#FocusFuture

The 7Ds for Sustainability

Debt
Decarbonisation
Defence
Democracy
Demography
De-risking globalisation
Digitalisation

EXTENDED

Wilfried Martens Centre for European Studies

Foreword

A Roadmap for a Sustainable Future

Since its inception, the Martens Centre's project The 7Ds for Sustainability has catalysed interest, fostered dialogue and spurred action. However, as both European politics and global challenges continue to evolve at a rapid pace, we must redouble our efforts. With a new European Parliament and Commission at the helm, the stakes are higher than ever. The interconnected crises—geopolitical tensions, divided societies, climate change, inequality, and the urgent need for competitiveness and prosperity—demand a bold and unified strategy.

I am therefore pleased to present the extended version of the Martens Centre's strategic document.

The 7Ds for Sustainability: Extended offers a timely and insightful roadmap for navigating this complex landscape. This comprehensive policy book was born out of the collaborative efforts of the Martens Centre research team—under the guidance of Klaus Welle, Chairman of the Martens Centre Academic Council and former Secretary General of the European Parliament—and a group of renowned external experts. The book provides a nuanced and actionable framework for addressing the pressing issues of our time.

The publication outlines seven policy areas: decarbonisation, defence, democracy, demography, de-risking globalisation and digitalisation. These form the bedrock of a more resilient, equitable and prosperous EU. Each chapter provides a comprehensive analysis of the specific challenges and opportunities within these domains, offering actionable policy recommendations to guide the EU's future trajectory.

I commend the authors for their thoughtful analysis and their commitment to finding solutions that can benefit both present and future generations. By embracing the principles outlined in this book, policymakers, businesses and civil society can work together to create a more sustainable future for the EU.

I am confident that this publication will serve as a valuable resource for policymakers, scholars and the European public alike, inspiring and guiding our collective efforts towards a more sustainable future. *The 7Ds for Sustainability: Extended* is more than just a set of principles: it is a catalyst for change and action and provides a much-needed compass for navigating the challenges and seizing the opportunities that lie ahead.

Have an inspiring read!

Mikuláš Dzurinda
President of the WMCES
Former Prime Minister of Slovakia

December 2024

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Introduction

The Future of the Centre–Right in Europe and the 7Ds

by Klaus Welle

Does the party-political structure on the centre–right and right in Europe follow logic? And if the answer is yes, how could it be described more precisely? What are the hard content borders between political families that cannot be crossed?

There are evidently different perspectives from which these questions can be answered. Mine is the perspective of a practitioner who has dealt with or at least closely observed these issues for more than 30 years: as president of the umbrella organisation of the European Young Christian Democrats and Conservatives in the early 1990s, as secretary general of the European People's Party (EPP), as secretary general of its parliamentary group in the European Parliament and then for more than a decade as secretary general of the European Parliament itself.

In the second half of the 1990s, my prime responsibility as secretary general of the EPP was to establish the party for the first time in direct elections as the leading force in Europe. Through a policy of 'mergers and acquisitions', this aim was achieved in the European elections of 1999 and laid the foundations for the dominant position of the EPP in the EU for the next quarter of a century. This was an indispensable precondition for the successive presidencies of the European Commission held by José Manuel Durão Barroso, Jean-Claude Juncker and Ursula Von der Leyen.

Political parties joined the EPP on the basis of its political programme as adopted in Athens in 1992. They came from both the liberal and the conservative sides of the political spectrum and their respective European political organisations.

The Portuguese Social Democratic Party (Partido Social Democrata) as well as the Alliance of Young Democrats (Fiatal Demokraták Szövetsége) from Hungary left the Liberal International and its European branch and switched to the EPP. The Nordic conservatives and the French Rally for the Republic (Rassemblement pour la République) had long cooperated in the European Democrat Union before they fully integrated into the EPP and that Union was dissolved. Equally Forza Italia (Forward Italy) was also admitted to this enlarged EPP.

The EPP thus branched out in two directions at the same time and absorbed parts of both the liberal and the conservative families in Europe. Ultimately the party's development followed the model of German Christian Democracy, which had become established after the Second World War as a union of Catholics and Protestants and therefore needed to embrace both the Catholic Christian–Social and the Protestant conservative and liberal traditions.

