economic growth prospects, EU Member States will benefit over the next four years from the €750 billion recovery fund proposed by the Commission and temporary financial support from the new SURE mechanism to address unemployment risks. In the future, a permanent European Unemployment Reinsurance Scheme should replace the emergency-inspired SURE. Further longer-term action is the establishment of genuine EU Schengen governance and efficient border management by decentralised agencies, to prevent and mitigate the risk of the unravelling of the Schengen *acquis*.

The Commission argues that the recovery of the single market should have a transformative dimension: turning it more green and digital, to ensure future competitiveness. This process should be formally connected to the European Semester, and part of eligibility criteria of the recovery fund will mean adhering to this transformation. Instruments which help to change the European economy, such as the Just Transition Fund, will be instrumental in reaching these goals. Particularly valuable new recovery instruments include the Strategic Investment Facility and Solvency Support Instrument, which are aimed at neutralising the asymmetric, dangerous nature of the crisis. Furthermore, the EU should agree on and implement a range of instruments proposed under the 2021-2027 multiannual financial framework, which aim at digital transformation and strengthening of the single market, and which will finance development of critical EU-level infrastructure. Together, the Member States and EU institutions should also focus their efforts on unlocking the yet untapped economic growth in the main areas of the single market, advancing integration of its goods, services, and digital components. Genuine capital markets union will also be necessary to

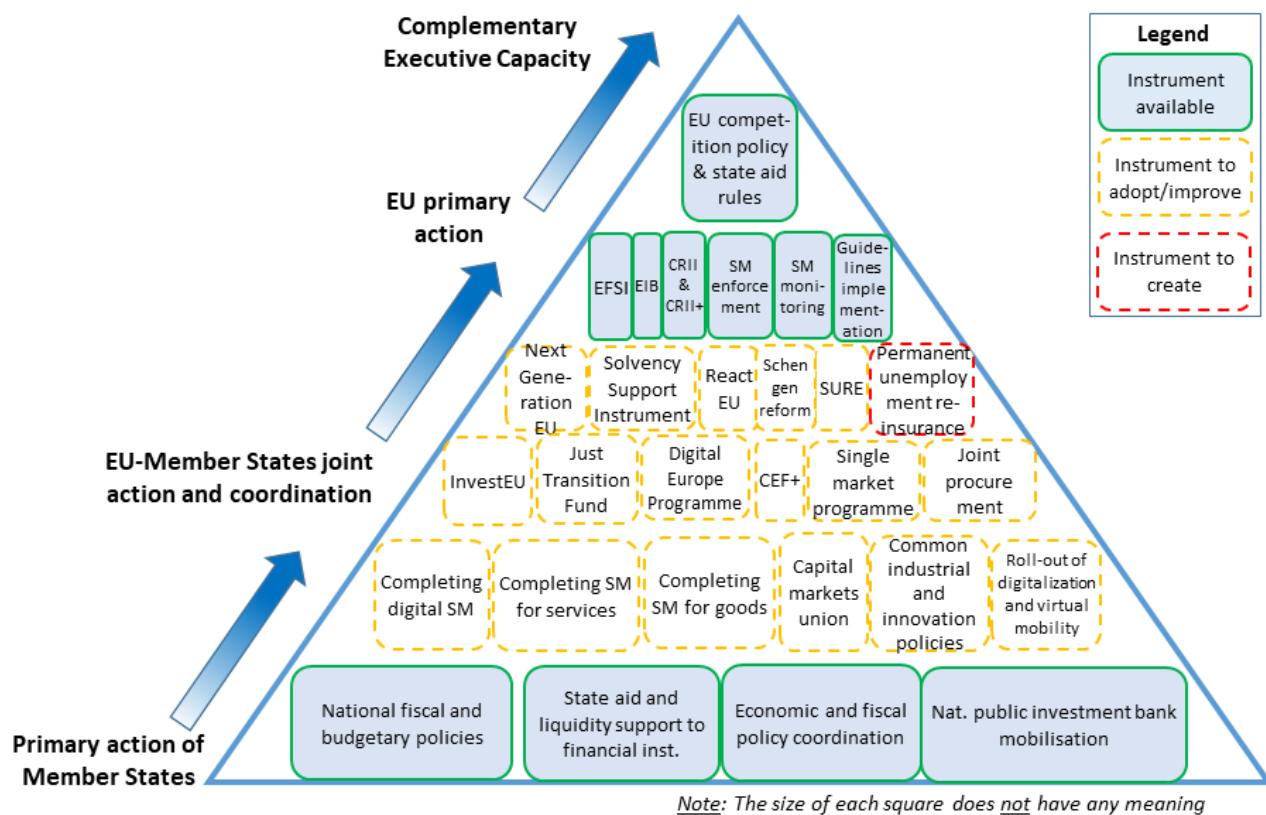
prevent and mitigate the risks of financial instability and close the investment gap in Europe. Furthermore, bold and robust industrial strategy, truly common in its nature, is also needed to bind the single market and its supply chains more strongly and to enable full utilisation of its potential and scale. This crisis is also an opportunity to restore and deepen the single market through a common innovation and industrial policy, incentivising and supporting the faster roll-out of digitalisation and virtual mobility in the area of ecommerce, e-payments, e-delivery, e-health, e-assistance, dedicated apps, smart cities, Internet of Things, 3D printing and artificial intelligence. Joint procurement also needs to be strengthened.



Instrument	Size
EU competition policy and temporary framework to use the full flexibility of State aid	-
Single market enforcement framework	-
Article 36 TFEU and single market monitoring mechanisms	-
EIB mobilisation through guarantees and funding	Over €70 bn
CRII and CRII+ providing extra liquidity to companies and employment (ESIF funds)	€37 bn
Ensuring guidelines implementation	-
Joint public procurement	-
Faster roll-out of digitalisation and virtual mobility	-
European Fund for Strategic Investments (EFSI)	€33.5bn
Next Generation EU including the Strategic investment facility	€750 bn incl. €15 bn SIF
SURE mechanism to mitigate unemployment risks in an emergency.	€100 bn of loans
Permanent EU unemployment reinsurance (<i>Cost of non-Europe estimated at €17 bn</i>)	-
New EU Schengen governance and efficient border management	-
React EU – employment subsidies, liquidity and solvency for SMEs	€47.5 bn
Solvency support instrument – supporting equity to viable companies	€26 bn
Just Transition Fund – transition to carbon neutral economy	€7.5 bn + €10 bn NGEU
InvestEU programme (2021-2027)	€2.8 bn + €5.6 bn NGEU

Single market programme (SMP) (2021-2027)	€3.7 bn
Digital Europe Programme (2021-2027)	€6.8 bn
Connecting Europe Facility+ (2021-2027)	€18.4 bn
Establishment of real capital markets union (Cost of non Europe estimated at €137 bn)	-
Ambitious and common European industrial and innovation policy	-
Completing single market for services (Cost of non-Europe estimated at €297 bn)	
Completing digital single market (Cost of non-Europe estimated at €110 bn)	
Completing single market for goods (Cost of non-Europe estimated at €183 bn)	
In the framework of European Semester, economic and fiscal policy coordination	-
National fiscal and budgetary policies and growth-enhancing structural reforms	MS fiscal space
State aid policy and liquidity support policies to financial institutions and business	-
National public investment bank	-

Pyramid of instruments at the disposal of the EU and its Member States



Safeguarding the Schengen *acquis*

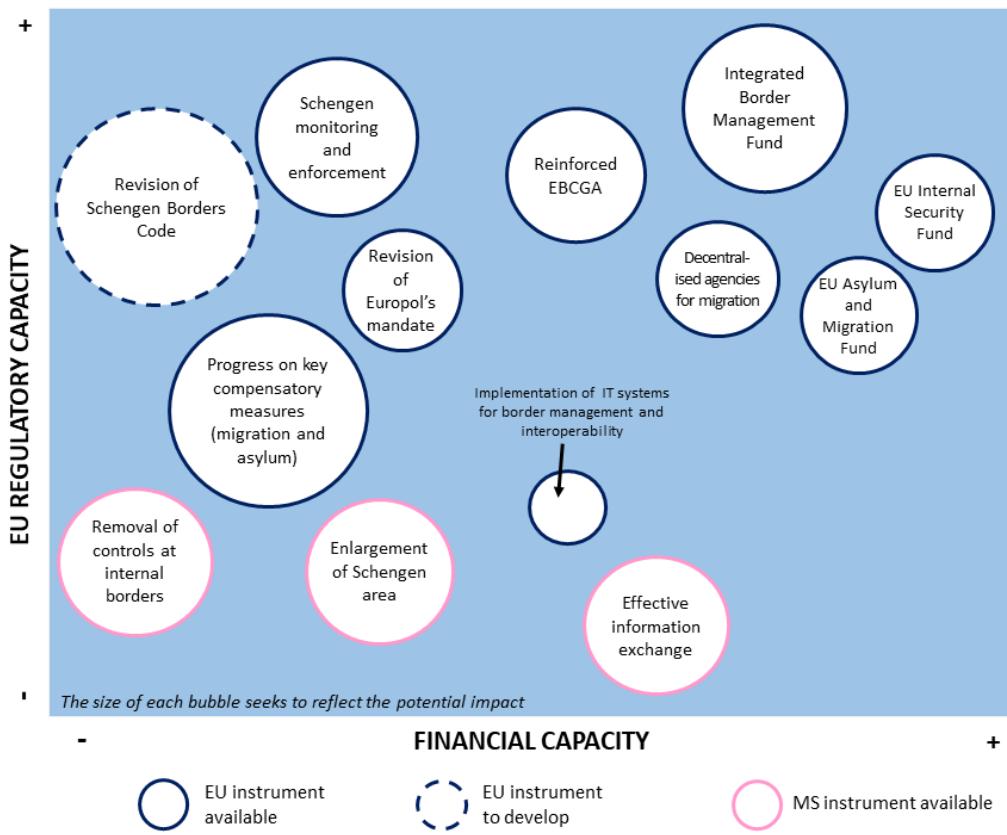
Introduction

The Schengen area of free movement is one of the major **achievements** of European integration and a key enabler of the single market bringing significant economic and social benefits to citizens. The estimated **contribution** of European citizens working in a Member State other than their country of origin (not counting cross-border and posted workers) was about €106 billion in 2017. Introducing and maintaining controls at internal borders affects the free movements of people, goods and services, and disrupts the functioning of the European single market. For example, it is estimated that a reduction in EU mobile workers by 1 million (in the EU-13) would lead to an annual loss of €20 billion. On the one hand, the estimated **cost** to the single market of a complete reintroduction of border controls between the Schengen states is between €100 and €230 billion over 10 years. On the other hand, removing remaining key barriers to the free movement of economically active EU citizens could bring an additional **gain** of €53 billion.

In mid-March 2020, various border restrictions adopted by Member States in an effort to reduce the spread of coronavirus (including internal border controls, the suspension of traffic in various modes of transport, and entry bans) led to a near suspension of the Schengen area of free movement. These uncoordinated measures have demonstrated once more the need to reinforce the Schengen area in view of safeguarding free movement in the EU. The European Parliament has recently called for a Recovery Plan for Schengen and for establishing 'truly European governance of Schengen' in order to enable a coordinated European response to challenges such as the coronavirus pandemic. A return to a fully functioning Schengen area will be a key element of the **post-coronavirus recovery** of European economies and societies.

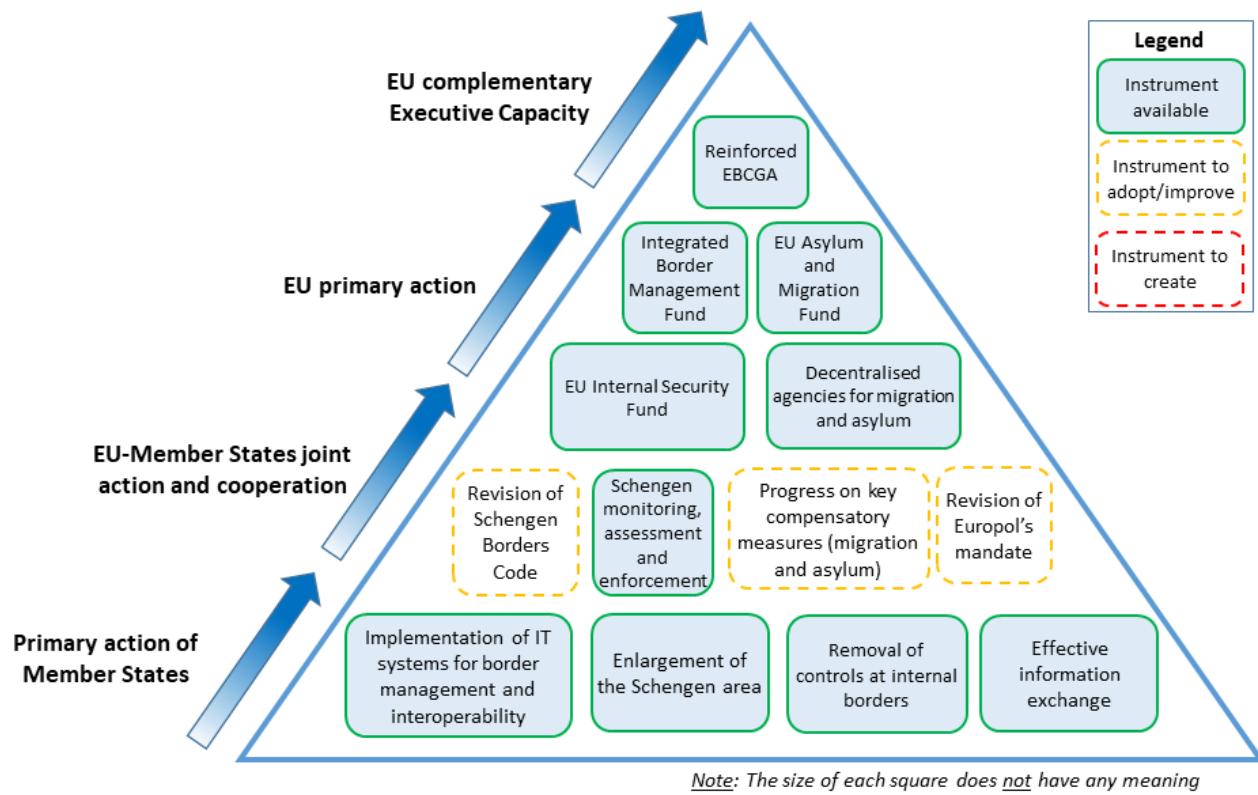
There is a need to **reinforce the Schengen *acquis*** while taking into account old challenges (related to shortcomings in the area of EU migration, asylum and border management) and **new challenges** uncovered by the coronavirus crisis. In the short term, coordinated action is needed to remove unnecessary border restrictions and to safely restore free movement in the Schengen area. In the medium and long term, strengthening Schengen would require legislative initiatives to clarify rules and improve **Schengen governance** by, for example, establishing robust review and monitoring mechanisms and enhancing risk-assessment capacities (including of health risks). It would also require reinforced complementary EU **executive capacity**, in particular through enhancing the capabilities and resources of relevant EU executive agencies, such as the **European Border and Coast Guard Agency** and potentially involve other agencies, such as the European Centre for Disease Prevention and Control.

Building on efforts since 2015 to strengthen the management of external borders, reforming Schengen would require updating and implementing common rules in the area of migration, asylum and cross-border law enforcement cooperation. In particular, swift progress on the reform of the **common European asylum system**, which is linked to the issue of secondary movements of migrants, is essential for returning to a fully functional Schengen area. The **enlargement of the Schengen** area to include countries that are ready to join could also reinvigorate the area. Strengthening Schengen would ultimately require updating the **Schengen rules**, implementing and **enforcing the Schengen *acquis***, ensuring adequate **support and resources**, and engaging in **enhanced cooperation** based on **regained trust**.



Instrument	Size
Reinforced European Border and Coast Guard Agency (EBCGA)	€5.148 billion
Integrated Border Management Fund – to support border management and visa	€5.505 billion
EU Asylum and Migration Fund	€8.705 billion
EU Internal Security Fund to support cooperation between national authorities on internal security	€1.705 billion
Decentralised agencies for migration and asylum (EASO)	-
Revision of Schengen Borders Code to update rules and improve Schengen governance (e.g. monitoring and evaluation mechanisms)	-
Enhance monitoring and enforcement of Schengen <i>acquis</i>	-
Progress on key compensatory measures (migration and asylum)	-
Revision of Europol's mandate (enhance cross-border law enforcement cooperation)	-
Implementation of IT systems for border management and interoperability	-
Enlargement of the Schengen area - admission of Bulgaria and Romania	-
Removal of controls at internal borders	-
Effective information exchange (connect to and use information databases)	-

Pyramid of instruments at the disposal of the EU and its Member States



Developing a stronger EU economic policy

Introduction

The last economic and financial crisis, as well as the European sovereign debt crisis, revealed a number of vulnerabilities in the EU and euro area. In response, the EU reformed its economic governance and surveillance framework by establishing new tools and procedures such as the Macroeconomic Imbalance Procedure and the European Semester.

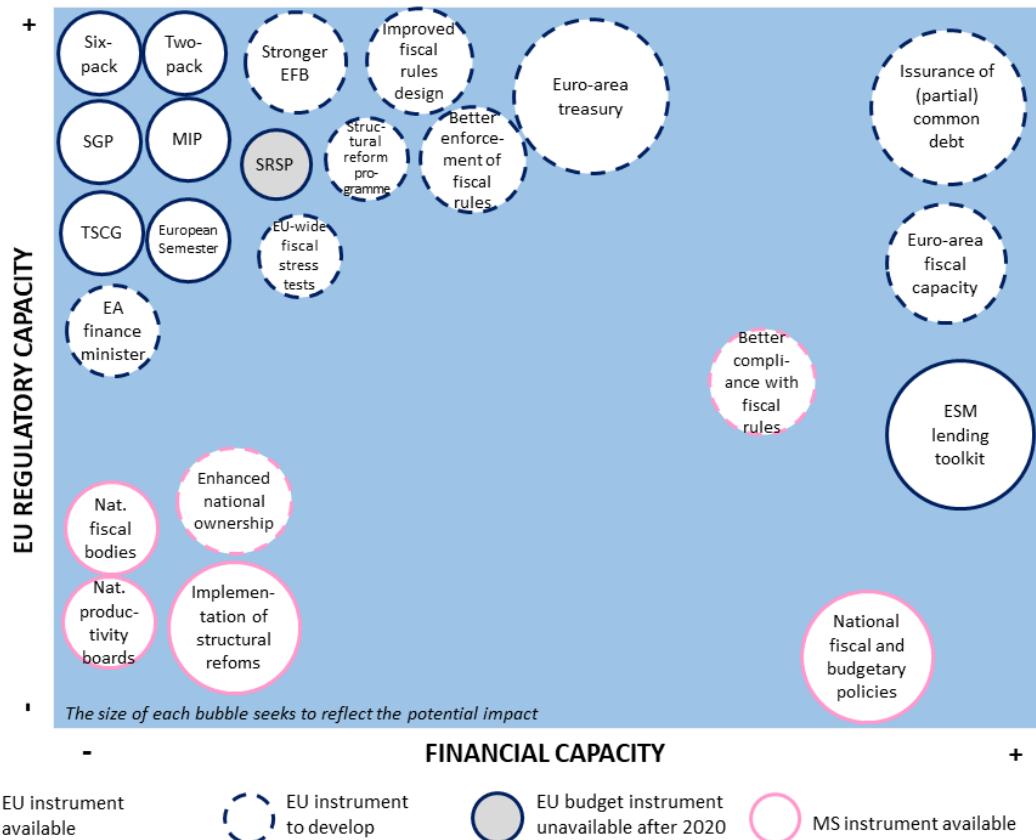
However, the EU's economic governance framework still displays notable shortcomings that should be addressed so that Member States are able to withstand future shocks. As a result, debates on the necessary instruments that could improve the resilience of the EU and euro area have continued over the past decade.

The toolkit envisaged can be split into two categories:

- On the one hand, instruments for fiscal risk management, aimed at minimising moral hazard while fostering fiscal responsibility. They include improved design of EU fiscal rules, greater compliance with these rules, and better enforcement thereof too. EU-wide fiscal stress-testing exercises – akin to those run on a regular basis in the banking sector – may be worth exploring to better prepare economies for potential revenue shortfalls in the event of an adverse shock. At the same time, Member States would increase their ownership of country-specific recommendations and step up efforts in their implementation of growth-enhancing and structural reforms. Stronger incentives in this regard could prove to be valuable.
- On the other hand, risk-pooling tools that aim to increase solidarity and boost the EU's overall resilience to future shocks. They include, *inter alia*, a euro-area fiscal capacity and the issuance of (partial) common debt to contribute to the stabilisation of EU/euro-area economies.