This branching out also marked the departure from nominalism. It was no longer sufficient to have Christian or Catholic in the party's name to be admitted. Consequently a number of applicants from Central and Eastern Europe which had labelled themselves Christian or Catholic, such as the Polish Christian National Union (Zjednoczenie Chrześcijańsko-Narodowe), were rejected on the basis of their hostility to European integration.

This departure was a practical necessity. Lawmaking in the European Parliament requires the formulation of common positions, especially on European integration.

How did things work out in practice?

All the new partners integrated well in terms of parliamentary work. Liberal, Christian Democrat and Conservative did not prove to be fundamental dividing lines in daily practice, but useful complements in the widened EPP. Forza Italia even became the most loyal delegation in the group based on voting patterns. The enlargement strategy was vindicated, but the question of European integration did ultimately prove to be a hard demarcation line.

Both the British Conservatives and the Hungarian FIDESZ national leaderships turned increasingly against European integration. It is accurate to say that they were hostile more than sceptical. The British Conservatives left the parliamentary group in 2009, taking a nationalist turn as a prelude to the country leaving the EU after the referendum in 2016. Viktor Orbán‘s campaign of hatred against Jean-Claude Juncker and his cosying up to Vladimir Putin and Marine Le Pen made FIDESZ’s relationship with the EPP untenable. Orbán‘s undermining of democratic checks and balances inside Hungary itself completed the picture.

The real dividing line, therefore, is not Conservative, Liberal or Christian Democrat, but European or nationalist.

The nationalist space divided

Within that nationalist space, the real dividing line has principally been between pro-American and pro-Putinist positions in the external dimension, as well as—largely linked—between constructive engagement with the EU or systematic opposition to it in the internal dimension. This has resulted in the creation of two separate political groups within the European Parliament.

The extreme right within that nationalist space can therefore be characterised as a double-system opposition: undermining both the transatlantic partnership and European integration. The political order established after 1945, with democracy, human rights, the rule of law, freedom of the press, pluralism, the transatlantic partnership and European integration as its key components, has more than proven its value. After more than 70 years, questioning this can no longer qualify as conservative. If a claim to conservatism can be made on the extreme right, then it is only in the sense of pre–Second World War concepts. That is, conservatism as authoritarianism and illiberalism.

It is a nationalism that promises to protect through closure, and is attractive to those left behind. It is how Donald Trump won his majority the first time around, by appealing to coal and steel workers. It is why Marine Le Pen is elected in the former Communist heartland of coal-mining northern France. And it is how Boris Johnson broke the ‘red wall’ of former Labour constituencies in industrialised northern England. It is Social Nationalism.

Is change possible?

Following the Russian aggression against Ukraine, this division in the nationalist space might be overcome and a larger bloc emerge. Putinism is no longer a viable option in civilised Europe.

But equally, the necessities of government can lead to moderation and learning and a more open attitude towards European integration. This is where the leading parties of both the Czech and the new Italian government seem to be heading. Thirty years after the collapse of Christian Democracy (Democrazia Cristiana), the Italian political landscape is still in full transition with an undecided outcome.

Political parties have moved to the nationalist right as explained above. But the opposite is equally true, has happened and remains a possibility for the future. The successful transformation of the Popular Alliance (Alianza Popular) in the post-Franco era to the moderate and pro-European People's Party (Partido Popular) is the most striking example. José María Aznar restructured the Spanish political space by uniting his Conservative party with smaller Christian Democrat and Liberal formations. The full embrace of the post-1945 political order, including European integration, is the necessary precondition.

The stability of the EU's political system depends on the self-moderation of more radical political movements towards the centre, both on the left and the right, and such moves should therefore be encouraged and welcomed. Greece's Coalition of the Radical Left—Progressive Alliance (Syriza), which originated on the far left, did this during the financial crisis, accepting the need to conduct the necessary reforms to allow Greece to stay in the eurozone. Sinn Féin will have to do this as well, if it ever wants to govern Ireland.