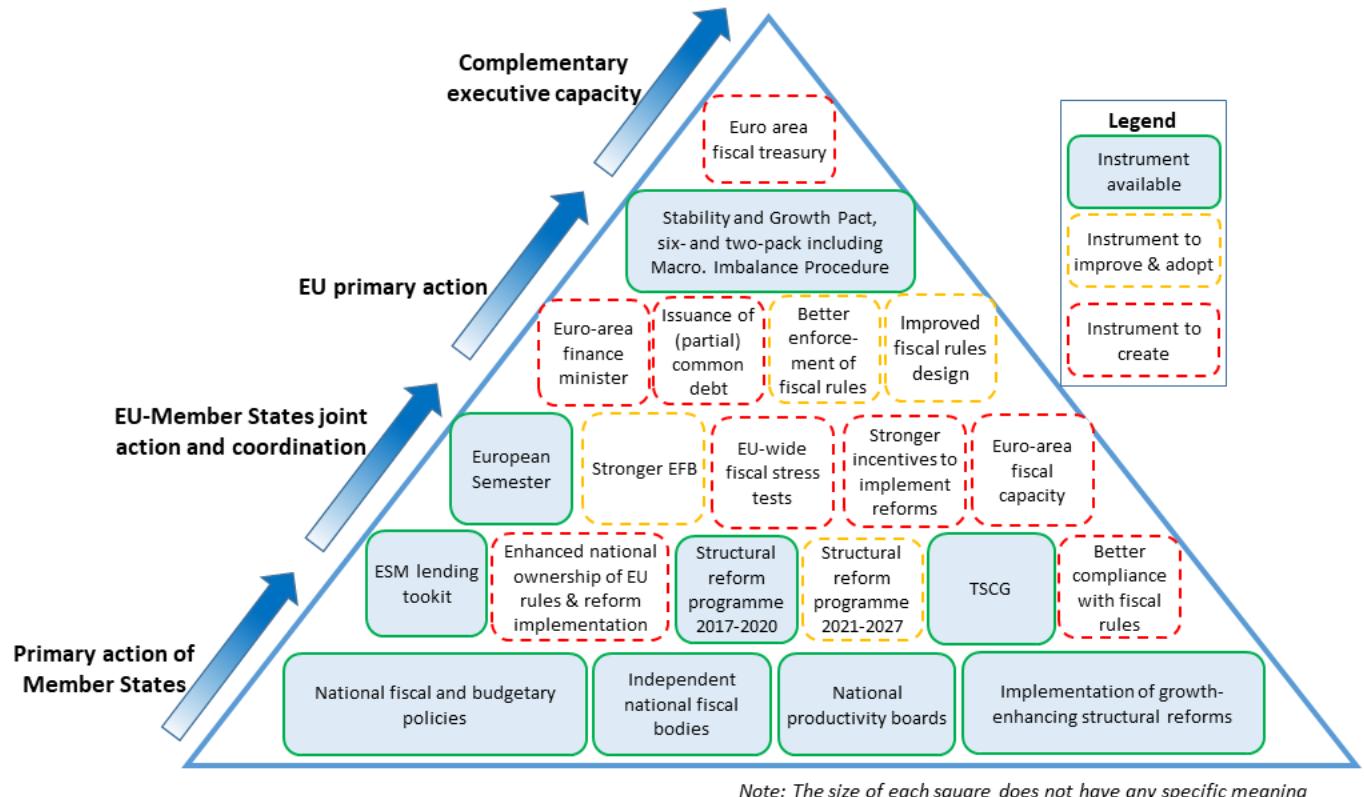
Lastly, a euro-area fiscal Treasury could be established – under the responsibility of an EU Finance Minister – and equipped with all necessary means and capacities to apply and enforce the existing economic governance framework and to optimise the development of the euro area in cooperation with the ministers of finance of the euro-area Member States. Note, however, that the introduction of the above-mentioned plans would require Treaty changes.

In conclusion, decisive action in both areas would help ensure sound fiscal public finances, macroeconomic stability and convergence across the EU and the euro area.



Instrument	Size
Euro area treasury as a fiscal body	
Stability and Growth Pact (SGP), as amended by the six- and two-pack legislation, and including the Macroeconomic Imbalance Procedure (MIP)	
Improved fiscal rules design	
Stronger enforcement of EU fiscal rules by the Council (or an alternative body if necessary)	
Issuance of (partial) common debt (Treaty changes required) while minimising moral hazard and fostering fiscal responsibility and compliance with the rules, and requiring an increasing degree of pooling of sovereignty regarding budgetary policies	
Euro area finance minister (Treaty change required)	
Euro-area central fiscal capacity	
Stronger European Fiscal Board (EFB) to assess the implementation of the SGP	
EU-wide fiscal stress-testing exercise	
European Semester to coordinate economic and fiscal policies	
Stronger incentives to implement key structural reforms	
Structural reform programme 2021-2027 (<i>proposal withdrawn by the Commission and replaced by the new Recovery and Resilience Facility and a Technical Support Instrument</i>)	€25 billion
Structural reform and support programme 2017-2020	€0.22 billion
Treaty on Stability, Coordination and Governance in the EMU (TSCG)	
European Stability Mechanism (ESM) lending capacity	€500 billion
Enhanced national ownership of EU fiscal rules and reform implementation	
Better compliance by Member States with EU fiscal rules	
Implementation of growth-enhancing structural reforms by Member States	
National fiscal and budgetary policies	
Independent national fiscal bodies involved in the preparation of stability or convergence programmes and national budgetary plans	
National productivity boards	

Pyramid of instruments at the disposal of the EU and its Member States



Promoting capital market integration

Introduction

Although recent trends indicate an increasing share of financing by non-bank institutions, the EU financial system remains predominantly bank-based. The global financial crisis a decade ago and the current coronavirus crisis, however, put pressure on banks' balance sheets, reducing their possibility to contribute to financing the EU recovery.

In this context, it was thought that developing and integrating EU capital markets could make the EU financial system more stable, resilient and competitive and enhance the recovery – by providing new sources of funding for companies, facilitating cross-border investment and attracting more foreign investment into the EU.

This effort resulted in the Capital Markets Union initiative, which was launched in 2015. The initiative aimed at deepening and integrating EU capital markets, and can be considered a complement to the Investment Plan for Europe, in that it complemented its goal to increase investment in the EU.

The Capital Markets Union objectives were to be achieved through various means, including EU legislation and support for industry-led initiatives. In this context, the co-legislators have approved many regulations and directives, in such diverse areas as securitisation, prospectuses for investors and central counterparties.

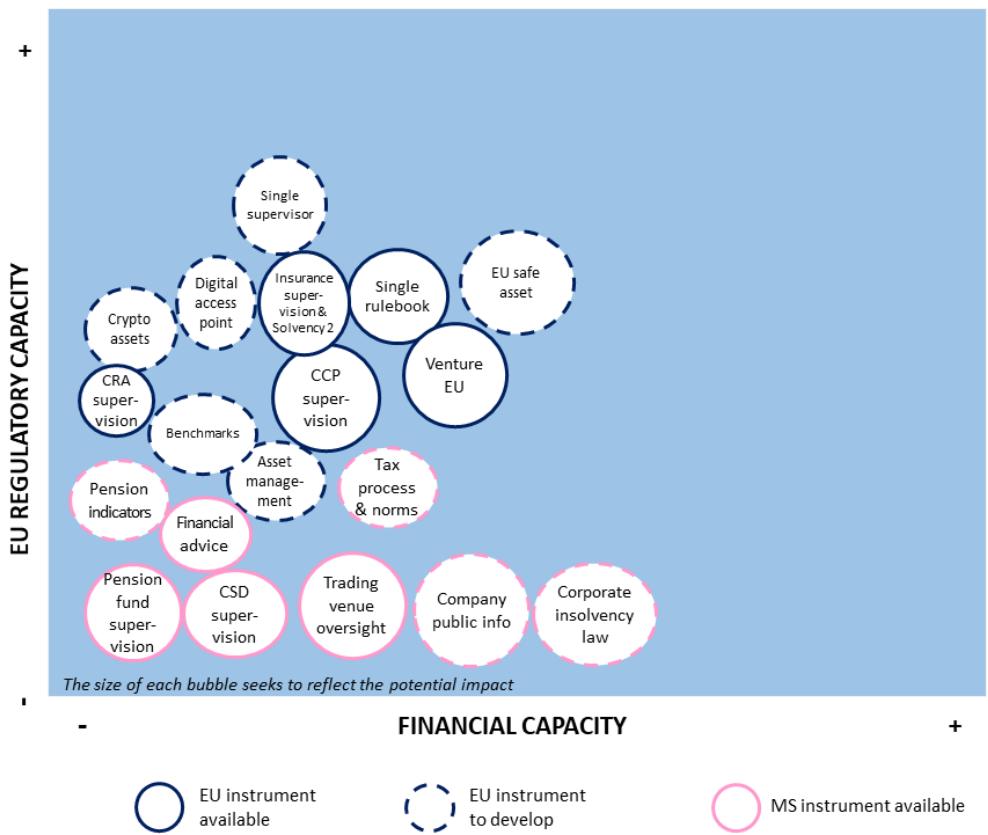
Five years on, however, the Commission notes that market-based financing remains limited in the EU. This is due to several reasons, which include the fact that companies are encouraged to take on debt rather than equity, and the high costs of legal compliance.

In addition to this, some recently adopted rules (such as on the Pan-European Personal Pension Product) have been criticised for being too complex, discouraging providers and investors.

Yet another criticism is that the measures adopted so far, did not really focus on creating a single Capital Markets Union, but instead on developing existing capital markets in the EU.

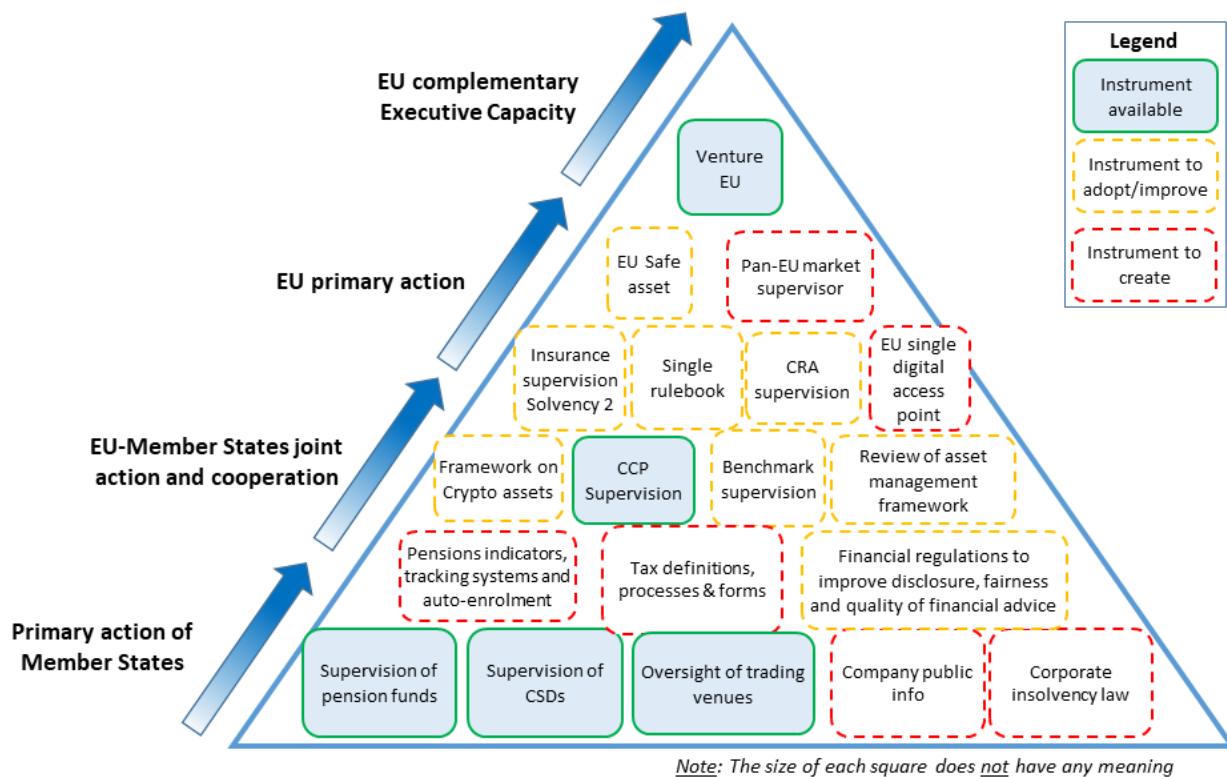
Lastly, the departure of the United Kingdom from the European Union means that the Capital Markets Union will materialise without the most important financial centre in Europe, the City of London. This may result in the development of various financial centres, specialising in different financial spheres. While their development is welcome, for the moment, capital markets within the EU are subject to national rules and supervision; under the current supervisory arrangements, therefore, such differences in regimes could challenge the integration of markets and possibly provide incentives for regulatory arbitrage.

In sum, despite the important efforts made by Member States over the past decade, existing technological differences, divergent tax and supervision regimes, and differences in local financial structures, sustain the fragmentation of EU capital markets. This fragmentation is particularly harmful in a currency union such as EMU, where deeper and more liquid financial markets should be able to compensate for the absence of other shock absorbers (such as flexible exchange rates).



Instrument	Size
Venture EU to support start-ups and scale-ups across the EU through public and private investment.	
EU safe asset to sever the bank-sovereign nexus.	
Pan-EU market supervisor	
Insurance companies: supervision & review of Solvency II to encourage insurers to invest in equity.	
Single rulebook: strengthen governance, powers and toolkit of ESMA & EIOPA.	
CRA supervision	
EU-wide Single (digital) Access Point for company information, for more options.	
Amend existing EU regulation partly covering crypto/digital assets & establish EU framework for markets in those crypto/digital assets that do not fall into the scope of the above.	
CCP supervision	
Review of the Benchmark regulation	
Review of the asset management framework	
Pensions sustainability indicators for Member States, pension-tracking systems for individuals and auto enrolment in occupational pension schemes.	
Harmonise tax definitions, processes and forms. Introduce a standardised system for withholding tax relief at source to tackle the current cumbersome refund procedures.	
Targeted amendments to financial regulations, to improve disclosure, fairness and quality of financial advice, in order to increase participation of retail investors in capital markets.	
Supervision of pension funds.	
Targeted changes to central securities depositories' passport, supervision and cross-currency rules in CSD regulation, in order to encourage cross-border trading.	
Oversight of trading venues	
Content and format harmonisation of companies' public information, for better comparison.	
Harmonisation of central elements in corporate (non-bank) insolvency law, in order to increase confidence in cross-border financing.	

Pyramid of instruments at the disposal of the EU and its Member States



Promoting a more integrated EU immigration policy

Introduction

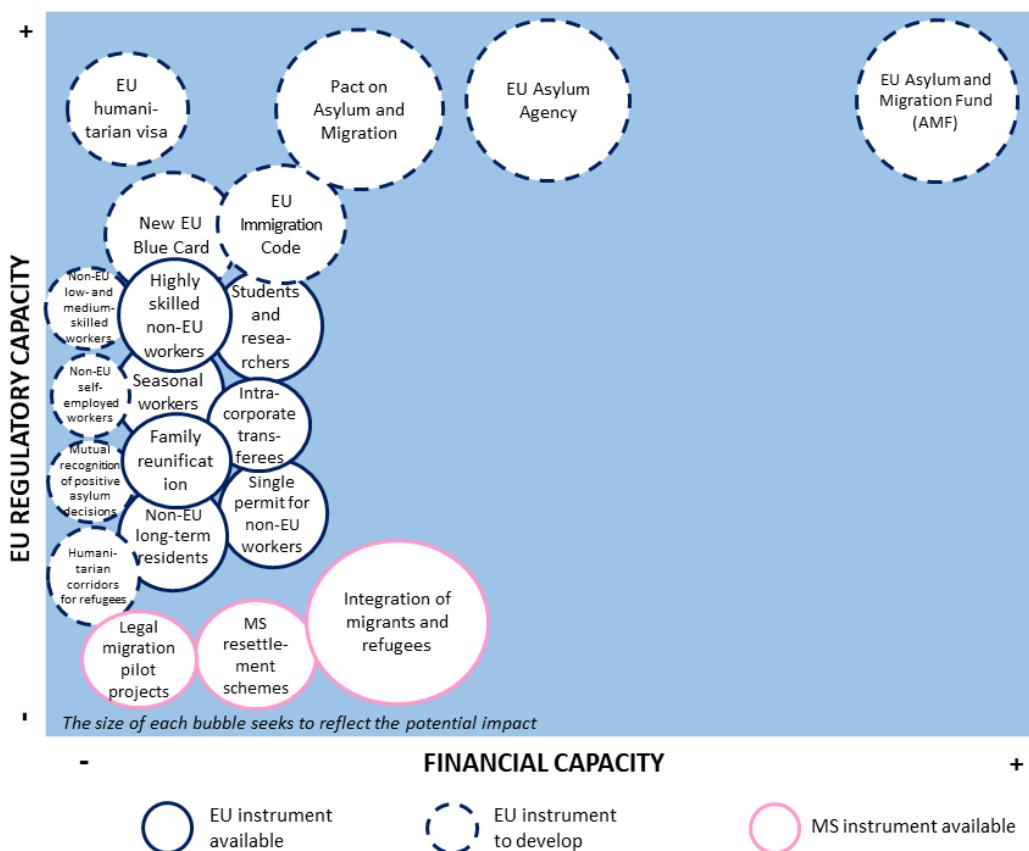
The European Union has a shared harmonising competence for developing a common immigration policy, adopting minimum common rules using directives that Member States must transpose. The Member States may pass legislation on issues not covered by the directives, and may also derogate from the common rules, in so far as the directives allow this. If the EU considers a more thorough intervention is necessary in order to attain the objectives pursued, within the framework of the given competences, the Treaty does not rule out EU intervention through regulations.

In recent years, the EU has embarked on a broader process of reform aimed at addressing deficiencies and gaps in EU policies on asylum and migration. The concrete actions to date have achieved relative success when it comes to strengthening the management of external borders, reducing the arrivals of irregular migrants, and showing solidarity with third countries (financial and through resettlement). However, the EU has encountered significant difficulties in providing more legal pathways for refugees and in achieving solidarity and responsibility-sharing for asylum-seekers among the EU Member States. The arrival of large numbers of asylum-seekers in recent years has put disproportionate pressure on local and regional authorities in terms of their budgets, local infrastructure, housing, education, healthcare and the provision of services. Member States have also struggled to establish more efficient legal channels and integration opportunities for migrants. The challenges and opportunities of integration, which remains of utmost importance to cope with current and future needs for skills in the EU, are often left to local and regional authorities to tackle in the absence of sufficient resources, both financial and operational.¹⁸

Deficiencies in the common European asylum system mean asylum-seekers are not treated uniformly, and recognition rates in different EU countries vary. Moreover, in the current framework, a limited number of EU countries are effectively responsible for the great majority of asylum claims submitted within the EU. Fragmented national policies for attracting third-country nationals (TCN), especially highly skilled ones, are undermining the ability of the EU as a whole to attract the workers and researchers it needs to compensate for its ageing population, shortages of labour and skills and the likely intensification of automation and innovation in work processes. In addition, the sectoral approach taken in the EU framework for legal migration not only does not cover all categories of TCN, but also creates different rules and different standards for different categories of TCN, preventing their intra-EU mobility and leading to unfair and unequal treatment of TCN across EU Member States.

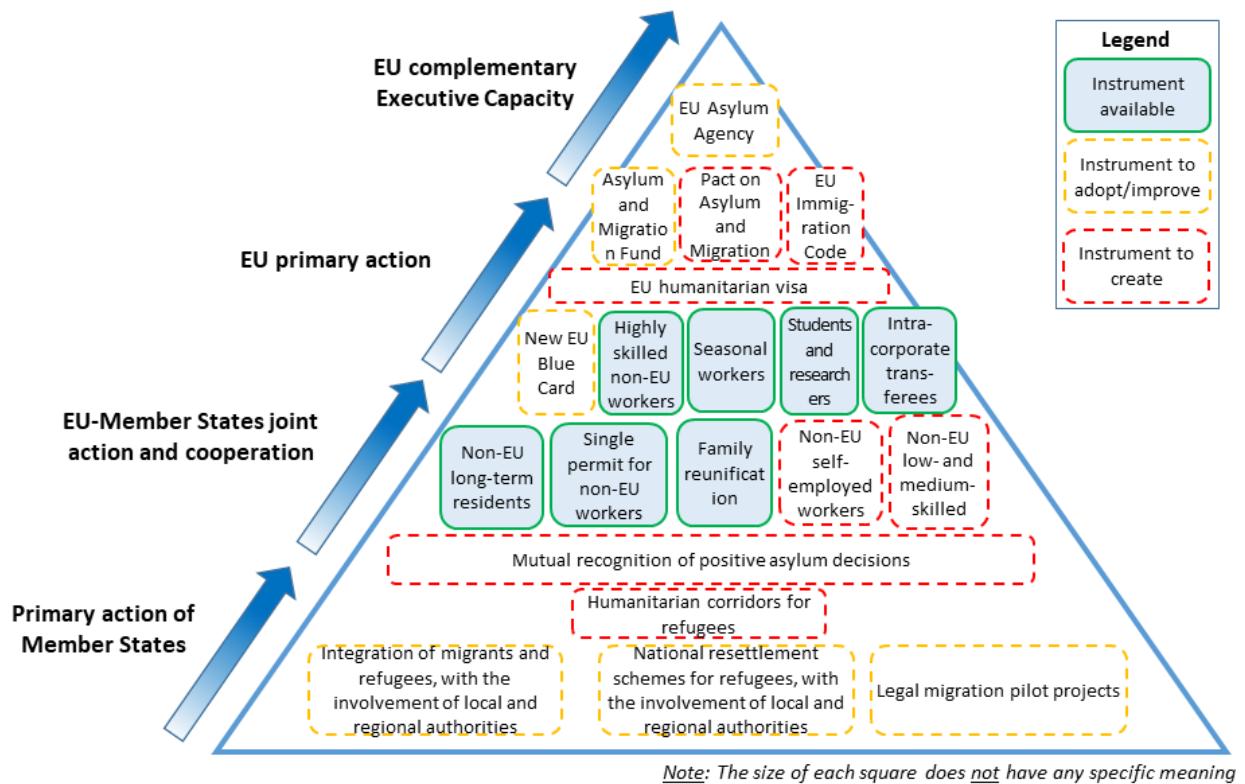
The impact of any future migration flux into the EU will largely depend on the EU's capacity to develop an integrated immigration policy. This would need to be based on a more efficient, harmonised and fairer EU asylum system, well-managed labour migration and successful integration of migrants into their host society, in particular with the involvement of local and regional authorities, taking into account international and EU human rights and labour standards. The European Commission announced a Pact on Migration and Asylum in 2020 to, among other things, establish a resilient and balanced approach to dealing with irregular and legal (regular) immigration.