In practice, the transformation to constructive player equally opens up the possibility of addressing legitimate questions more successfully. The importance of the external border of the Union and its protection, limits to migration and the lack of public services in rural areas are just some of them.

Why is acceptance of European integration so essential?

The European continent nowadays is structured by two principles and two principles only: empire in the east as the expression of Russian imperial and colonial ambitions, and the EU as a Union of citizens and states in the centre and the west, providing shelter and protection and a relationship based on the rule of law. It is no wonder that states such as Ukraine and Moldova are desperate to join the EU as a safe haven. And even those states that have never wanted or no longer want to be members still feel the need to enter into close contractual relationships with the EU.

Empire is not an attractive option for Russia's neighbours, because it is linked necessarily to violence and submission. The concept of empire is an attempt to reintroduce the rules of the nineteenth century to our continent in the twenty-first century. For all Central and Eastern European countries, the EU is, in a very direct sense, the rescuer of the nation state and the precondition for its survival.

But beyond that, the EU provides all the 27 member states with mechanisms for peaceful conflict resolution and functionalities that they cannot establish themselves. The EU is the necessary complement to the nation state, allowing it to thrive and prosper, as even the British have belatedly started to realise. Together we can defend our interests in a world that is becoming increasingly dangerous again.

The EU is our daily modus vivendi and operandi.

Can the EU protect?

If populist political forces are more correctly described as social nationalists that respond to requests for protection through closure, this raises the question of whether the EU can also protect, but in an open political system?

The recent history of crisis can also be understood as a process of giving the EU the necessary tools to protect. As a consequence of the financial crisis, the European Central Bank can now oversee the most important systemic banks across the member states. It successfully enlarged its toolkit to avoid deflationary pressures. Following the 2015 crisis of uncontrolled migration, the EU now has a European Border and Coast Guard and has managed to enter into well-functioning agreements with neighbouring states to better control migration flows. After the first six weeks of national governments trying to manage Covid-19 on their own, setting up border controls and export restrictions, the European Commission successfully took over and ensured that all member states, rich or poor, big or small, received equal access to the necessary materials, especially vaccinations. Furthermore, the NextGenerationEU programme has provided all member states, but especially those most affected by Covid-19, with the financial means to transform their economies. Russia's aggression against Ukraine has seen the EU taking a leadership role in supporting Ukraine and therefore protecting its Eastern member states, including implementing very severe sanctions, financing weapons and taking bold measures to revitalise the European defence industry. The EU is now undertaking to secure its access to the critical raw materials and technology needed to protect European industry. All of the above examples show that Europe is increasingly demonstrating that it can complement the liberalisation efforts of the internal market with the effective protection of its citizens.

What could the programmatic base of the modern EPP look like?

The enlarged EPP brings Christian Democrat, Conservative and Liberal political ideas together in an integrated political platform. The EPP fully embraces the liberal political order as firmly established after 1945, including parliamentary democracy, pluralism, the rule of law and minority rights, as well as a general preference for the market over the state, and therefore it can never support illiberalism.

Modern conservatism continues to provide a number of eternal truths: not every reform is progress. There is the wisdom of many generations stored in the existing institutions. Revolutions and extremism have more often than not been recipes for violence, hardship, and the disrespect of human rights and life. Pragmatism and common sense are to be preferred over ideology.

The key conservative ambition is to preserve. Sustainability is the precondition for preservation. What is not sustainable violates justice among generations and endangers our common future. If conservatives want to preserve, sustainability is the way forward.

Christian Democracy is based in essence on a number of concepts for reconciliation of the seemingly irreconcilable in society: the social market economy, personalism, subsidiarity, federalism, the people's party and the party of the centre. Establishing a fair balance in society is the political vocation of Christian Democracy.

There is always a danger that societies give preference to the present over the future. But we have also experienced Communist regimes that destroyed the present in the name of a brilliant future that never came. Sustainability requires reconciling both, today and the future.