¹⁸ European Committee of the Regions, Commission for Citizenship, Governance, Institutional and External Affairs), [Integration of migrants in middle and small cities and in rural areas in Europe](#), 2020.



Instrument	Size
EU Asylum Agency to replace the current European Asylum Support Office (EASO)	
EU Asylum and Migration Fund (AMF) to replace the current Asylum, Migration and Integration Fund (AMIF)	€8.7 billion
Pact on Asylum and Migration to replace or improve current proposals under the Common European Asylum System	
EU Immigration Code (consolidation of all legislation in the area of immigration, starting with legal migration)	
EU humanitarian visa allowing those seeking international protection to apply for a visa at an EU embassy or consulate	
New EU Blue Card to address shortcomings and extend the scope of the current Blue Card directive	
Conditions of entry and residence of highly skilled non-EU workers (EU Blue Card)	
Conditions of entry and stay of third-country seasonal workers	
Conditions of entry and residence of third-country students and researchers	
Conditions of entry and residence of third-country intra-corporate transferees	
Status of non-EU long-term residents	
Single permit for third-country nationals to reside and work in the EU	
Family reunification of legally residing third-country nationals, including refugees	
Creating an EU instrument for non-EU self-employed workers	
Creating an EU instrument for non-EU low- and medium-skilled workers	
Creating an EU instrument for mutual recognition of positive asylum decisions	
Establishing EU/MS humanitarian corridors for refugees	
Improving integration of migrants and refugees in Member States, in particular with the involvement of local and regional authorities	
Improving Member States' resettlement schemes for refugees, in particular with the involvement of local and regional authorities	
Member State legal migration pilot projects with non-EU countries to promote legal migration schemes for labour or traineeship purposes	

Pyramid of instruments at the disposal of the EU and its Member States



Developing a European defence instrument

Introduction

European defence cooperation is an area in which the EU has made a leap forward during the past decade following a political consensus reached in the European Council in 2013, and regularly [reiterated](#) since. Back then, the Heads of State or Government recognised that '[defence matters](#)'. They considered – and subsequent developments, including Russia's illegal annexation of Crimea, have proved them right – that 'Europe's strategic and geopolitical environment is evolving rapidly', and estimated that the Member States should increase their joint efforts in defence, particularly as regards crisis management and development of capabilities, as well as with regard to the defence industry and market.

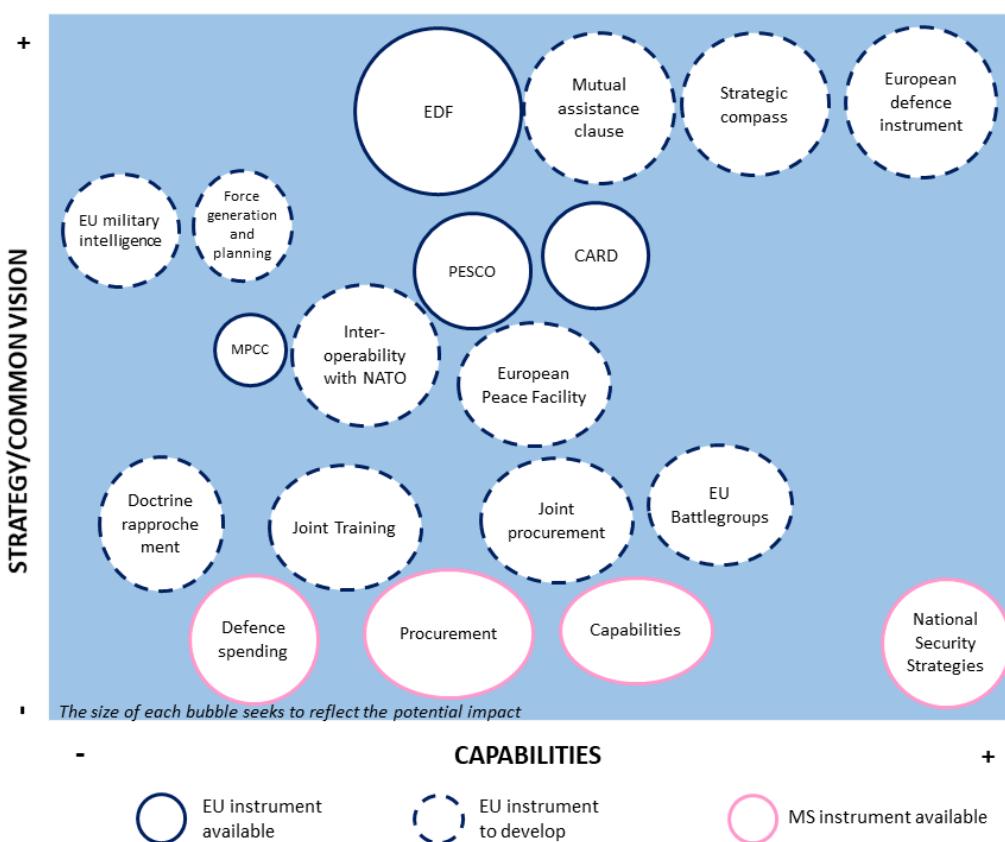
The political consensus on security and defence led to the adoption of a series of [complementary mechanisms](#), namely the Coordinated Annual Review on Defence (CARD), [Permanent Structured Cooperation](#) (PESCO) and the [European Defence Fund](#) (EDF). These mechanisms are intended to enhance the development of joint capabilities, allow cost-sharing, foster economies of scale and help reduce a growing technological gap, as well as boost the European defence industry and market. At the same time, less and more uneven progress has been made on fine-tuning the crisis-management dimension of the Common Security and Defence Policy (CSDP), which through the 22 civilian and 12 military operations launched to date, remains the most visible and successful component of EU cooperation on security and defence.

Whereas [substantive](#) progress has been achieved in civilian CSDP with the [adoption](#) of the civilian compact, intended to strengthen and streamline EU civilian missions, only incremental progress has been made as regards military CSDP, mainly reflected in the creation of a [Military Planning and Conduct Capability](#) (MPCC) as a permanent command and control facility for 'non-executive' military operations. More remains to be done, notably with respect to the joint financing of military operations or the EU's rapid reaction capacity. Despite several [calls](#) for progress from the European Council, neither the review of the [Athena mechanism](#), expected to be included in the forthcoming [European Peace Facility](#), nor the revision of the EU Battlegroups concept, have yet been finalised.

It is important to continue to fine-tune military CSDP. Yet, this process alone will not allow the EU to fully meet its self-set level of ambition, namely to ensure that EU citizens are protected, that the Union is able to respond to external crisis and conflicts and that it can successfully build up the capacity of its partners. As [stressed](#) jointly by High Representative, Josep Borrell, and Commissioner, Thierry Breton, 'virtuous "soft power" is no longer enough in today's world' in which the EU needs to build a 'Europe of defence'. Some of the EU leaders participating in the [Future of Europe debates](#) in the European Parliament in 2018 and 2019 stressed that the EU needed to go beyond current defence cooperation levels if it were to be able to tackle the common threats and risks Member States face jointly. To push forward the existing boundaries between cooperation and integration in defence, there is a need for a new political consensus in the European Council, the only body able to decide, in the longer term, on 'common defence' in the EU, based on [Article 42\(2\)TEU](#).

Only a European defence instrument combining '[soft](#)' and '[hard power](#)' features, absent so far, would allow the Union to build its strategic autonomy. Such an instrument is necessary to prevent the EU from becoming the playground of global powers' competing interests, and to respond to the entire spectrum of threats to security, whether of a conventional or non-conventional nature. The EU would thus be able to share the burden of transatlantic security, build a robust European pillar within NATO, and protect all its citizens – independently of their country's (non-)membership of NATO – in case of a new activation of the mutual assistance clause (Article 42(7)TEU). This instrument would *inter alia* require a common doctrine, strategic culture rapprochement, increased

interoperable forces, joint training, joint procurement, joint funding for military operations and an EU intelligence capacity.

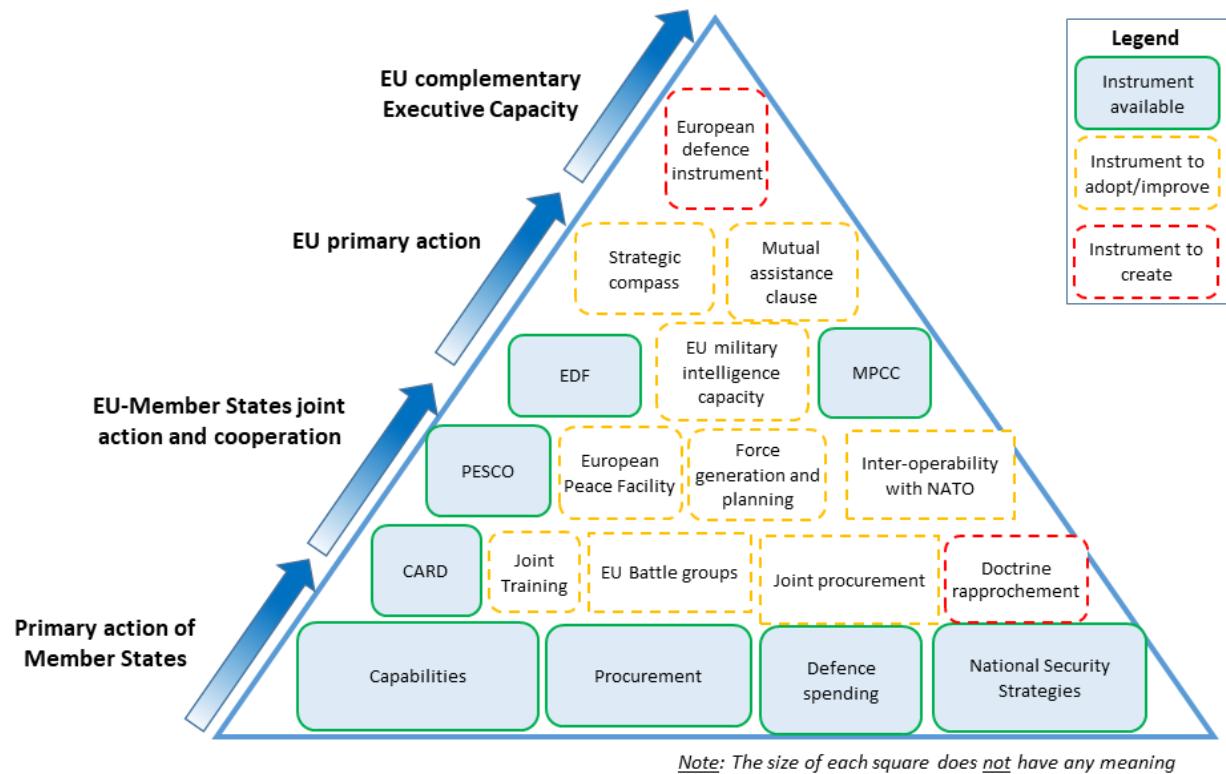


Instrument	Size
European defence instrument	
Strategic compass	
Clarify the procedure to activate the mutual assistance clause (Article 42(7)TEU)	
European Defence Fund	€7 billion
EU Military Intelligence Capacity	
Military Planning and Conduct Capability	
Permanent Structured Cooperation	€1.5 billion ¹⁹
European Peace Facility ²⁰	€5 billion
Speed up force generation and planning	
Enhanced interoperability with NATO	
Coordinated Annual Review on Defence	
Joint Training	
Revised EU Battlegroup concept	
Increased joint procurement	
Doctrine rapprochement	-
Capabilities (national)	-
Procurement (national)	-
Defence spending (national)	-
National Security Strategies	-

¹⁹ Amount covering only Military Mobility under the 2021-2027 MFF.

²⁰ Expected to be established as an off-budget instrument replacing the [African Peace Facility](#) and the [Athena mechanism](#).

Pyramid of instruments at the disposal of the EU and its Member States



Compensating for the lack of a joint liability instrument

Introduction

In general, when an economic system suffers an endogenous or exogenous shock that compromises the balance of the goods and labour market, it rarely manages to return to equilibrium autonomously, therefore interventions are needed to ensure sufficient circulation of liquidity and an adequate economic stimulus.

That was the case for the financial crisis of 2008, which firstly brought paralysis to the euro-area inter-bank market, because of the mutual distrust of intermediaries, and then a drastic reduction in the cross-border circulation of liquidity, also caused by ring-fencing measures adopted by supervisory authorities. In response, on the one hand, the Eurosystem provided monetary stimulus through non-conventional interventions. On the other hand, the banking union ([BU](#)) was established, currently built on two pillars: the single supervisory mechanism ([SSM](#)), for supervising banks established in the euro area and other participating Member States, and the single resolution mechanism ([SRM](#)), whose aim is to ensure orderly [resolution](#) procedures for failing banks in the BU while minimising the costs for taxpayers. The third pillar, a European deposit insurance scheme ([EDIS](#)), has been under discussion for more than five years with limited progress.

To create jobs, spur growth and encourage investment across the EU through reducing financial markets' fragmentation and diversifying the financing of the economy, an action plan for a capital markets union was launched in [2015](#) and revised in [2017](#). Further action in this field was recommended by a High-level Forum in an [Interim report](#) of February 2020.

In parallel, to respond to the financial, economic and sovereign crisis that hit some euro-area Member States particularly hard because of the [sovereign–bank nexus](#), the European Commission was empowered to borrow on behalf of the EU to fund loans made under the European Financial Stability Mechanism ([EFSM](#)) established in 2010. Subsequently, supranational issuers (the European Financial Stability Facility ([EFSF](#)) and European Stability Mechanism ([ESM](#))) were created, nonetheless with limited capacity and a lending toolkit mainly aimed at addressing liquidity constraints of single euro-area Member States, experiencing, or threatened by, severe financing problems.

Against this background, in a July 2011 [resolution](#), the European Parliament requested that the Commission investigate the feasibility of common debt issuance in the context of adopting the legislative package on euro-area economic governance, underlining that the common issuance of 'stability bonds' would also require a further move towards a common economic and fiscal policy.

The issuance of [common or joint debt instruments](#), in particular among euro-area countries, was far from new. It has long been linked in various ways to the Union's financial integration process and in particular to the implementation of economic and monetary union. However, while common/joint debt instruments present considerable potential advantages, particularly in reducing market fragmentation and enhancing the shock absorption capacity of the system, they also entail challenges, the most politically sensitive of which are a certain degree of risk-sharing between Member States, the eventual removal of incentives for sound budgetary policies, and the transfer of sovereignty from the national to the EU level. In addition, moving towards more mutualisation of financial risk would require Treaty changes, including greater institutional integration.

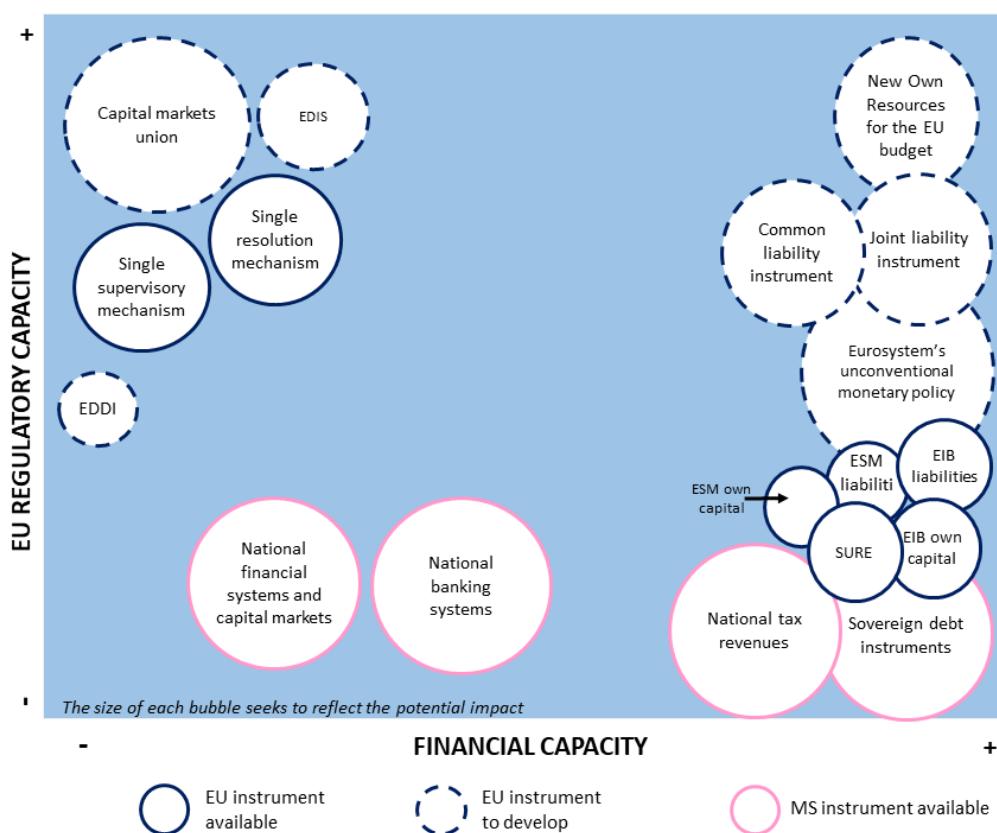
In the context of the crisis caused by the Covid-19 pandemic, supranational debt instruments have come to the fore as a solution to avoid a symmetrical exogenous shock producing asymmetrical effects between Member States. In this vein, the European Commission proposed a major [recovery plan for Europe](#) to help repair the economic and social damage caused by the pandemic, kick-start

European recovery, and protect and create jobs. The plan includes Next Generation EU (NGEU), a new recovery instrument of €750 billion, boosting the EU budget for 2021-2024 with new resources raised on the financial markets through bonds issued by the European Commission on behalf of the EU, guaranteed by a revamped EU budget, including through possible additional own resources. In the European Council meeting of 17-21 July 2020, Heads of State or Government reached [political agreement](#) confirming the establishment of the NGEU worth €750 billion, but with a different mix of grants (€390 billion, down from €500 billion in the Commission's proposal) and loans (€360 billion, up from €250 billion). They also agreed to increase the own resources ceiling by an additional 0.60 % of EU GNI to be devoted exclusively to covering the borrowing operations for NGEU and to apply until December 2058 at the latest.

This financing would add to the [€540 billion economic package](#) agreed by European leaders at their 23 April meeting, which includes: an instrument for temporary support to mitigate unemployment risks in an emergency (SURE), allowing Member States to receive up to a total €100 billion in loans from the EU, backed by Member States on a voluntary basis; an ESM special credit line available to all euro-area Member States to a level of 2 % of their respective GDP; and a €25 billion Pan-European Guarantee Fund established by the EIB to support businesses, especially SMEs, gathering contributions from Member States and EU institutions pro rata to their EIB shareholding.

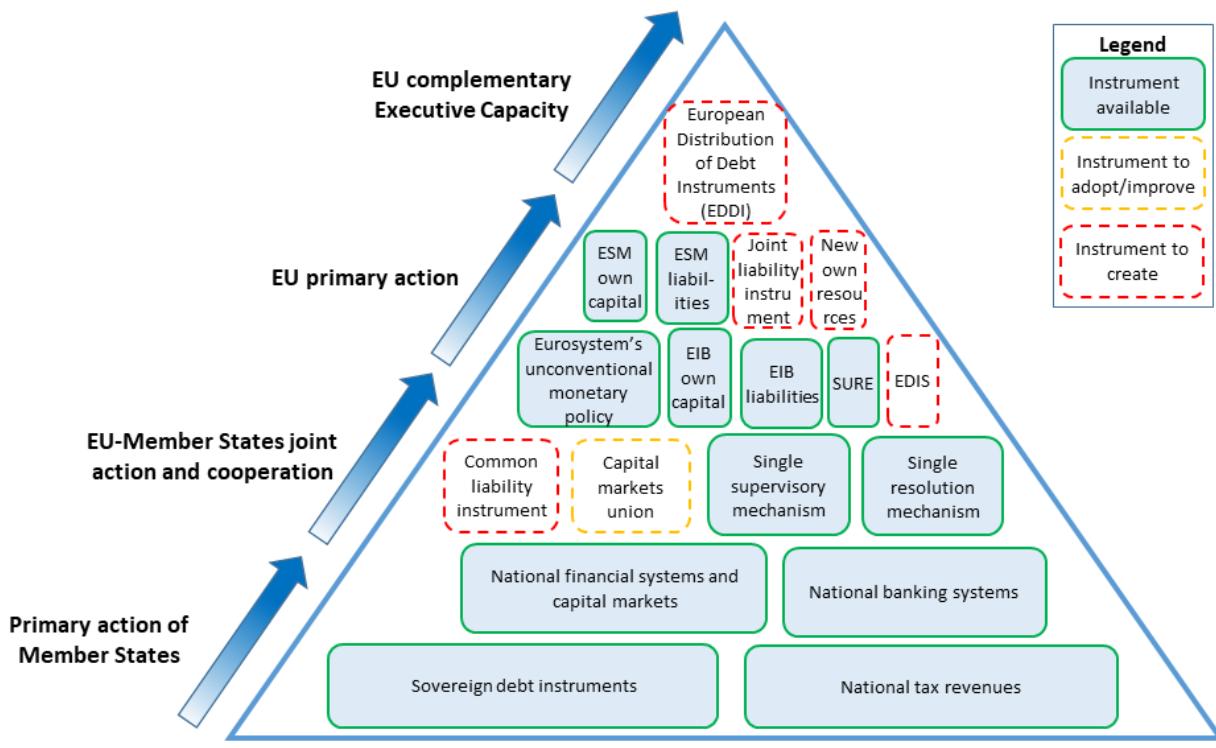
All these resources entail a certain limited degree of risk-sharing and complement sovereign bonds and national tax revenues financing national budgets.

On top of that, a pan-European, harmonised and [neutral solution for issuing and distributing debt instruments in the EU](#) would help reduce the risks and costs of issuing debt instruments on EU financial markets.



Instrument	Size
Joint liability instrument financing Next Generation EU	€750 billion
New own resources for the EU budget	-
European Deposit Insurance Scheme (EDIS) <i>(Cost of non-Europe estimated at €5 billion)</i>	0.8 % of covered deposits
European Distribution of Debt Instruments (EDDI)	-
ESM liabilities (In the coming 10 years)	between €30 and €50 billion
ESM own capital	€80 billion
EIB liabilities (annual funding programme for 2020)	€60 billion
EIB own capital	€249 billion
SURE	€100 billion
Eurosystem's unconventional monetary policy	-
Common liability instrument	-
Single resolution mechanism, including the Single Resolution Fund (SRF)	SRF €55 billion (in 2024)
Single supervisory mechanism	-
Capital markets union	
National banking systems	-
National financial systems and capital markets	-
National tax revenues	-
Sovereign debt instruments	-

Pyramid of instruments at the disposal of the EU and its Member States



Promoting effective climate action

Introduction

Under [current emission trends](#) and national commitments, global warming is likely to exceed 3 °C above pre-industrial levels. This is far above the Paris Agreement target of well below 2 °C, let alone the 1.5 °C. In this context, the European Parliament declared a [climate and environmental emergency](#) and urged European and global actors to take concrete action to counter the threat of disastrous climate change impacts.

Drastic and unprecedented cuts in global greenhouse gas emissions would be required to meet the targets of the Paris Agreement. Yet, so far the EU is the only major economy that has signalled an intention to raise its ambitions under the Paris Agreement. The postponement of the COP26 climate conference by one year to November 2021 offers a window of opportunity to reinforce climate diplomacy and encourage other parties to raise ambitions in the aftermath of the Covid-19 crisis.

The European Green Deal aims to achieve climate neutrality by 2050, and foster sustainable growth and a just transition. To achieve the 2050 target and intermediate targets for 2030, substantial **investment** in a thorough and speedy transformation of industry and the economy would be needed. The European Green Deal Investment Plan aims to mobilise public and private funds for the required sustainable investments. The Next Generation EU instrument will provide funds to support economic recovery with emphasis on the green and digital transition. Moreover, the European Investment Bank will focus on financing low-carbon projects. Specific instruments such as the Innovation and Modernisation Funds use emissions trading (ETS) revenues to finance clean energy projects. The Just Transition Mechanism and Just Transition Fund aim to provide support to people and regions affected by the green transition.

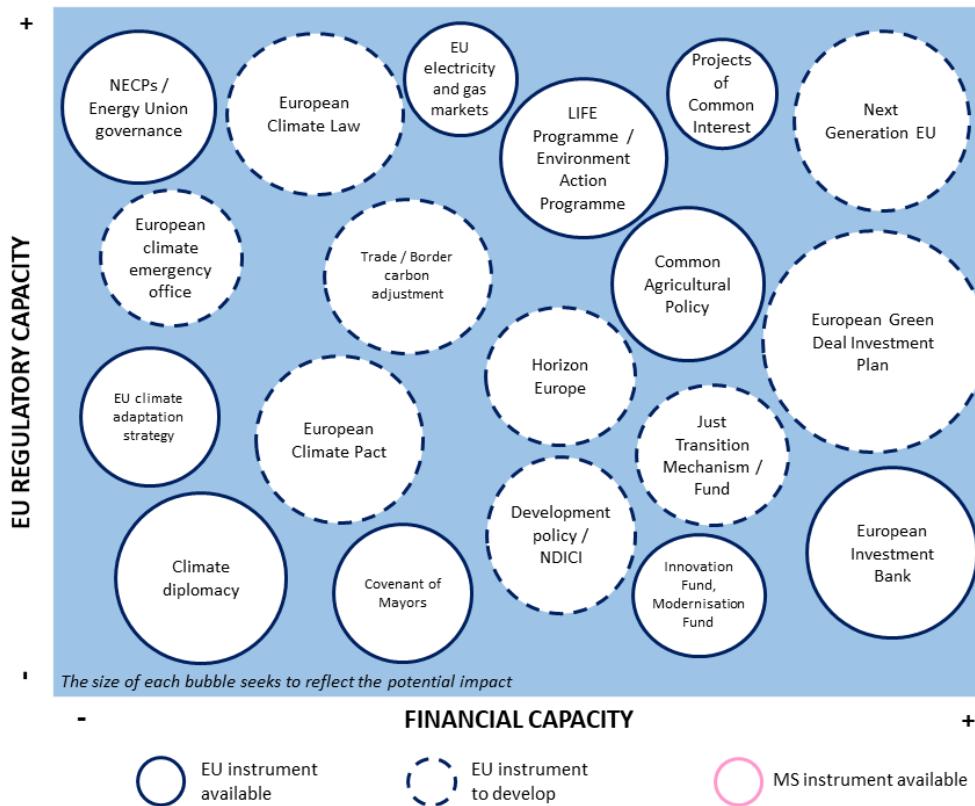
Besides funding, the risks that may endanger the achievement of EU climate neutrality must be addressed. To that end, the EU and Member States have to ensure that the **enabling factors** for a successful European Green Deal are in place: political consensus, citizen engagement with behavioural changes, public and private investment, skills and knowledge, technologies and raw materials, appropriate regulation, market incentives, and monitoring of progress. The proposed European Climate Law and climate target plan set the long-term target and a trajectory with intermediate targets. The European Climate Pact aims to ensure broad societal engagement. Climate and clean energy research will be supported by Horizon Europe, while the Environment Action Programme and LIFE programme address climate action and protection of natural capital.

A reformed common agricultural policy could promote more climate-friendly agriculture. Reformed EU electricity and gas markets are key to enabling the full decarbonisation of EU energy supply, complemented by projects of common interest to finance clean energy infrastructure. The alignment of national energy and climate plans with EU climate objectives would be ensured through effective energy union governance, possibly supported by a new European climate emergency office to supplement national bodies and create additional executive capacity at EU level. At city level, the Covenant of Mayors provides a framework to promote and coordinate climate action.

Although the EU is only responsible for less than 10 % of global carbon emissions, the success or failure of the European Green Deal has implications far beyond Europe, as it is likely to influence other countries' decisions to pursue similarly ambitious targets. To address the risk that Europe might be a leader without followers, the EU, Member States and European industry can show examples of success, engage and cooperate with other regions, and establish global markets for low-carbon goods and technologies. The risk of other regions being willing but unable to follow the European example can be addressed by knowledge and technology transfer, capacity-building and

investment in zero-carbon transformation. EU development policy and the Neighbourhood, Development and International Cooperation Instrument (NDICI) have a key role to play here. EU and Member States' climate diplomacy should foster bilateral cooperation with key partners and help shape ambitious multilateral agreements. Climate-friendly production outside the EU can be encouraged through border carbon adjustment, putting a price on carbon-intensive imports, and the further integration of climate objectives in EU trade policy.

All the same, there remains a risk of catastrophic climate impacts, which can be addressed by strengthening adaptive capacity and disaster preparedness. A revision of the EU climate adaptation strategy will help to promote and coordinate adaptation actions at Member State and local levels.



Instrument	Size
European climate emergency office to supplement national bodies	
Carbon border adjustment and integration of climate objectives in EU trade policy	
European Investment Bank to prioritise financing of low-carbon projects	
Horizon Europe to finance climate and clean energy research	€80.9 billion ²¹
European Climate Law and climate target plan	
Next Generation EU instrument to support the green and digital transition	€750 billion
Innovation Fund, Modernisation Fund for financing clean energy projects ²²	
Projects of common interest to finance clean energy infrastructure	
Common agricultural policy	€343.9 billion ²³
LIFE programme and Environment Action Programme	
Development policy and the Neighbourhood, Development and International Cooperation Instrument (NDICI)	€70.8 billion

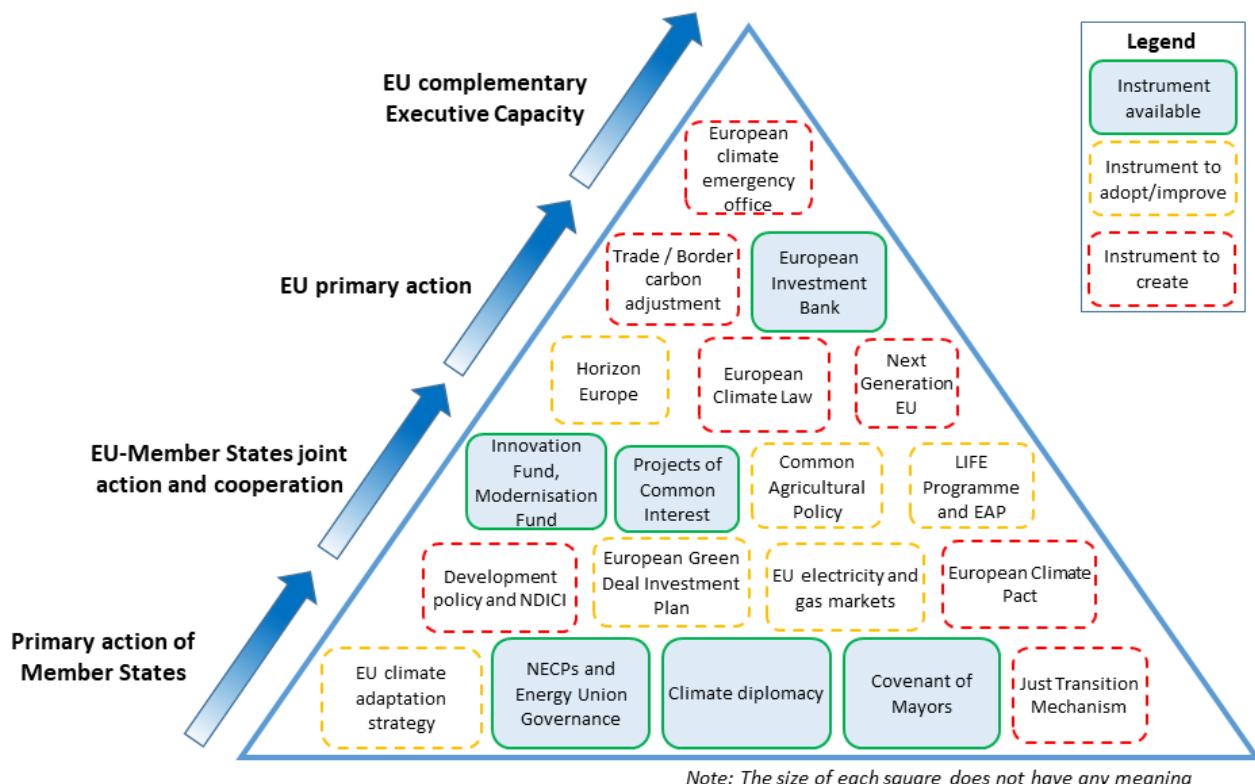
²¹ €75.9 billion from the MFF and €5 billion from NGEU.

²² The size depends on the price of EU ETS allowances

²³ €336.4 billion from the MFF and €7.5 billion from NGEU.

European Green Deal Investment Plan to mobilise public and private funds for sustainable investment	aimed at mobilising at least €1 trillion
EU electricity and gas markets to enable the decarbonisation of EU energy supply	
European Climate Pact to ensure broad societal engagement	
EU climate adaptation strategy	
National energy and climate plans (NECPs) and energy union governance	
Climate diplomacy to foster bilateral and multilateral cooperation	
Just Transition Mechanism and Just Transition Fund	€17.5 billion ²⁴
Covenant of Mayors to promote and coordinate climate action at city level	

Pyramid of instruments at the disposal of the EU and its Member States



²⁴ Just Transition Fund: €7.5 billion from the MFF and €10 billion from NGEU.

Addressing the water crisis

Introduction

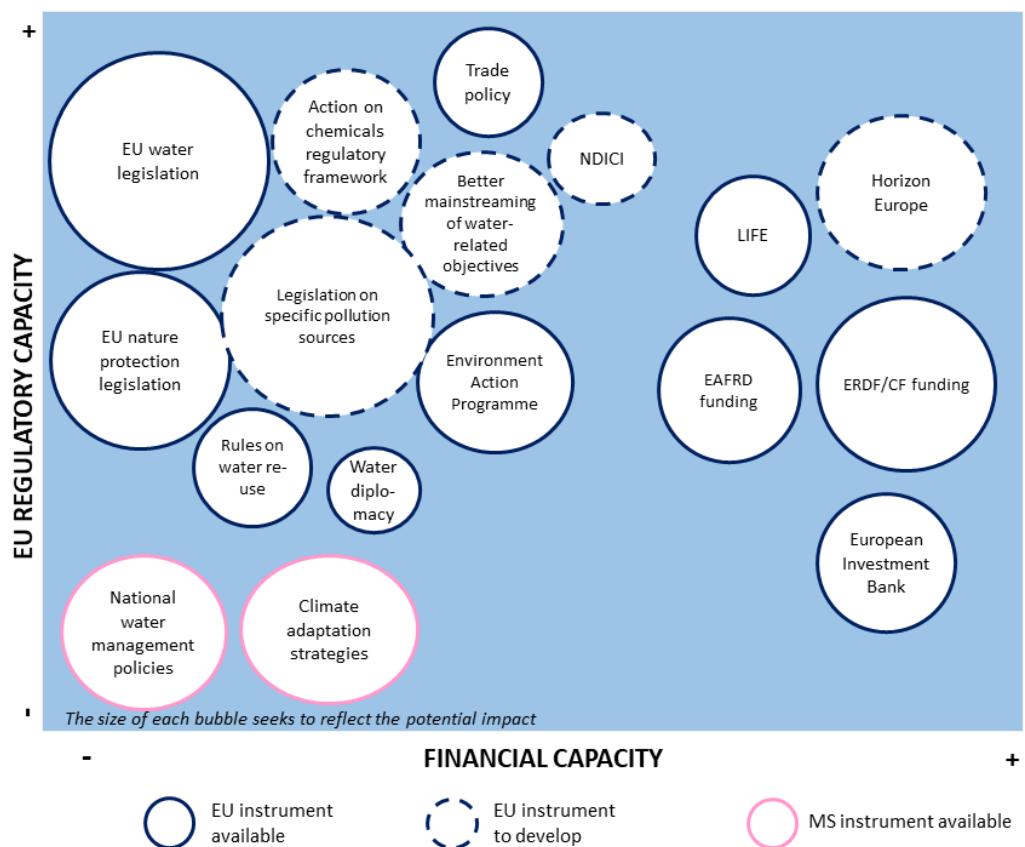
Ensuring that enough water of good quality is available for people's needs and the environment is a key challenge for the EU, and a fundamental objective of its environment policy. Comprehensive legislation is in place for the management and protection of freshwater within the EU. This includes the Water Framework Directive; the Drinking Water, Bathing Waters and Floods Directives; as well as several acts addressing pollution from nutrients and/or other chemicals from agriculture, households and industry (the Nitrates, Plant Protection Products, Urban Waste Water Treatment and Industrial Emissions Directives). Significant gaps remain, however, in the implementation of existing rules. According to the European Environment Agency's latest assessment of the state of the environment, only 40 % of Europe's surface water bodies meet the 'good ecological status' prescribed in legislation. Important elements for achieving the objectives of the Water Framework Directive include increased investments, better integration of water objectives in other policy areas (such as agriculture) and improved implementation of other acts, such as the Nitrates and the Urban Waste Water Treatment Directives, still problematic in many Member States. Conservative estimates suggest that if fully implemented, existing European legislation on water could generate financial benefits of around €2.8 billion per year for the EU.

Pollution of water with harmful chemicals is an issue requiring further policy action. Measures to tackle pollutants of emerging concern, such as pharmaceuticals and microplastics, and the combined effects of chemicals; to simplify and strengthen EU rules on chemicals, including better use of EU agencies and scientific bodies to improve the substance-assessment process; and to reduce the overall use and risk of chemical pesticides are expected under the European Green Deal. Addressing pollution at source would require a comprehensive approach based on participatory processes involving local authorities and citizens

Climate change will significantly affect water temperatures and quantities, increasing water scarcity and drought issues in southern Europe, and precipitation in northern Europe. Water is therefore at the core of climate adaptation, which will require investments in both grey infrastructure and nature-based solutions (e.g. natural water-retention measures). Various funding options are available at EU level, including the LIFE programme and cohesion policy funding (European Regional Development Fund and Cohesion Fund). To cope with water scarcity, the EU has recently adopted rules to incentivise the re-use of treated wastewater for agricultural irrigation. Other measures targeting water demand can include economic instruments; water loss controls; increased efficiency of domestic, agricultural and industrial water use; education and awareness-raising campaigns on water savings; solutions adapted to local conditions; and exchanges of good practice. Both technological and non-technological innovation will be essential to address water challenges and contribute to water security. The EU has a key role to play in supporting R&I, most prominently through Horizon Europe, for the development of innovative solutions for water management. One area that would need to be better understood and monitored in the near future is the climate-water-ecosystem-agriculture nexus and connection with energy needs, as the European Environment Agency stressed in its latest 'State of the Environment' report.

Europe also has an impact on freshwater resources outside its boundaries by importing goods with water-intensive production chains. According to some estimates, over 40 % of the water needed to produce products consumed in Europe is used outside EU territory. Trade policy may be one of the tools to address such impacts. Globally, competition for limited water resources will be a major concern in the coming decades. Scarce water resources can generate or aggravate political tensions, regional instability and social unrest. Water diplomacy can contribute to alleviate tensions and reduce conflicts over water around the world, e.g. by encouraging cooperation at national and local level and

including water-related issues in bilateral and multilateral political dialogues. EU external action funds can also play an important role in ensuring sustainable management of water resources.

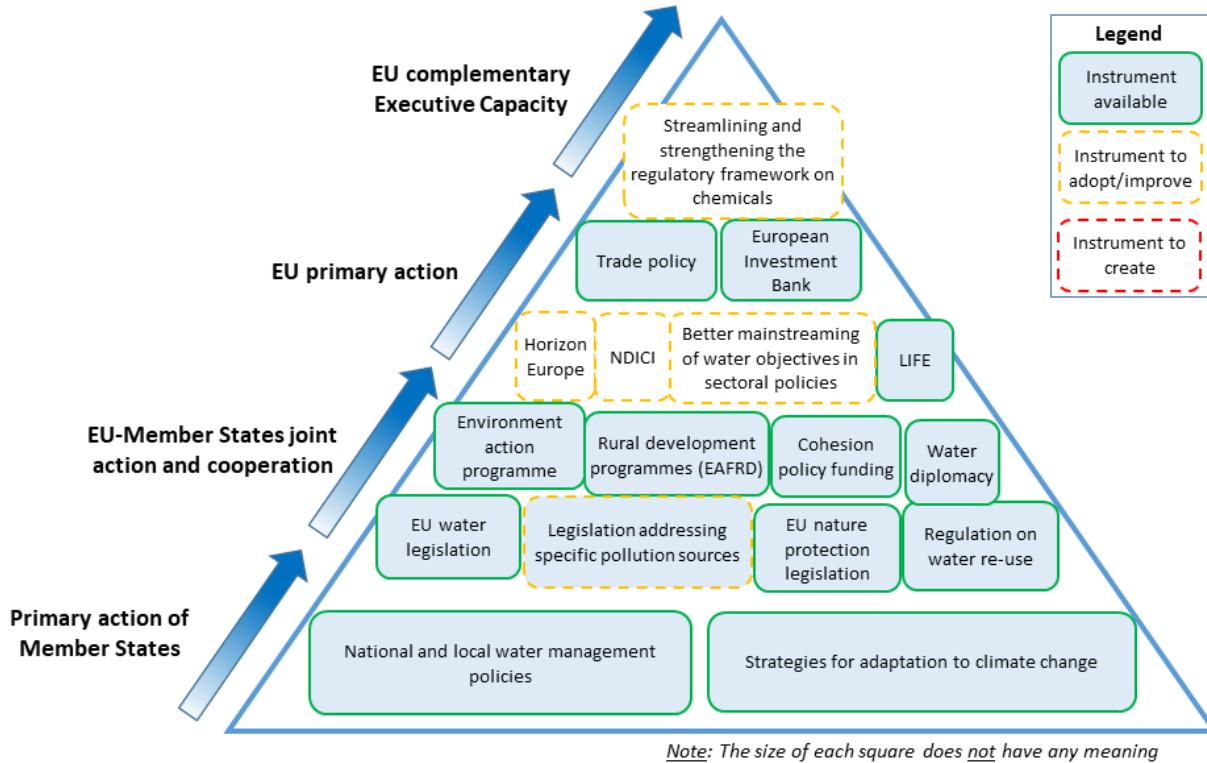


Instrument	Size
Streamlining and strengthening the regulatory framework on chemicals to enhance executive capacity	-
Trade policy to address EU impact on water resources outside its territory	-
European Investment Bank loans to finance water-related investments	-
Horizon Europe to support water-related research and innovation	€80.9 billion ²⁵
Neighbourhood, Development and International Cooperation Instrument (NDICI)	€70.8 billion
Better mainstreaming of water objectives in sectoral policies, including agriculture	-
LIFE programme to finance ecosystem protection and climate adaptation projects	-
Environment action programme to guide action on climate challenges and protection of natural capital	-
Cohesion policy funding (ERDF, CF) to support e.g. the development of drinking water, urban waste water treatment and flood protection infrastructure	€242.9 billion ERDF+CF
European Agricultural Fund for Rural Development to support the sustainable management of natural resources, including water	€85.4 billion ²⁶
Water diplomacy to alleviate tensions and reduce conflicts over water	-
EU water legislation to manage and protect freshwater resources <i>(Benefits of full implementation of existing legislation could reach €2.8 billion per year. Cost of non-Europe estimated at some €25 billion per year)</i>	-
Legislation on specific pollution sources , to address pollution from nutrients and/or other chemicals in the aquatic environment	-
EU nature protection legislation , to protect freshwater ecosystems	-
Regulation on water reuse to alleviate water scarcity	-
National and local water management policies	-
Strategies for adaptation to climate change	-

²⁵ €75.9 billion from the MFF and €5 billion from Next Generation EU.