Sustainability therefore has to be the key ambition, uniting generations. Sustainability cuts across political domains, is visibly endangered today and needs to address the 7Ds as elaborated and published by the Martens Centre, along with 175 precise political proposals. The 'D's are as follows:

- Debt sustainability ensures that we are not living at the expense of future generations.
- Our defence needs urgent upgrading and an increase in Europe's capacity to at least defend ourselves conventionally in order to guarantee our freedom and lives tomorrow.
- Achieving carbon neutrality through a process of decarbonisation while preserving energy security and competitiveness is critical.
- Fair burden sharing between the generations needs to balance out the changing demography.
- Our democracy is endangered by totalitarian regimes, executive overreach, and the control of traditional and new social media by the few, and it needs active strengthening.
- We need to more fully embrace the digital revolution if we want to remain competitive.
- The collapse of the Soviet Union made price the dominant paradigm. This has now been replaced by security considerations; thus we need to de-risk globalisation.

Max Weber taught us that politicians need passion *(Leidenschaft)* and balanced judgement *(Augenmaß)*. Sustainability will therefore need to be implemented in a sustainable way.

Conclusion

The EPP is a political project defined by European integration, transatlantic partnership and the defence of the democratic order established after 1945. The EPP brings together people's parties, which aim to be the force of reconciliation in society and are underpinned by integrative concepts such as the social market economy, subsidiarity, personalism and federalism. These necessarily have to be complemented by the pursuit of sustainability across policy areas, thus reconciling the present and the future.

Note

This article was first published in French, by *Le Grand Continent*, in spring 2023 with the title 'Le nouveau visage des droites en Europe et le conservatisme du futur' and then in English in the *European View*, the policy journal of the Martens Centre, as 'The future of the centre–right in Europe and the 7Ds.

Debt

Table of abbreviations

BRRD	Bank Recovery and Resolution Directive
CMDI	Framework for Bank Crisis Management and National Deposit Guarantee Schemes
ECA	European Court of Auditors
ECB	European Central Bank
EFB	European Fiscal Board
EPBO	European Parliament Budget Office
EPP	European People's Party
ESM	European Stability Mechanism
ETS	Emissions Trading Scheme
GNI	Gross National Income
MFF	Multi-Annual Financial Framework
MS	Member State
NGEU	Next Generation EU
OECD	Organisation for Economic Cooperation and Development
PCCL	Precautionary Credit Line
SGP	Stability and Growth Pact
TPI	Transmission Protection Instrument
VAT	Value added Tax

Introduction

by Klaus Welle and Eoin Drea

Debt is a question of dose. Too much, and you lose your political independence and sovereignty. Too little, and you might miss out on the possibility and necessity of building infrastructure that facilitates future development.

Keynes taught us that there are situations in which price and interest signals do not work and, as a result, the state is the only actor able to step in temporarily and stabilise the economy—and with it, the political system. A hard lesson was learned in the 1930s. It inspired us during Covid, when the economy threatened to come to a standstill. But debt was put on the EU's balance sheet without corresponding own resources for the Union to finance and repay it. In addition, no proper parliamentary oversight of debt at the EU level was introduced.

Unfortunately, we have now entered a period of vulgar Keynesianism: increasing the debt-to-GDP ratio in crisis times and in good times as well. The consequence is a debt-to-GDP ratio of about 90% in the eurozone and around 100% in the UK and the US. If this trend continues, it will not be very long before a debt crisis reoccurs and the independence of our political decision-making is threatened, together with the cohesion of the EU.

China and Japan are no exception to this trend. Japan has already demonstrated how ageing societies, with correspondingly meagre growth, can enter into decades of exploding debt. China's debt is largely out of control, especially on the local and regional level, for which the central state will ultimately have to take responsibility. This accumulation of debt was partially driven by the end of a property building boom and significant over-capacity in many sectors of the economy. This has resulted in Chinese debt levels no longer being accompanied by a sustainable growth model.

The situation is further aggravated by the fact that public investments have become unavoidable in digital infrastructure, defence and decarbonisation, and to alleviate the financial burdens of unfavourable demographics. De-risking from China will add to the burden. The time of imported deflation that was the consequence of hundreds of millions of Chinese workers being integrated into the global market for the first time seems to be over.

During the eurozone crisis, we learned that cutting expenditure on its own is not the answer, because the potential reduction in debt can be largely offset by a significant reduction in GDP as well. Any successful strategy will therefore have to focus on growth and productivity-enhancing strategies at the same time.