²⁶ €77.9 billion from the MFF and €7.5 billion from Next Generation EU.

Pyramid of instruments at the disposal of the EU and its Member States



Local and regional dimension: Local and sub-national/regional authorities in the Member States play a role in monitoring, as well as achieving and ensuring high water quality through preventive and remedial measures. They are on the frontline in providing universal access to water and sanitation. Instruments of particular relevance to them include the ERDF and European Territorial Cooperation (Interreg), Cohesion Fund, EAFRD, EMFF, ESF, Life and Horizon Europe, as well as European Investment Bank instruments.

Halting the destruction of biodiversity

Introduction

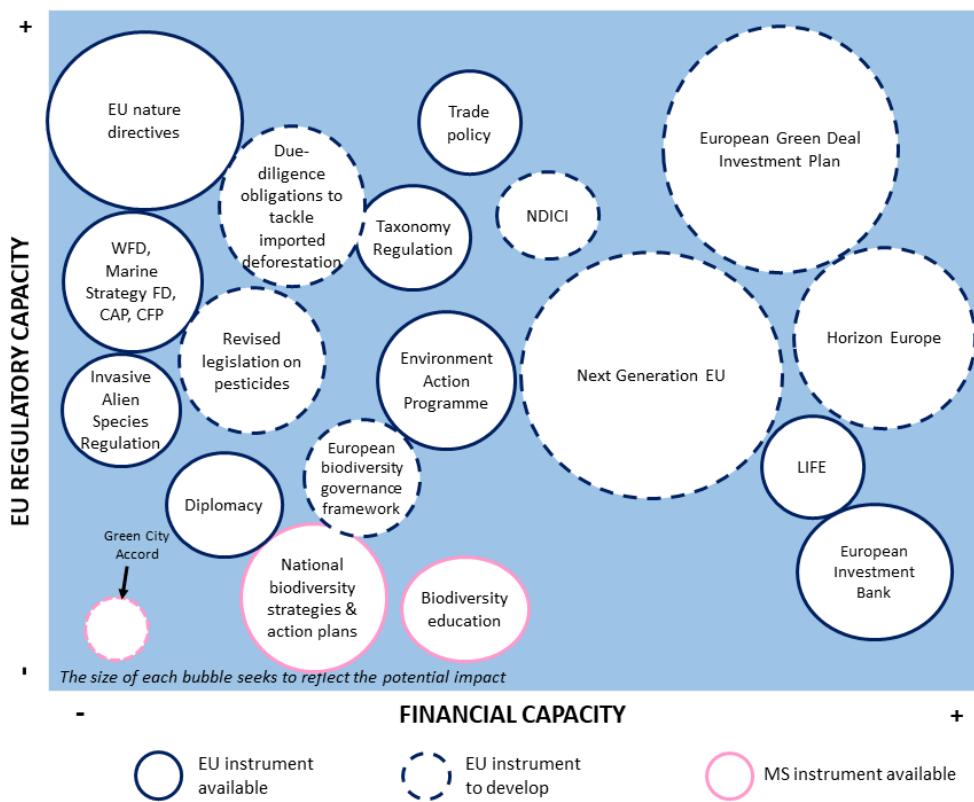
EU nature conservation policy is based on two main pieces of legislation, the Birds Directive and the Habitats Directive, providing the basis for the Natura 2000 network of protected areas, which currently covers 18 % of the EU's land area and almost 9 % of its marine waters. Rules on invasive alien species are also in place. Other relevant EU legislation includes the Water Framework Directive (for inland waters) and the Marine Strategy Framework Directive (for marine waters); as well as the common agricultural policy (CAP) and the common fisheries policy (CFP).

Despite this legal framework and a number of strategies and action plans, including the EU biodiversity strategy to 2020, results achieved so far are utterly insufficient to adequately protect nature. While stressing that the overall EU biodiversity policy framework remains relevant and fit for purpose, the European Environment Agency's latest assessment of the state of the environment points to a clear need for more effective implementation and funding of existing measures in all European environmental policies, as well as increased policy coherence with regard to biodiversity in agricultural and other sectoral policies. Major gaps remain in this respect, as the European Court of Auditors confirmed in two recent reports concerning biodiversity on farmland, and protection of wild pollinators.

Preserving and restoring ecosystems and biodiversity is a priority of the European Green Deal, and a matter of urgent concern for the European Parliament, which in November 2019 declared a climate and environment emergency. On 20 May 2020, the European Commission presented a new EU biodiversity strategy for 2030. Actions and objectives proposed include, among others, having at least 30 % of EU land and 30 % of EU seas designated as protected areas; setting legally binding EU nature restoration targets to restore degraded ecosystems; reducing the use and risk of pesticides; putting in place a new European biodiversity governance framework, to steer the implementation of biodiversity commitments at different levels, with a monitoring and review mechanism. A Green City Accord, aimed at supporting local authorities in their efforts to achieve a cleaner and healthier environment, including through enhancing nature and biodiversity, is also on the agenda.

Various tools can be mobilised to contribute to global biodiversity protection, including international cooperation, neighbourhood policy and trade policy (for instance, through the inclusion of binding and enforceable trade and sustainable development chapters in all future trade agreements, as requested by Parliament). A legislative proposal to address imported deforestation is expected in 2021. The EU could make use of its diplomatic and economic influence to push for ambitious international agreements on biodiversity protection, notably on the post-2020 global biodiversity framework and on marine biological diversity of areas beyond national jurisdiction.

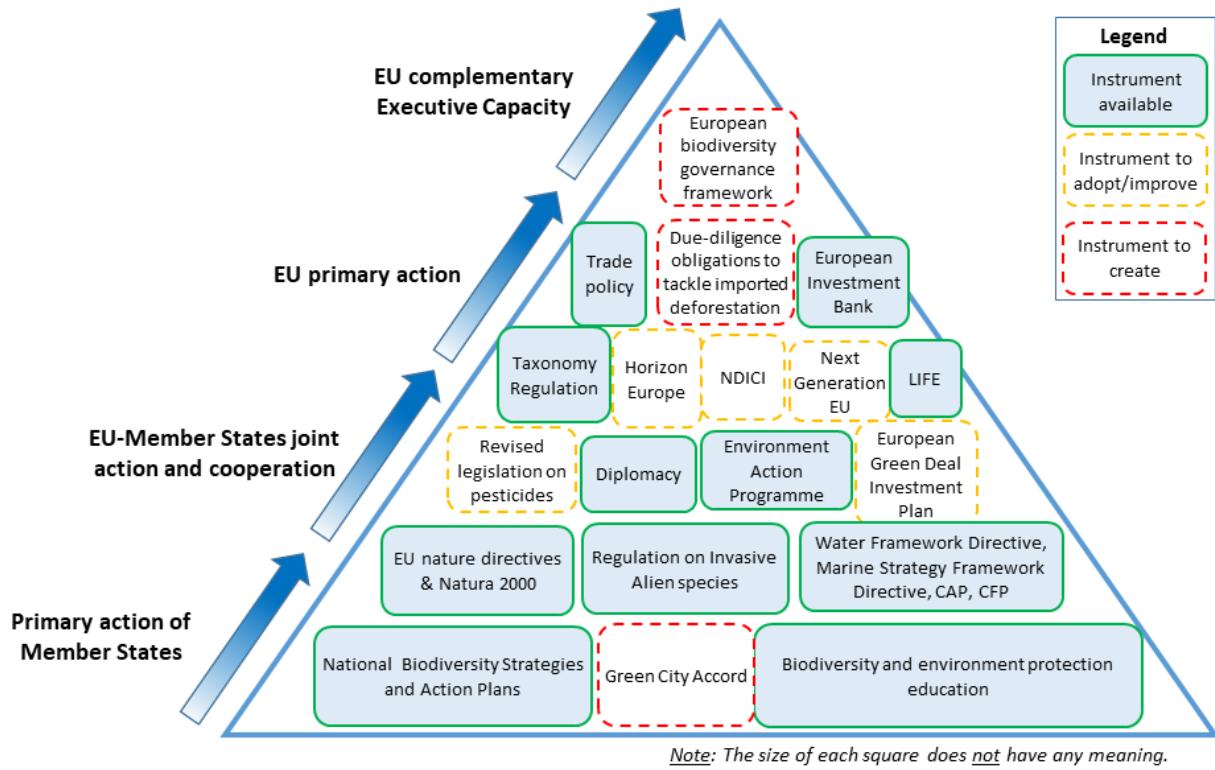
Achieving the EU biodiversity agenda requires mobilising private and public funding at national and EU level, where several sources of financing are available. Many of those are of particular relevance to local and sub-national authorities. Ensuring alignment of private and public financial flows with biodiversity conservation and restoration is also an essential element. The 2020 Taxonomy Regulation, which defines a general framework for identifying which economic activities are environmentally sustainable (and thus which investments can also be considered sustainable), should contribute to greater consideration of biodiversity concerns in investment decisions in the financial sector.



Instrument	Size
European biodiversity governance framework , to steer the implementation of biodiversity commitments	-
Trade policy , to take better account of biodiversity concerns in trade agreements	-
Legislative proposal to introduce due diligence obligations for the placing of forest and ecosystem risk commodities on the EU market	-
European Investment Bank to mobilise investments in the preservation of natural resources	-
Taxonomy Regulation to support biodiversity-friendly investments	-
Horizon Europe to support biodiversity-related research and innovation	€80.9 billion ²⁷
Next Generation EU instrument to support the green and digital transition	€750 billion
Neighbourhood, Development and International Cooperation Instrument (NDICI) to contribute to global biodiversity protection	€70.8 billion
European Green Deal Investment Plan to mobilise investments in nature protection and restoration	
LIFE programme to finance nature protection and restoration projects	
Environment Action Programme to guide action on protection of natural capital	-
Revised legislation on pesticides to reduce the use and the risk of pesticides	-
Diplomacy to broker ambitious agreements e.g. on the post-2020 global biodiversity framework and on marine biological diversity of areas beyond national jurisdiction	-
EU Nature Directives/Natura 2000 to protect biodiversity and ecosystems	-
Invasive Alien Species Regulation , to address this specific driver of biodiversity loss	-
Water Framework Directive, Marine Strategy Framework Directive, Common Agricultural Policy, Common Fisheries Policy	-
National Biodiversity Strategies and Action Plans	-
Green city accord , to better engage local governments in nature protection	-
Biodiversity and environmental protection education , to raise awareness	-

²⁷ €75.9 billion from the MFF and €5 billion from Next Generation EU.

Pyramid of instruments at the disposal of the EU and its Member States



Local and regional dimension: Local and/or sub-national/regional biodiversity strategies and action plans are another important tool. Instruments of particular relevance to local and regional authorities for financing biodiversity action include the ERDF, Cohesion Fund, EAFRD, EMFF, Life and Horizon Europe, as well as European Investment Bank instruments. Other financing sources may include national, regional and municipal resources; bank loans; equity; green bonds; public lottery funding; and private funding. Biodiversity offsets can also be used to finance nature restoration projects and prevent further biodiversity loss.

Minimising health risks associated with climate change

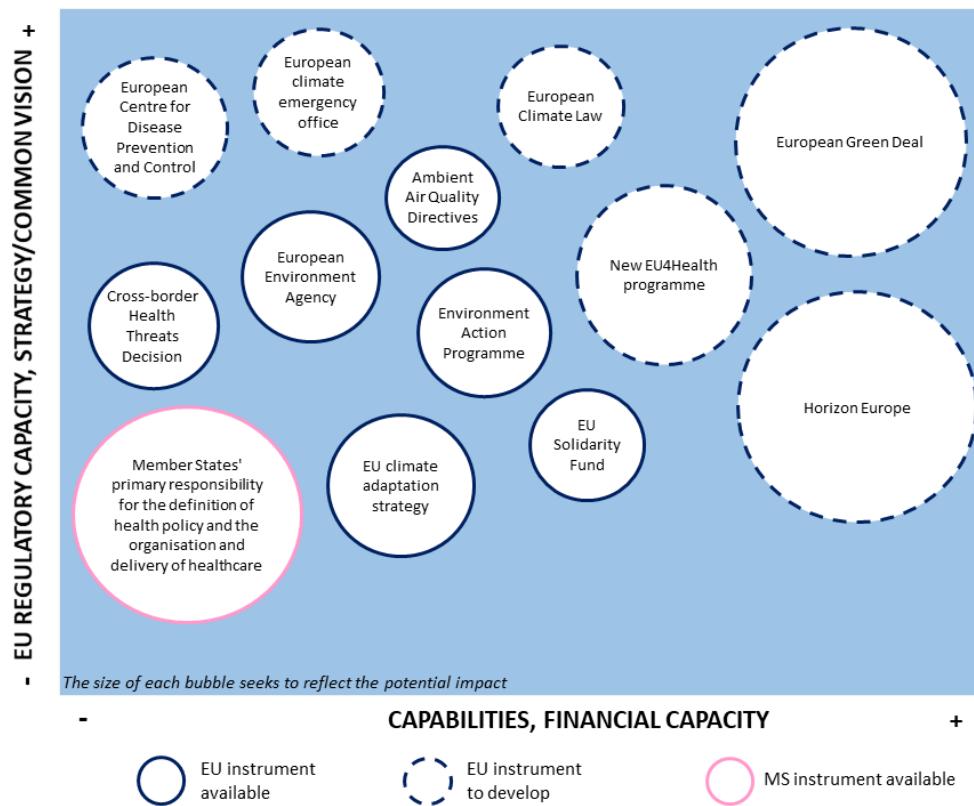
Introduction

Climate and health are inter-linked. Climate change poses increasing health risks, both through extreme weather events and through indirect impacts on ecological and social systems, such as increased incidence of infections and infectious diseases. Commentators see parallels between the 'connected crises' of climate change and coronavirus – in their origins from the increasing pressures humans are placing on natural systems; their global, cross-border nature; in their alteration of the distribution and transmission of communicable diseases; and the fact that they hit the most vulnerable the hardest.

EU Member States are responsible for their own health policies, with the Union's action complementing national policies. The Union's and the Member States' climate action aims to protect people and the planet against the threat of climate change. For the health risks associated with it, the EU's capability to respond is based both on regulatory and financial instruments and on a common vision and willingness to act. Experts have argued the need to integrate human health into all climate-change adaptation policies, and to design policies to support the most vulnerable social groups and geographical areas.

At European level, environmental health is addressed by frameworks such as the **7th Environment action programme** to 2020, which covers challenges that include air and water pollution, excessive noise, and toxic chemicals, and the two **Ambient Air Quality Directives**, which a recent fitness check found to be only partially effective. With the **European Green Deal**, the European Commission is proposing a strategy to make Europe climate-neutral and protect human life, animals and plants by cutting pollution. As part of the Green Deal, it will accelerate the shift to cleaner, cheaper and healthier forms of transport, and adopt a zero-pollution action plan for air, water and soil. **Horizon Europe** will support European health- and climate-related research and innovation activities. It will include missions on climate change adaptation and societal transformation; climate-neutral and smart cities; and on soil health and food. The new **EU4Health programme** aims to boost the EU's preparedness for major cross-border health threats, and will contribute to tackling the negative impact of climate change and environmental degradation on health. The **European Union Solidarity Fund**, set up to respond to major natural disasters and express European solidarity to disaster-stricken regions within Europe, has been used for catastrophic events including floods, forest fires, earthquakes, storms and drought.

The **European Centre for Disease Prevention and Control** (ECDC) deals with cross-border threats to health, including those of environmental origin. The European Parliament has called for the ECDC's competences, budget and staff to be strengthened. Parliament also suggested establishing a **European climate emergency office** as an organisational structure to supplement national bodies and provide complementary executive capacity at EU level.

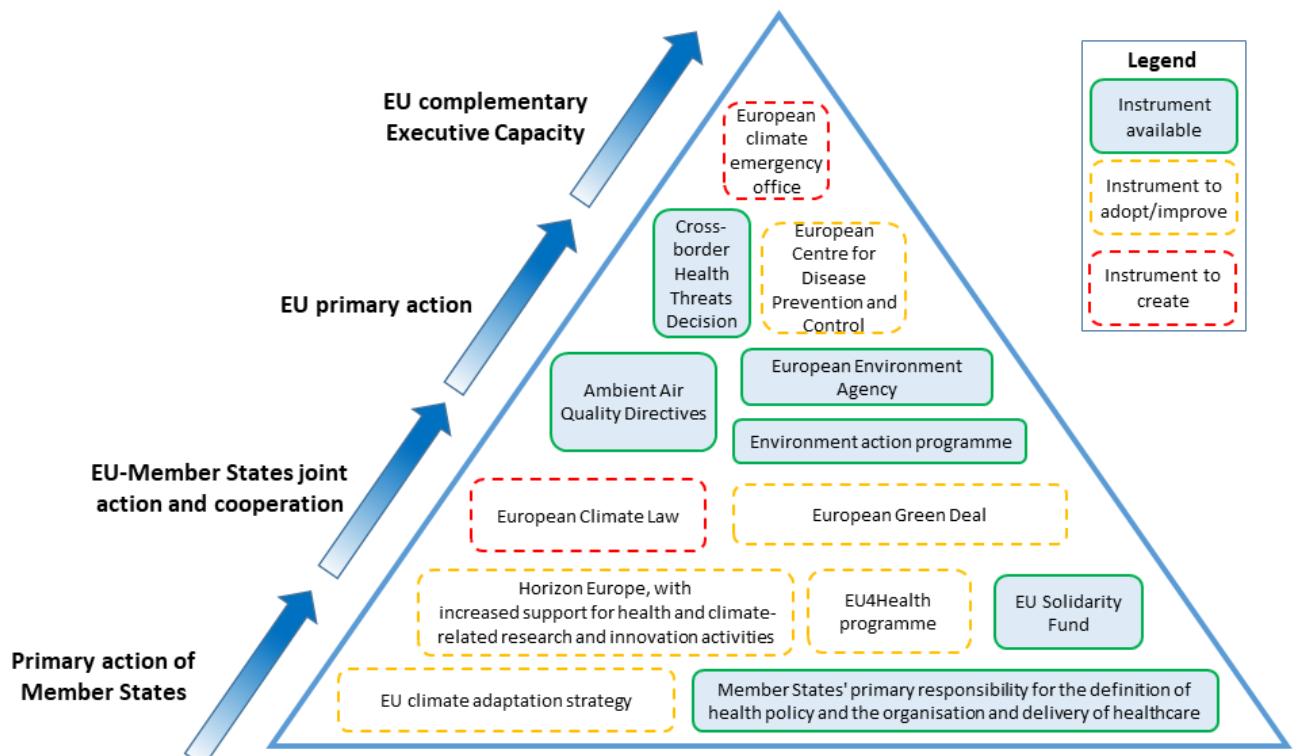


Instrument	Size
Creation of a European climate emergency office , as proposed by Parliament	-
Cross-border Health Threats Decision (No 1082/2013/EU) covers threats of environmental origin, including those widely associated with climate change	-
European Centre for Disease Prevention and Control (ECDC) with strengthened competences, budget and staff, as called for by Parliament in an April 2020 resolution	€60.4 million ECDC budget for 2020 ²⁸
European Environment Agency (EEA), which deals with the linkages between the environment, health and wellbeing	-
The two Ambient Air Quality Directives (2008/50 and 2004/107)	-
7th Environment action programme to 2020	-
Proposed European Climate Law and climate target plan to set long-term trajectory	-
European Green Deal , the Commission's commitment to tackling climate and environmental-related challenges	-
Proposal to reinforce Horizon Europe to increase European support for health- and climate-related research and innovation activities	€80.9 billion ²⁹
EU4Health proposal to boost EU preparedness and crisis response, including to the negative impact of climate change and environmental degradation	€1.7 billion
EU Solidarity Fund , set up to respond to major natural disasters. As a response to Covid-19, was extended as of 1 April 2020 to cover major public health emergencies	To a maximum annual amount of €1 billion (with Emergency Aid reserve)
EU climate adaptation strategy to promote and coordinate adaptation to climate change at Member State and local levels	-
Member States' primary responsibility for the definition of health policy and the organisation and delivery of healthcare	-

²⁸ Source: [Statement of revenue and expenditure of the ECDC for the financial year 2020](#), ECDC.