Ensuring the Sustainability of Public Finances

by Jürgen Matthes

Summary

Current debt levels in the eurozone remain high. While future public spending requirements are large, economic growth will be slower in the medium term and interest rates are likely to remain higher for some time. Under these circumstances, public debt levels could increase further into dangerous territory if an overly lax fiscal policy were to be adopted. Therefore, ensuring public debt sustainability is a prerequisite for the continued success of the wider European integration process. A return of the euro debt crisis would endanger not only macroeconomic stability but also the EU's aims of prosperity, green transition and open strategic autonomy. We propose nine recommendations that aim to achieve a sound fiscal future in the EU by strengthening the incentives of the member states to implement a stability-oriented fiscal policy. Above all, when the EU institutions implement the reformed Stability and Growth Pact, they should prioritise debt sustainability. Moreover, the European Central Bank's continuous presence in the sovereign debt markets tends to reduce the willingness of member states to stick to a stability-oriented fiscal policy. Thus, a reformed European Stability Mechanism should be given a larger role in the EU's fiscal governance framework.

Keywords EU – Debt – Sustainability – NextGenerationEU – European Central Bank – European Stability Mechanism – Moral hazard

Introduction

The current economic challenges Europe is facing are immense. Ensuring growth, security, green transformation investments, strategic autonomy and—above all—public debt sustainability at the same time is like squaring a circle. However, as another euro debt crisis would be highly detrimental to the EU's economic and political future, safeguarding public debt sustainability needs to be prioritised. Only with the precondition of sound fiscal finances can the other objectives be targeted. Based on this premise, this study outlines the challenges the EU is facing and the opportunities it can take advantage of to ensure a prosperous future for the EU. It takes as its starting point the recently published *7Ds for Sustainability: Strategic Policy Initiatives for the European Centre-Right*,[1] and focuses on the issue of Debt to sketch an approach to maintaining public debt sustainability.

The outlook for public debt sustainability in Europe will worsen over the medium term due to several relevant economic trends (see Figure 1). Above all, the retirement of baby boomers will lead to significant decreases in employment and will thus dampen economic growth. The impact on growth of decarbonisation is also unlikely to be entirely positive and could even be negative. Furthermore, the impact of deglobalisation trends and the push for strategic autonomy on growth will also likely be negative. Many of these trends are likely to increase the need for expenditure; some will also impact real interest rates and thus the financing burden due to public debts.

[1] K. Welle, P. Hefele et al., *The 7Ds for Sustainability: Strategic Policy Initiatives for the European Centre–Right*, Martens Centre (Brussels, 30 April 2023). The 7Ds are defined as Defence, Digitalisation, Debt, Deglobalisation, Demography, Decarbonisation and Democracy. Moreover, the study draws on B. Kauder, J. Matthes and S. Sultan, *Reforming Economic and Monetary Union: Balancing Spending and Public Debt Sustainability*, Martens Centre (Brussels, 2023); J. Matthes, *Reforming Economic and Monetary Union: The ECB's Transmission Protection Instrument*, Konrad-Adenauer-Stiftung (2023); and J. Matthes, *Coming out of the Shadows: The European Stability Mechanism and Euro Area Governance*, Wilfried Martens Centre for European Studies (Brussels, 2024).

Figure 1 Effect of the four disruptive trends on debt sustainability

	Government expenditure	Growth	Real interest rate
Demography	Higher spending on pensions, health and care insurance	Shrinking work force and shortage of skilled labour	Higher savings for old-age pensions, but possible dissaving in old age
Decarbonisation	Government investment and subsidies	Structural transformation	Higher investment
Digitalisation	Government infrastructure investment	Higher productivity growth (but so far not observable)	Higher investment
Deglobalisation/ Strategic autonomy	Industrial subsidies	Lower productivity growth	Perhaps slightly higher inflation

Note: Qualitative colour rating scale: improvement in public debt sustainability = green, neutral impact = no colour, deterioration = orange. Lighter shade implies lower impact.