²⁹ €75.9 billion from the MFF and €5 billion from Next Generation EU.

Pyramid of instruments at the disposal of the EU and its Member States



Making Europe fitter for the digital age

Introduction

The pandemic has highlighted the importance of digital technologies if societies and economies are to continue functioning and fight the disease while remaining competitive at global level. Yet it is also becoming increasingly obvious that the EU is dependent on technologies that others produce and exploit through the data collected, whether with frontier technologies such as artificial intelligence (AI) and quantum computing (led by China and the USA), or with established technologies such as business-to-business data cloud infrastructure, micro-electronics, the internet of things, 5G connectivity, commercial business-to-consumer (B2C) digital platforms for e-commerce, social networking or videoconferencing apps. It has also become very evident during the pandemic that the digital divide persists. During confinement, disadvantaged groups suffered most, not being able to profit from the internet. Despite basic broadband being available in the EU for all since 2015, there remains a digital divide, both urban–rural and among Member States in terms of the quality and affordability of networks. Furthermore, there is a digital divide in terms of e-skills. According to the OECD, the use of digital technology by businesses remains low in Europe, while digital companies and firms were the most resilient to the pandemic shock. Traditional sectors and SMEs are lagging behind in digital transformation and many are now closing down.

Challenges are also emerging in terms of the safety of connected systems, products and services, as well as for businesses' liability. The paradigm of enterprises with long value chains increased the risks to business continuity under external shocks. Industrial supply chains have become increasingly complex and have been disrupted during the pandemic, posing concerns for the EU's digital dependency on others. Digital sovereignty has become even more of a priority. In this context, it is paramount that the EU invests in digital technologies and fights against the digital divide, increases investment to advance digital infrastructure such as 5G and upgrades the digital competences of businesses and citizens while investing in digitalising industry, including SMEs.

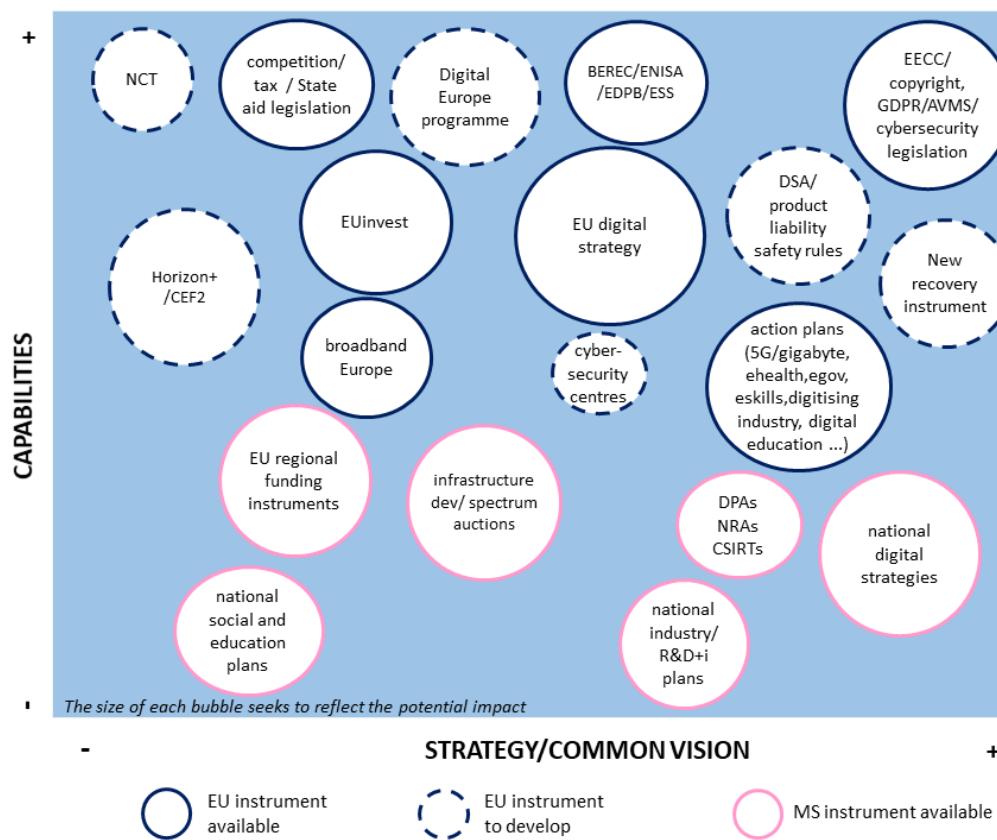
In terms of EU capabilities, key policies and instruments at EU level need to be put forward to accelerate the digitalisation process, as well as action plans with specific targets at EU and national levels (see table below). The EU needs to adapt a number of its current legal, regulatory and financial frameworks and to defend its values in areas such as data protection, data cloud infrastructure, product liability, e-commerce, Internet gatekeepers, cybersecurity and ethical AI. These goals have been considered under the new EU digital strategy for the years 2019-2024, which aims to get the EU fit for the digital age by then.

To move forward on these initiatives, the EU needs appropriate means in the EU budget and significant resources under the recovery plan. In terms of funding instruments, there are a number of related programmes in the planned multiannual financial framework for 2021 to 2027, such as the Digital Europe Programme (DEP), Horizon Europe and the Connecting Europe Facility (CEF2). In particular, the DEP is the first EU programme fully dedicated to achieving the EU's digital transformation and it is expected to support developments in key technologies, e-skills and cybersecurity. However, the budget agreed by EU leaders is well below the EP's demands and other items are considerably lower, such as the Horizon Europe budget for research and innovation.

From a legislative perspective, the EU has accomplished some recent relevant reviews such as of the telecoms (EECC), copyright, audiovisual (AVMS) and data protection (GDPR) frameworks. Some others are expected to be reviewed this year, such as the NIS directive in cybersecurity and the e-commerce directive (the DSA). There are other legislative proposals planned for AI and for data.

From a competition perspective, expected new rules to address foreign state ownership and big tech companies' distortive practices, including tax practices, are to be considered. For instance the

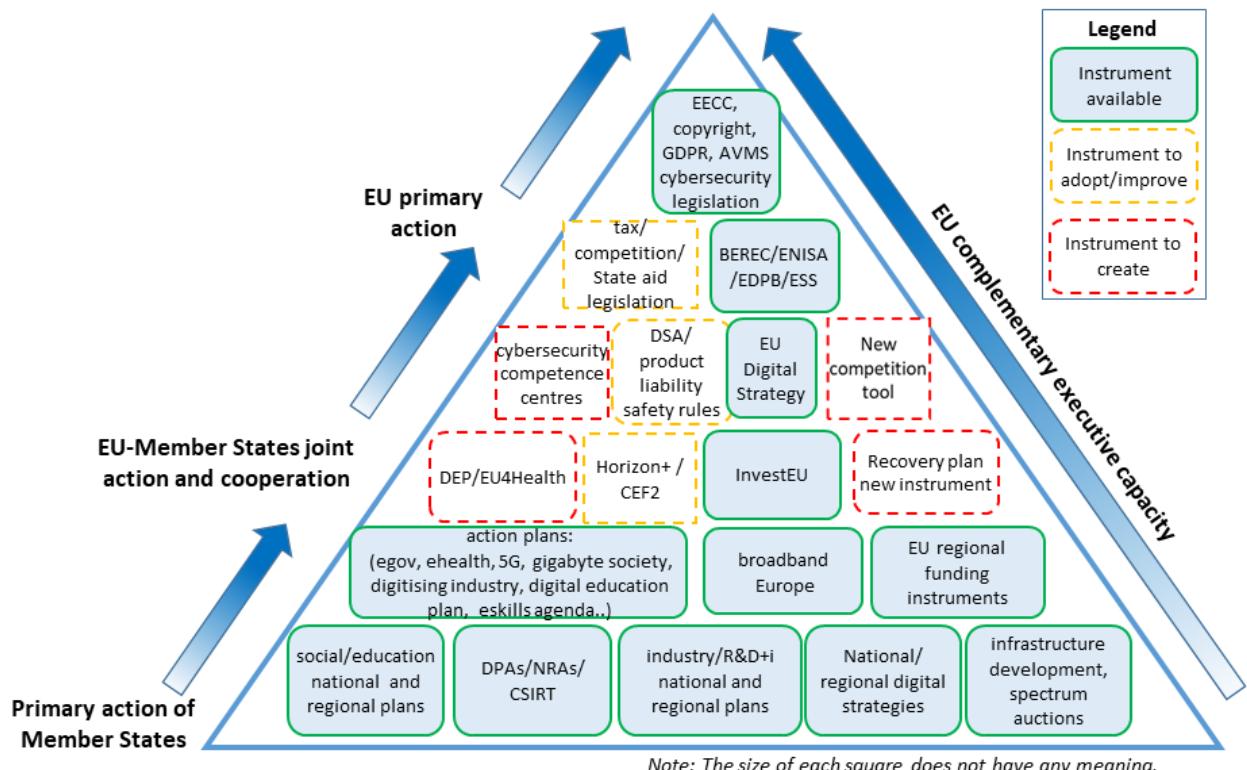
Commission plans a New Competition Tool (NCT) for this year. The EU also needs to complete the achievement of the digital single market and avoid adopting different positions that lead to fragmentation and interoperability problems. There are a number of EU agencies and authorities at EU and national levels that seek to coordinate the EU approach and monitor the situation.



Instrument	Size
European Electronic Communication Code (EECC). The new EU telecoms framework adopted in December 2018	-
General Data Protection Regulation (GDPR) -the updated EU framework legislation	
The updated EU copyright framework legislation and the Audiovisual Media Services Directive (AVMSD)	
The EU digital strategy: shaping Europe's digital future, it proposes a number of actions, among other the data strategy and the AI white paper and others to come	
Digital Services Act (DSA)/product liability and safety rules -as part of the digital strategy, the e-Commerce Directive and the liability and safety rules will be reviewed	
Cybersecurity legislation (such as NIS and Cybersecurity Act)	
Competition, tax and State aid legislation – the Commission is reviewing this	
New Competition Tool (NCT) – the Commission has announced its possible creation	
The Body of European Regulators for Electronic Communications (BEREC), European Cybersecurity Agency (ENISA), The European Standardisation System (ESS), European Data Protection Board(EDPB)	
Digital Europe Programme (DEP) the first EU programme fully dedicated to the digital transformation in areas such as AI, cybersecurity, supercomputers, e-skills	€6.7 billion
Horizon Europe it is expected that around 20 % of the total budget feeds into digital transition R&D among others under the 'Digital, Industry and Space' cluster	€80.9 billion
Connecting Europe Facility (Digital) (CEF2) – share dedicated to digital.	€1.8 billion
InvestEU – The programme brings together under one roof the multitude of EU financial instruments currently available. Around 16 % for digital goals.	€8.4billion

	EU4Health – a new programme to support the health sector's security and prepare for future crises. Approximately 10 % goes to digital transformation	€1.7 billion
	Recovery and Resilience Facility is a new programme that will offer financial support for investments and reforms, including in relation to the green and digital transitions. It will be linked to the European Semester. (Part loans.)	€673.3 billion in total
	Broadband Europe – supports the European Commission's policy actions to achieve a Gigabit Society by 2025, such as Wifi4EU, connecting Europe broadband fund	
	Action Plans (ehealth, egovernment, skills agenda, gigabyte society, 5G, digitalising EU industry, digital education plan, Disinformation, Media, Cloud initiative, etc ..)	
	Cybersecurity competence centres networks –currently their establishment is being discussed in trilogue negotiations	
	EU Regional policy funding instruments (under the investment for jobs and growth goal) (About €21.4 billion went to the digital sector in the 2014-2020 MFF.)	€377.7 billion in total
	Infrastructure development/spectrum auctions	
	National & regional digital strategies	
	National Data Protection Authorities (DPAs)/ (telecoms) National Regulatory Authorities (NRAs)/National cybersecurity centres/ Computer Security Incident Response Team(CSIRTs)	
	National & regional R&D+i and industrial plans	-
	National & regional social and education plans	-

Pyramid of instruments at the disposal of the EU and its Member States



Preventing large-scale cyber-attacks

Introduction

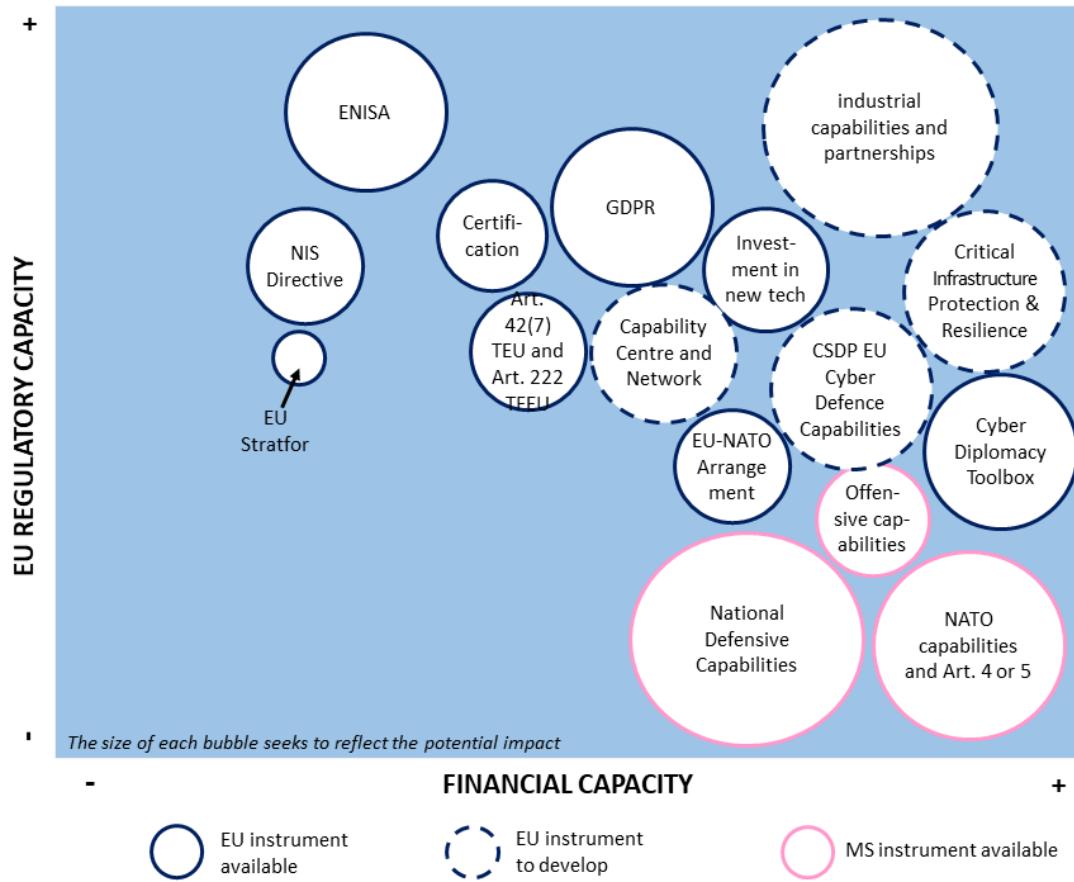
Sophisticated cyber-attacks periodically succeed and wreak havoc, costing billions every year. These large-scale attacks are very time intensive to organise, relatively costly, and have very specific goals. A broad range of attackers – with motivations ranging from supporting a military attack to lone wolf terrorism and crime – attack neuralgic points, often exploiting existing vulnerabilities. Artificial intelligence and quantum computing could worsen these attacks, but also help in guarding against them. The EU could become a cyber-battlefield between great powers, whose recklessness could cause severe damage.

EU Member States have learned much since the 2016 US Presidential election, but fragmented capabilities, strategies and limited information-sharing is still a problem. Cyber-attacks, which do not cross the threshold of war, are hard to respond to. The EU has to improve its resilience, foresight, prevention, deterrence and information-sharing, while limiting its online dependencies.

More specifically, cyber-defence capabilities seem to be highly uneven and generally under-developed in EU Member States (with the exception of France) and within the common security and defence policy (CSDP), with an unclear mandate under Article 42(7) TEU (mutual defence clause) and Article 222 TFEU (solidarity clause). This also applies to offensive capabilities, which are probably even less developed and whose ethical and legal foundations are controversial.

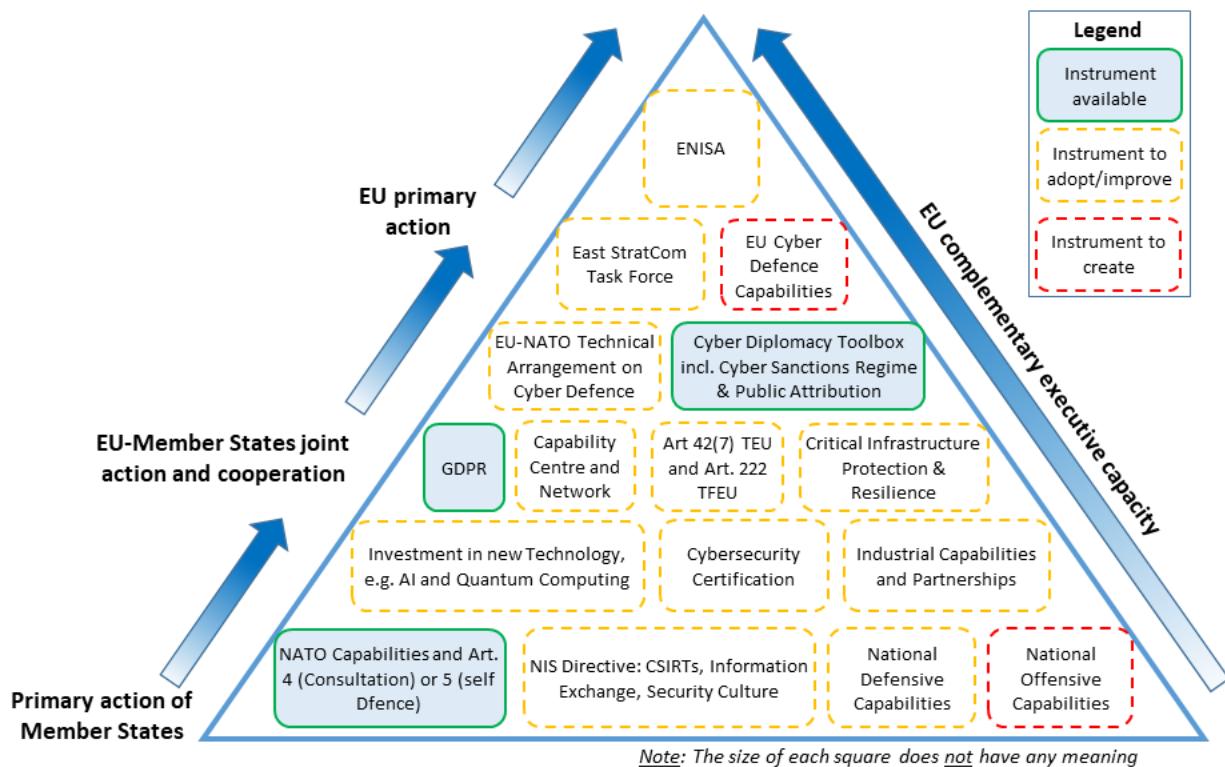
Even after its recent expansion, the European Union Agency for Network and Information Security (ENISA) is still criticised as being too small and without sufficient power, but ensuring standards, certification and more of a role in crisis response might be a way forward. The EEAS's East StratCom Task Force is working but is criticised for being under-funded. EU-NATO cooperation needs to be expanded. Investment in new technology in the field is too low, industrial capabilities under-developed and partnerships underexplored, but this might change with sufficiently large investment under the European Defence Fund. Important legislation such as the Directive on security of network and information systems (NIS) is under review.

The Commission wants to boost cybersecurity and advanced digital technologies and enhance cybersecurity competence with an [EU Security Union Strategy](#) for 2020-2025 that includes, among other things, a centre and a Member State network and [initiatives](#) such as Digital Europe, which will invest €1.9 billion into European capacities and infrastructure. Strong response instruments include NATO capabilities, structures, deterrence and escalatory potential, cyber-diplomacy tools, including official attribution and sanctions, and widespread compliance with GDPR, which improves standards.



Instrument	Size
EU Blueprint on coordinated response to large-scale cybersecurity incidents and crises	-
Computer Security Incident Response Teams (CSIRTs) network	-
ENISA	€23 million / year
EU Cyber Defence Capabilities	-
East StratCom Task Force	EEAS budget + €1.3 m. (2018), €3 m. (2019)
EU-NATO Technical Arrangement on Cyber Defence	-
EU Cyber Diplomacy Toolbox incl. Sanctions and Public Attribution	-
GDPR	-
Capability Centre and Network	-
Article 42(7) TEU and Article 222 TFEU	-
Critical Infrastructure Protection & Resilience	-
Investment into new technology	€7 billion (European Defence Fund)
Cybersecurity certification	-
industrial capabilities and partnerships	€7 billion (European Defence Fund)
NATO Capabilities and Articles 4 (consultation) or 5 (self defence)	-
Public attribution & cyber diplomacy toolbox	-
NIS Directive	-
National Defensive Capabilities	-
Offensive Capabilities	-

Pyramid of instruments at the disposal of the EU and its Member States



Forestalling a new migration crisis

Introduction

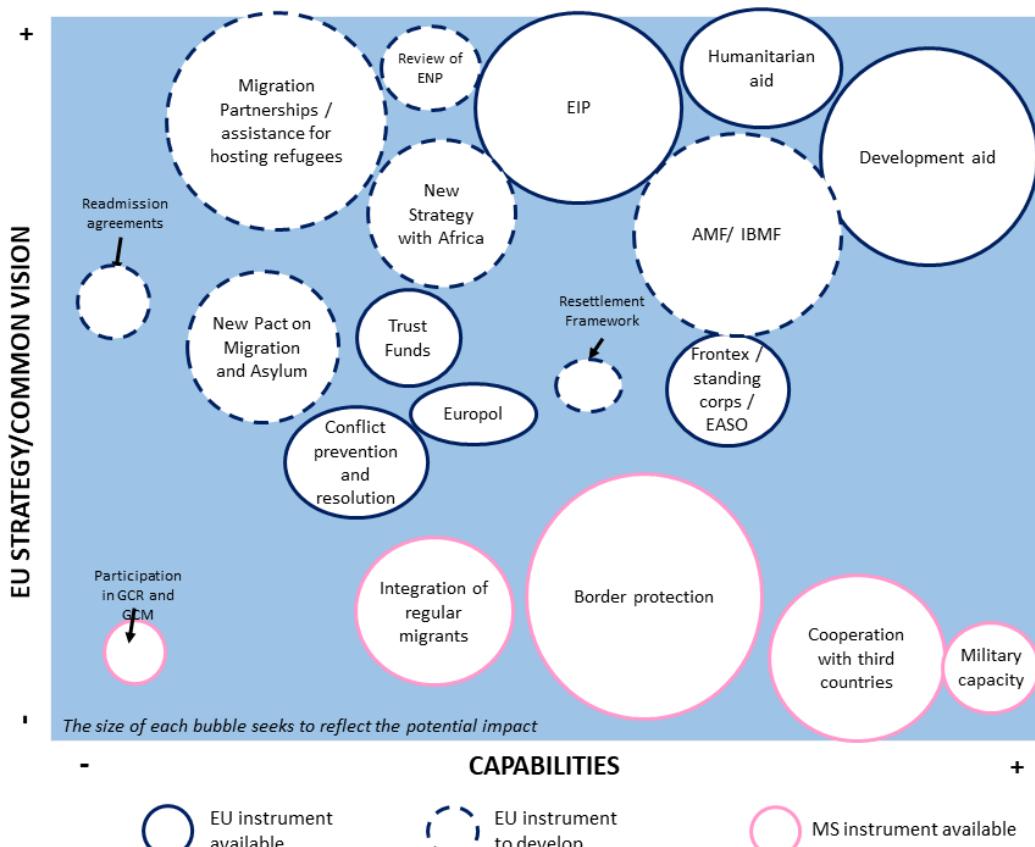
The threat of military conflict in Libya, increased instability and displacement in the Sahel, a global economic crisis of unprecedented proportions in recent times, which could spark a food crisis in poorer countries including in the EU's neighborhood, rising authoritarianism leading to increased persecution of certain groups (such as in Hong Kong), the yet uncertain impact of the coronavirus crisis on migration patterns, and the gradual effect of climate change – all combined with the EU's attractiveness as a land to seek asylum, respectful of international norms – could bring a migratory crises of as yet unforeseen proportions at EU borders.

Arguably since the 2015 migratory crisis, the EU has been more successful in preventing a migratory crisis by working together with third countries than in improving its capacity to cope with an ongoing crisis at its borders. Under the first aspect, the EU has established a new financial tool to spur massive investments and economic development in countries of origin – the European External Investment Plan (EIP). With Africa, it has launched a strategy to create jobs on the continent, which the current Commission has the ambition to deepen. It has also established an Emergency Trust Fund with Africa to tackle the root causes of migration and help returning migrants better integrate into their home communities, through specific projects. The EU has built partnerships with third countries, such as with Niger, to stop human trafficking and help them tackle irregular migration. The EU has also increased its aid to countries, such as Turkey, which host large numbers of refugees, to facilitate their long-term local integration in line with the Global Compact for Refugees. The EU acts to prevent and solve conflicts, which are major drivers of displacement, through mediation and political settlement or through peace-keeping and civilian operations in conflict-affected countries. The EU is also a frontline supporter of various policies to fight climate change or to mitigate its effects and support adaptation in the most affected regions, such as in the Sahel.

Concerning its capacity to deal with large migratory flows at its borders, the EU has not been able to achieve all its ambitions. The EU's approach is criticised for having insufficient human rights safeguards. While the EU in cooperation with its Member States has undertaken various initiatives to strengthen migration and border management, and plans to expand these further, the lack of integrated EU migration and asylum policies poses a serious threat to the Union's capacity to deal with massive migratory flows. The 2015 crisis showed serious shortcomings in the common European asylum system: just a few EU countries or regions in these countries are, due to their geographical location, responsible for hosting most asylum-seekers; and asylum demands are not treated uniformly, with recognition rates varying significantly, which encourages 'asylum-shopping'. The EU has encountered serious difficulties in enforcing responsibility-sharing for asylum-seekers among its Member States. To tackle these problems, the European Commission has proposed a comprehensive Pact on Migration and Asylum, aiming to share the burden more fairly, but some EU countries have already manifested their opposition to it. Member States have also been slow to open more pathways for regular migrants and improve their integration opportunities, while small municipalities and cities have struggled to access EU funding for integration initiatives. Some EU states also opposed the adoption in the UN framework of the Global Compact on Migration.

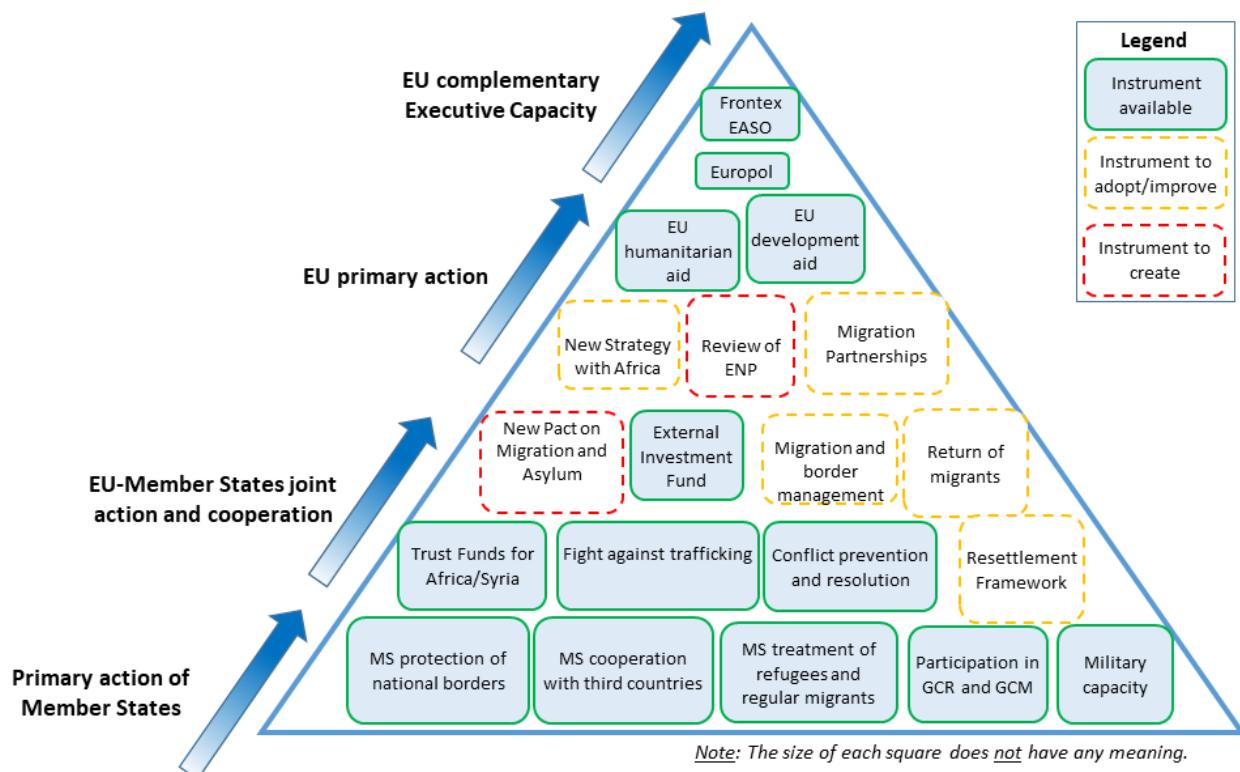
Efforts to increase returns of irregular migrants also face hurdles: many third countries (including the ACP) are not forthcoming and, even when they are, readmission rates remain low, while human rights and protection concerns remain unaddressed. In the case of a massive crisis, Frontex together with national border guards will face the enormous challenge of preventing any mass entry of irregular migrants who are not entitled to international protection while showing due respect for the rights of genuine refugees to find shelter on EU soil. To avoid such a situation, the EU and its

Member States aim to leverage their diplomatic clout and military capacity to prevent instability in neighbouring states, such as in Libya (through mediation efforts and Operation Irini).



Instrument	Size
Frontex	€5.1 billion
Europol	At least €1.8 billion
EU Neighbourhood, Development and International Cooperation Instrument	€70.8 billion
EU humanitarian aid	€9.8 billion
Comprehensive Strategy with Africa for development and jobs	
Review of the European Neighbourhood Policy (ENP)	-
Migration partnerships with third countries and assistance for hosting refugees	-
A New Pact on Migration and Asylum , including the reform of the Common European Asylum Policy	
External Investment Plan (EIP)	additional €1 billion
Migration and Border Management: the Asylum and Migration Fund (AMF) and the Integrated Border Management Fund (IBMF)	€8.7 and €5.5 billion
Return of migrants including readmission agreements	-
EU Trust Fund for Africa (ETF) / Syria (Madad Fund – to end in December 2020)	€4.7 billion for ETF
Fight against human trafficking	
Conflict prevention and resolution measures in third countries (including peace keeping)	
Resettlement Framework	
Member States: protection of national borders	
Member States: partnerships and cooperation on migration with third countries	
Member States: treatment and integration of refugees and regular migrants , in particular with the involvement of local and regional authorities	
Member States' contribution to actions under the UN framework: the Global Migration and Refugee Pacts	-
Member States: dissuasive military capacity against hostile state and non-state actors instrumentalising the crisis	

Pyramid of instruments at the disposal of the EU and its Member States



Strengthening global governance

Introduction

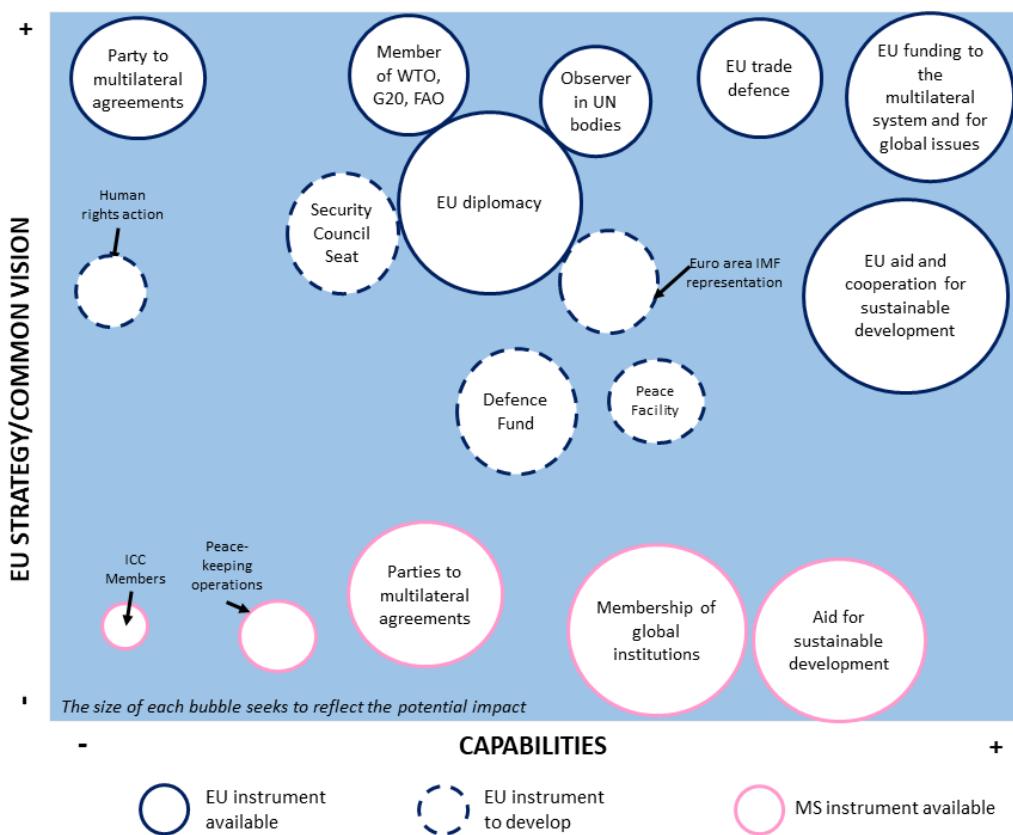
The institutions and mechanisms of global governance are facing an unprecedented crisis. Rising nationalism and populism undermine public trust in the benefits of international cooperation, while the increasing power and influence of authoritarian regimes in the world risks tipping the balance in their favour in international bodies. The actions undertaken by the Trump administration against the UN, its agencies, and the WTO weaken these institutions. China's rising influence leaves open the question of whether it will behave as a responsible global leader, respectful of existing international norms, or if on the contrary it will try to reshape global governance in its illiberal image.

The EU is a strong supporter of multilateralism with the UN at its core. The geopolitical orientation proclaimed by the new Commissions suggests a principled approach to multilateralism that defends the EU's own interests and values, such as by establishing strong trade defence mechanisms or through more assertive human rights action – the latter still to be endorsed by the European Council. A reviewed Global Strategy could bring clarity on the issue. After Lisbon, the EU has become an important diplomatic actor in multilateral forums, using its membership of the G7, G20 and WTO, and its observer status in UN bodies, in close coordination with its Member States, to defend and strengthen multilateralism. For example, it has joined an ad hoc coalition with 15 WTO members to create a temporary substitute for the WTO dispute settlement mechanism, after the US had blocked it. As an important financial contributor to the UN system, together with its Member States, it supports UN financial sustainability in response to attempts, particularly by the US, to 'defund' it. Recognising the need to improve the multilateral system, the EU has called for substantial reforms of bodies central to global governance, such as the UN Security Council and the WTO. Unified representation of the euro area in the International Monetary Fund (IMF), already proposed by the Commission, and a permanent EU seat in the UN Security Council – as suggested, for instance, by the European Parliament – will require substantial changes to both forums to become reality.

As the biggest donor of development aid in the world, through both bilateral and multilateral channels, and a frontline supporter of the Sustainable Development Goals and of climate change action, the EU plays an important role in shaping the sustainable development agenda, and enjoys considerable diplomatic influence with developing countries, which it can use to build coalitions in support of multilateralism. For example, the EU has held trilateral meetings with the African Union and the UN in order to reinforce synergies and coordination in tackling global challenges. To assume its international responsibilities with respect to the preservation of peace, the Union has been pursuing stronger military capabilities, in line with the commitments enshrined in its Treaty, by launching Permanent Structured Cooperation and proposing a Defence Fund. The Union already plays an important role in conflict prevention and resolution, in close partnership with the UN as well as other regional organisations, especially the African Union, having deployed several peace-keeping operations under UN Security Council mandates. The EU system of targeted sanctions against decision-makers who defy internationally agreed principles and norms most often refers to and implements UN Security Council resolutions. The new proposed human rights sanctions mechanism and the proposed activation of the Treaty *passerelle* clause for human rights, while unilateral in nature, will reinforce respect for international recognised human rights norms.

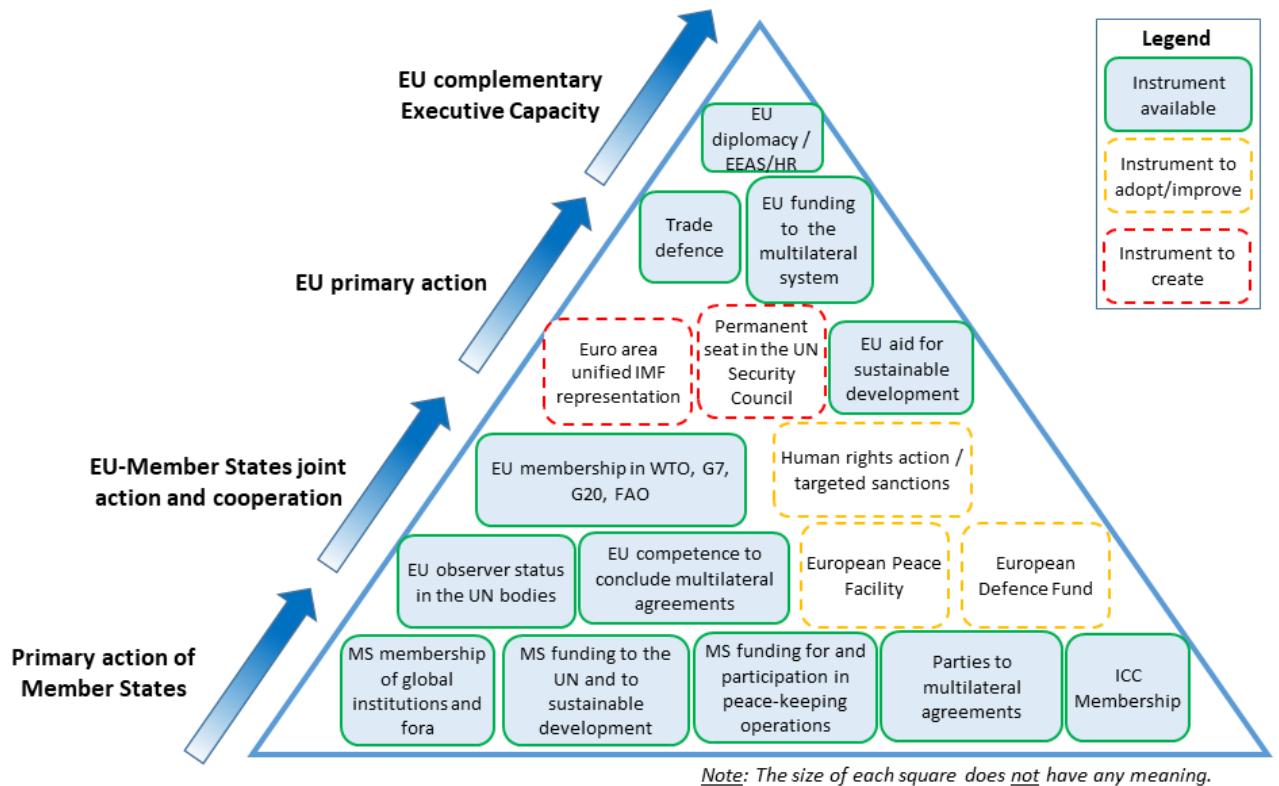
Based on its competences in certain policy fields, the EU is a party to numerous multilateral agreements, including the Paris Agreement. Provided with an appropriate mandate by the Council, the EU can negotiate multilateral treaties on behalf of its Member States, strengthening their voice and influence in the process. This could be the case for example in the ongoing international negotiations of a future UN treaty on business and human rights. The EU and its Member States are

strong supporters of the International Criminal Court and its Rome Statute, which has recently come under severe attack from the Trump administration.



Instrument	Size
EU multilateral diplomacy conducted by the EEAS / the EU High Representative / other EU institutions	
EU funding to the multilateral system and for global issues (e.g. under NDICI instruments for Peace, Stability and Conflict Prevention, and Global Challenges)	€70.8 billion (part)
EU powers to conduct trade defence policy	
Unified representation of the euro area in the International Monetary Fund (IMF)	-
Permanent seat in UN Security Council for the EU	
EU aid and cooperation for sustainable development , including climate change, for third countries and regional organisations, under NDICI	€70.8 billion (part)
EU full membership in multilateral organisations (WTO, G20, FAO)	
More assertive human rights action (<i>passerelle</i> clause to be activated by the European Council and new sanctions regime)	
EU competence to negotiate and conclude multilateral treaties in areas of exclusive or shared competences (Article 218 TFEU)	-
EU observer status in multilateral organisations (UN bodies and agencies), including competence to coordinate with Member States	-
EU partnership with the UN on peace and security, and its civilian and military missions - to be funded through the European Peace Facility	€5 billion
EU enhanced military capabilities (European Defence Fund)	€7 billion
Member States' membership of multilateral organisation	-
Member States as parties to multilateral treaties	-
Member States' aid to sustainable development	
Member States' membership in the International Criminal Court	-
Member States' contribution to peace-keeping	-

Pyramid of instruments at the disposal of the EU and its Member States



Stabilising the EU neighbourhood

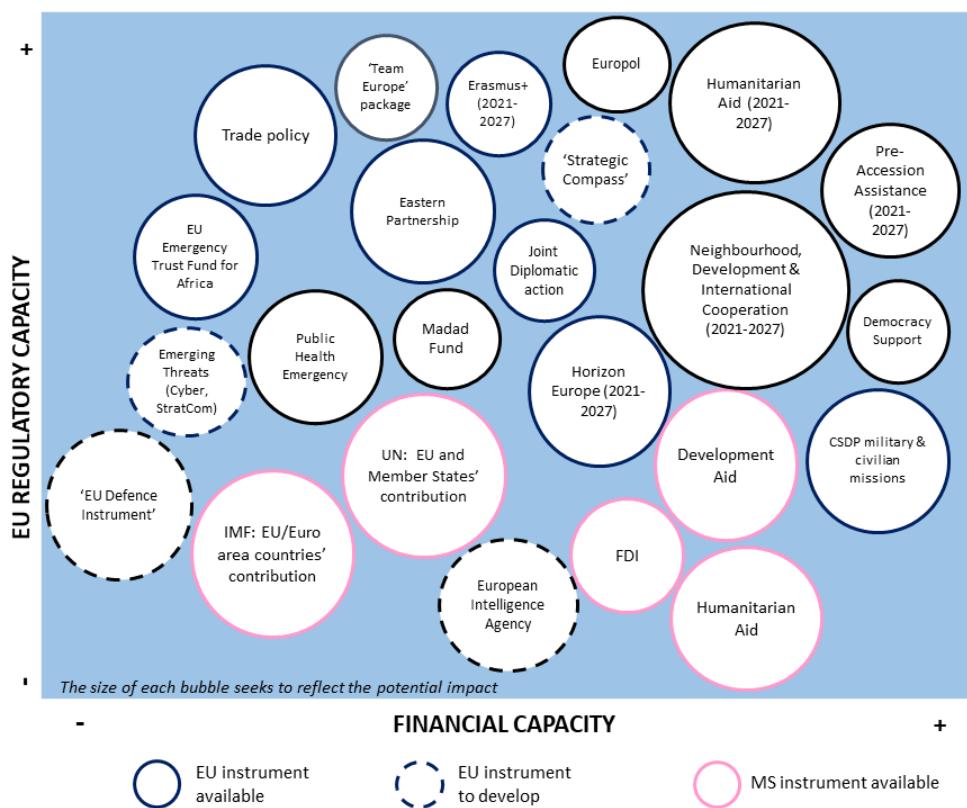
Introduction

Stabilisation of the EU's neighbourhood and acceleration of the enlargement process were defined as priorities of the new 'geopolitical' Commission and in the [Strategic Agenda 2019-2024](#). The EU neighbourhood is marked by intensive competition between global and regional powers, each of them projecting different sets of values and interests. This is accompanied by economic and trade competition, a global [battle of narratives](#), disinformation campaigns and unconventional warfare. The military conflicts in [Ukraine](#), [Syria](#) and [Libya](#) are a test of regional security but also of the strategic autonomy, unity and credibility of the EU. To tackle these conflicts and their causes, the EU is deploying common security and defence policy missions – such as Operation Irini in waters off Libya, that has as its goal the implementation of the arms embargo imposed by the United Nations Security Council – but still needs to build a common strategic culture accompanied by new instruments, such as an 'EU Defence Instrument' and 'European Intelligence Agency'.

Stronger security and defence capacities would allow Europe to define itself as a global power and remain an influential player in the geopolitical competition in its own neighbourhood, especially between the USA and China, coupled with emerging threats from regional powers such as Russia and Turkey. A European Defence Instrument is even more important, as the USA is withdrawing from the region, and Europe faces potential threats of illegal migration, terrorist networks and smuggling. A European Intelligence Agency is in line with declared objective of EU strategic autonomy and it would complement the [European Union Agency for Law Enforcement Cooperation \(Europol\)](#) and support the work of the [European External Action Service \(EEAS\)](#).

Among the main challenges the EU will face is how to foster a *common* European foreign policy, ensuring that EU external action becomes more strategic and coherent. Currently, the Council must vote unanimously in matters relating to CFSP – with the exception of certain clearly defined cases that require a qualified majority (e.g. the appointment of a special representative). This limits effectiveness and also extends response times. Proposing to move to qualified majority voting (QMV) in specific areas of EU external relations, the Commission has [identified](#) three specific domains in which this could be done: (i) responding collectively to attacks on human rights; (ii) applying effective sanctions; and (iii) launching and managing civilian security and defence missions. The need to broaden the scope of QMV in CFSP, by using Article 31(3) TEU, the '*passerelle clause*', according to which the European Council may authorise (by unanimity) the Council to act by qualified majority in certain common foreign and security policy cases, was supported at the European Council's [Sibiu meeting](#) in May 2019, as well as by the [European Parliament resolution](#) on 'Improving the functioning of the European Union building on the potential of the Lisbon Treaty', adopted in February 2017.

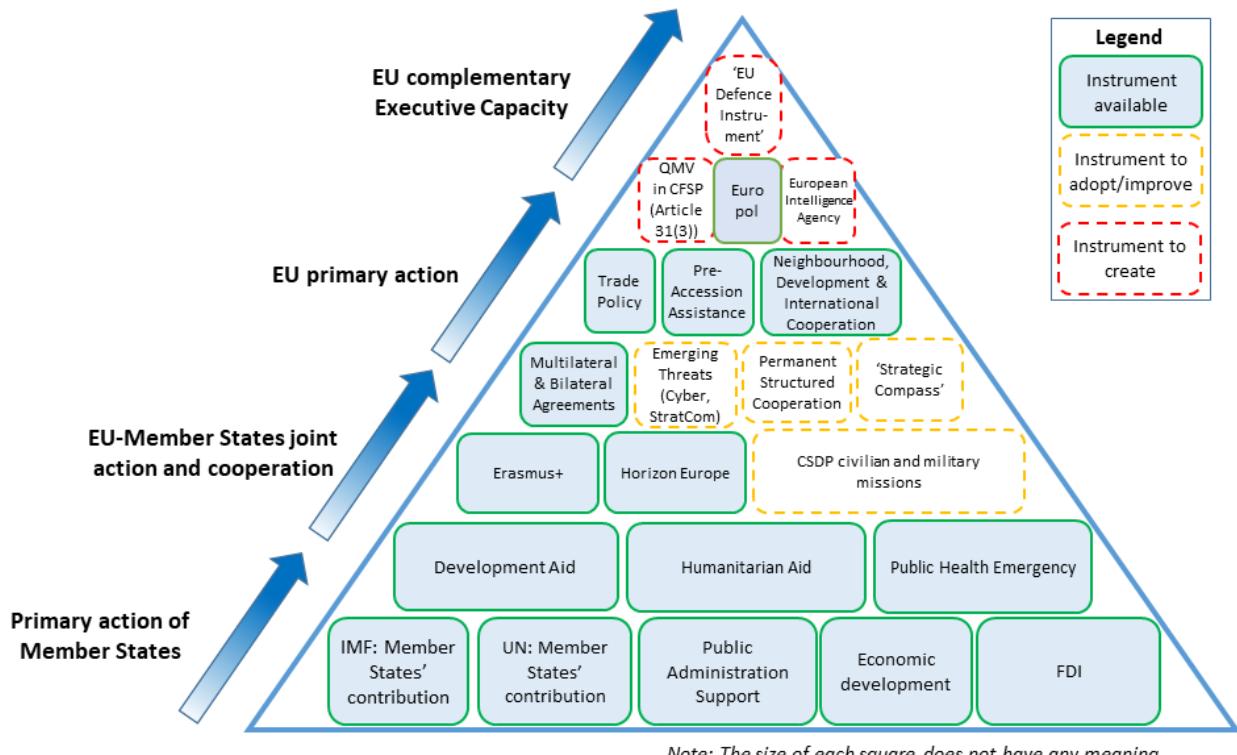
Beyond direct security risks for the EU, a destabilised neighbourhood exacerbates the changed nature of terrorism threats and new undocumented flows of migrants. A [new approach to EU enlargement](#), as well as the recent [EU-Western Balkans summit](#), recall the European perspective for all western Balkan countries. The non-achievement of enlargement and further destabilisation of the neighbourhood would be the biggest blunder of EU foreign policy. The Covid-19 pandemic accentuates both the global powers' competition within the region, as well as the economic and financial fragility of some enlargement and neighbourhood countries that need [macro-financial assistance](#) (MFA). The 'Team Europe' strategy has provided €20 billion to support partner countries' efforts in tackling the coronavirus pandemic, on top of the Neighbourhood, Development and International Cooperation Instrument (€86.3 billion) and Pre-Accession Assistance (€12.6 billion) in the coming seven-year period.



Instrument	Size
Neighbourhood, Development and International Cooperation Instrument (NDICI) (2021-2027)	€86.3 billion
Pre-Accession Assistance (2021-2027)	€12.6 billion
Humanitarian Aid (2021-2027)	€9.8 billion
Horizon Europe (2021-2027)	€89.4 billion
Erasmus+ (2021-2027)	€21.2 billion
Europol	€155 million (annual budget)
EU trade policy 'EU Defence Instrument'	-
'EU Defence Instrument'	-
European Intelligence Agency	-
Qualified Majority Vote (QMV) in CFSP (Article 31(3) TEU)	-
'Strategic Compass' (Security and defence dimension of the European Union Global Strategy)	-
EU Emergency Trust Fund for Africa	€5 billion
EU Emergency Trust Fund for Africa - New package to address Covid-19 in North Africa	€80 million +€30 million reallocation from EUTF
Public Health Emergency (Regulation (EU) 2020/461 on financial assistance to Member States and to countries negotiating their accession to the Union that are seriously affected by a major public health emergency)	€4.5 billion
Madad Fund	€542 million
European Peace Facility	€8 billion
Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa	€1.8 billion
Team Europe' package	€20 billion
Macro-financial assistance to enlargement and neighbourhood partners in the context of the Covid-19 pandemic	€3 billion
Emerging Threats (cybersecurity, StratCom, disinformation, etc.)	-
Border Management	€21.9 billion

Eastern Partnership: education and youth employability in the region	€340 million
Association agreements (AA), incl. Deep and comprehensive free trade area (DCFTA)	-
UN: EU Member States' contribution	€14 billion
IMF: EU Member States' contribution	€150 billion
Joint Diplomatic action between Member States, EEAS and European Commission	-

Pyramid of instruments at the disposal of the EU and its Member States



Limiting the impact of US–China geo-political competition

Introduction

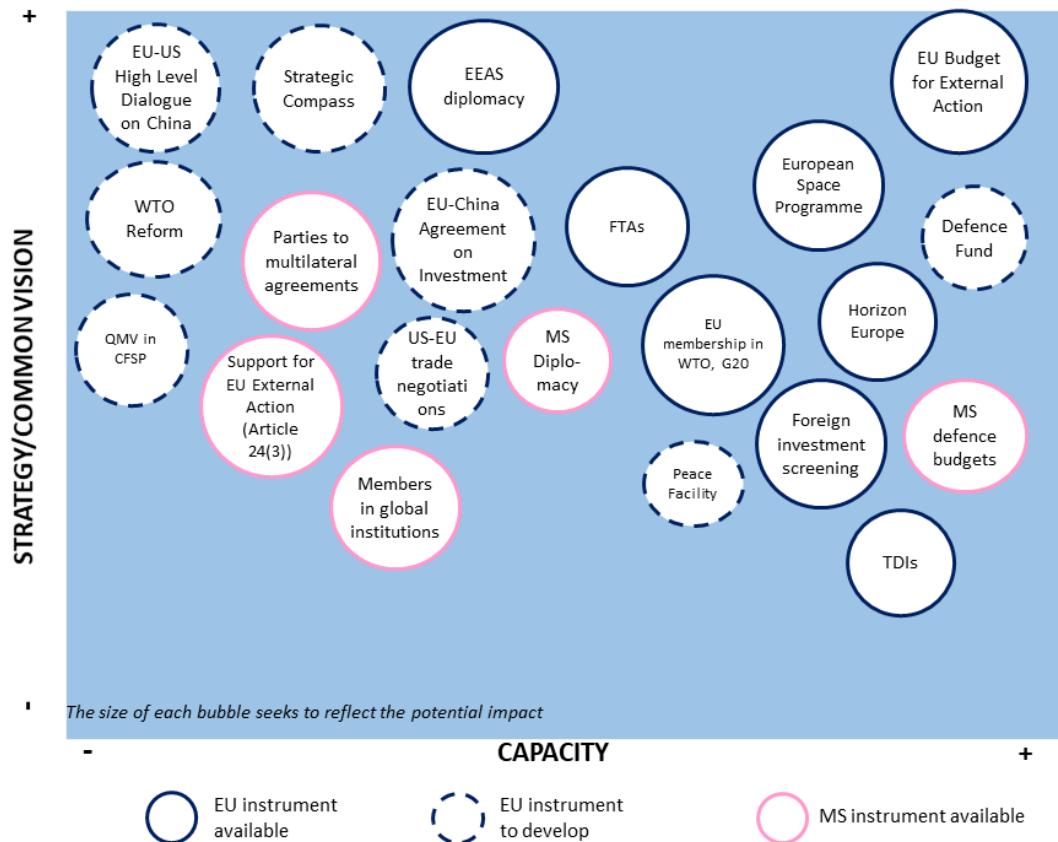
With China [forecast](#) to become the world's largest economy by 2030 by many estimates, US-China rivalry has been escalating in recent years. It extends to all fields from economic/political models, to the race for technological supremacy, external influence, trade and – gradually – the military sphere. Potentially game-changing competition in the high technology sphere (5G, artificial intelligence, semiconductors, the internet of things and quantum computing) could be a critical variable that determines the future world order. As great power competition increases, multilateralism is challenged from both within and from outside, as the lack of consensus between the two great powers in the UNSC and the WHO during the global pandemic has demonstrated. Chinese-US competition could threaten the EU with the loss of its voice in international affairs, through reducing EU foreign policy to a policy of reaction to the two 'poles', reducing its agenda-setting power in areas such as trade, cyberspace and climate. It would also diminish the relevance of multilateralism in the global system, contrary to the Commission's objectives; for the EU, multilateralism is a fundamental tool for the promotion of its agenda in trade, cyberspace governance and climate, among other things and for the preservation of international rules and norms.

In light of rising geopolitical competition between the two great powers, the EU is focused on building strategic autonomy to reduce economic, security and technological (including medical) dependence, through existing and new instruments, included in the planned 2021-2027 multiannual financial framework. The EU also needs to define strategically its relations with China, and work on reinvigorating a balanced transatlantic relationship: the nature of both these relationships should be consistent with the EU's strategic approach to the world, which will become clearer through the EU Strategic Compass. Financial and diplomatic support by the EU and EU Member States can ensure that multilateral institutions remain relevant and effective. Equally important is the need to work with other potential allies and strategic partners in all areas of foreign policy, ranging from trade to peace-keeping. Several other instruments can ensure that the EU maintains international weight in a time of increasing bipolarity, for example strengthening the EU's relations with the developing world, through financing and cooperation; reinforcing coordination in EU foreign policy, through the EEAS; and building EU excellence in technology, R&D and space. The reinforcement of Horizon Europe, the new European Space programme and the establishment of a European Defence Fund will all contribute to this goal.

With trade having become the main field of US–China rivalry, leading to protectionist tendencies, it is important that the EU utilise all the instruments available to safeguard its approach to trade, namely the preservation of free trade around the world. The EU can continue to encourage trade openness in established and new trade partners through diplomacy, but also through free trade agreements with countries and regional organisations. In this context, it should also continue to pursue EU–US trade negotiations. Strengthening the WTO through reform and new agreements (for example on technologies and forced transfers) is an essential way to ensure the upholding of free and fair trade rules, including in new fields such as e-commerce. As the rift between China and the US intensifies competition, the EU will also need to protect its own industry. Tools to this end include trade defence instruments (TDIs) and also instruments that guarantee reciprocity such as the WTO Agreement on Government Procurement (GPA) and the Commission's proposed international procurement instrument.

Finally yet importantly, for the EU to withstand a scenario of great power competition, it is necessary to capitalise on all the tools available to strengthen its global presence as a foreign policy actor. Moving ahead with the implementation of under-used Treaty provisions in CFSP, such as the move to qualified majority voting in Council in certain areas, is a step in that direction. In that vein, the EU

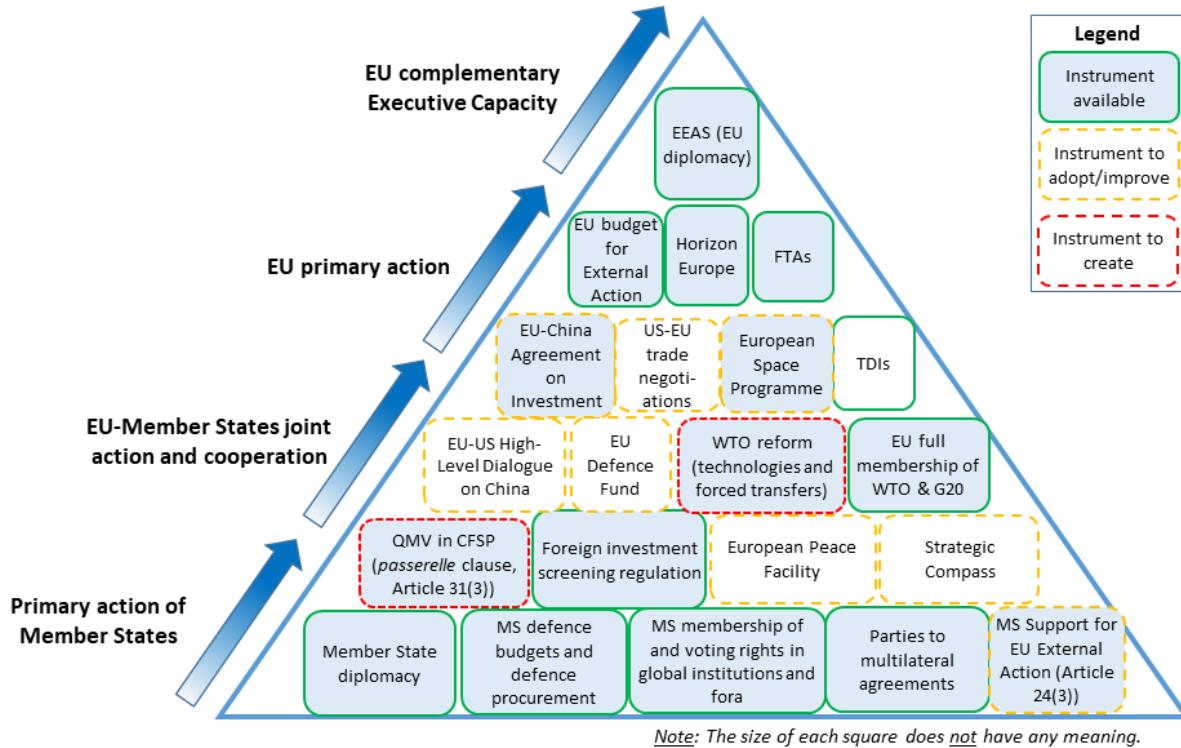
also needs to continue reinforcing its presence in third countries, through further diplomacy and CSDP missions.



Instrument	Size
European External Action Service / EU diplomacy	-
Budget for External Action (Neighbourhood and the World)	€98.4 billion
Horizon Europe	€80.9 billion ³⁰
Free trade agreements	-
European Space Programme	€13.2 billion
EU-US trade negotiations	-
EU–China Comprehensive Agreement on Investment	-
Trade defence instruments	-
WTO reform, in particular with regard to industrial subsidies, to re-establish it as a forum for the development of new rules	-
EU-US High-Level Dialogue on China	-
European Defence Fund	€7 billion
EU membership of WTO and G20	-
Qualified majority voting in the CFSP	-
European Peace Facility	€5 billion
Implementation of FDI screening regulation and MS coordination	-
EU Strategic Compass and shared assessment of international environment	-
MS parties to multilateral agreements (implementation of commitments)	-
Defence budgets and defence procurement	-
Support for EU External Action - Article 24(3) TEU	-
MS membership of global institutions	-
MS diplomacy	-

³⁰ €75.9 billion from the MFF and €5 billion from Next Generation EU.

Pyramid of instruments at the disposal of the EU and its Member States



The current coronavirus crisis emphasises the need for the European Union to devote more effort to anticipatory governance, notably through analysis of medium- and long-term global trends, as well as structured contingency planning and the stress-testing of existing and future policies. In order to contribute to reflection on and discussion about the implications of the coronavirus pandemic for EU policy-making, this paper builds on an initial 'mapping' of some 66 potential structural risks which could confront Europe over the coming decade. Taking 33 risks which are assessed as being more significant or likely, it looks first at the capabilities which the EU and its Member States already have to address those risks, and then looks at the various gaps in policy and instruments at the Union's disposal, suggesting possible approaches to overcome them in the short and medium terms.

This document is prepared for, and addressed to, the Members and staff of the European Parliament as background material to assist them in their parliamentary work. The content of the document is the sole responsibility of its author(s) and any opinions expressed herein should not be taken to represent an official position of the Parliament.



PE 652.024
ISBN 978-92-846-7181-6
doi:10.2861/950396