This paper has three sections, as three key elements of the EU's economic governance framework could prove insufficient to ensure public debt sustainability. First, the member states' incentive to implement a sound fiscal policy could be compromised by certain policy measures, such as the creation of common EU debt. Second, the reformed Stability and Governance Pact (SGP) could be implemented in an overly flexible manner that proves too lax. Third, the European Central Bank (ECB) has been pushed into a dangerous role as lender of last resort, which raises concerns about moral hazard.

Empowering good fiscal governance at the national level

The responsibility for ensuring the sustainability of fiscal policy rests with the member states. However, politicians in parliamentary democracies can lack incentives to follow sound fiscal policy. As fiscal austerity is often unpopular with voters, politicians tend to favour more generous fiscal policy stances than might be adequate to keep public debts sustainable. This well-known and infamous deficit bias[2] should be kept in mind when the adequacy of the European fiscal governance framework is being discussed. Thus, it is important to counter the deficit bias with measures that create more stability-oriented incentives for policymakers. Several elements of the euro governance framework aim to achieve this objective: financial market discipline, the no-bailout clause, the SGP and the existence of independent fiscal councils.

Recommendation 1: Ensure member states' responsibility for sound fiscal policy

In general, EU institutions should strengthen the national responsibility for fiscal soundness. Importantly, governments have to clearly discern the consequences of lax fiscal policies resulting in a loss of market confidence. In particular, the no-bailout clause is important in this respect.

[2] X. Debrun, *Democratic Accountability, Deficit Bias, and Independent Fiscal Agencies*, IMF Working Paper no. WP/11/173 (Washington, DC, 2011).

Recommendation 2: Allow joint EU borrowing only in exceptional circumstances

The setting up of the Next Generation EU programme (NGEU), which enabled the raising of a common EU debt by way of joint borrowing, is a deviation from the no-bailout clause. However, the NGEU was founded during the height of the Covid pandemic, that is, in very exceptional circumstances that were beyond the control of the member states. At that time, this step was reasonable to calm the financial markets and support national budgets, which were being severely strained by both the Covid crisis and the financing of the green and digital transitions.

However, as a result, new public debt was incurred and more leeway was given to the member states to increase public spending without establishing clear repayment commitments. Moreover, the debt-financed NGEU transfers are not accounted for in national fiscal budgets. As such, the nexus between higher public debts, market confidence and national responsibilities has been significantly weakened. Even now, it is still unclear how these common EU debts will be repaid in the long run.

For these reasons, common EU debts should be used only in very exceptional circumstances. Nevertheless, there have been calls to establish an NGEU 2.0 to tackle the impact of the energy crisis—again financed by joint borrowing. However, such a step would be questionable and could endanger public debt sustainability.

Moreover, there is no need for an NGEU 2.0 as there is still plenty of money available in the NGEU 1.0 fund. As of summer 2024, less than half of the funds of the Recovery and Resilience Facility, the key part of the NGEU, have been paid out. The Facility has a total €648 billion in funds, of which €357 billion can be paid as direct transfers and €291 billion can be made available through loans at relatively low interest rates. At this juncture, transfer payments to the member states amounting to more than €180 billion and nearly €200 billion in loans are still available until the end of 2026. Instead of asking for new money, the priority should lie in making the best of the remaining NGEU funds. This is all the more vital as it appears that the member states are having difficulties identifying suitable projects in which to invest both the NGEU funds and those from the Cohesion Fund. The absorption capacity of member states for both funds is obviously rather limited.

Recommendation 3: Give a greater role to the European Stability Mechanism in the fiscal governance framework

The European Stability Mechanism (ESM) is an important building block of the Economic and Monetary Union architecture. As the newly founded lender of last resort during the euro debt crisis, the ESM was relatively successful. However, it has been sidelined in recent years because of problematic allegations that it interfered unduly with national sovereignty, even though unpopular reforms were inevitable during the euro debt crisis. In general, the ESM is indispensable in times of crises and should thus be brought back onto the EU stage.

As the ESM was mainly designed for countries with unsound economic policies, it rightly entails reform conditions as a precondition for financial support. However, the ESM lacks viable instruments to support countries with relatively sound economic policy fundamentals. An already well-advanced reform of the ESM would change this. It introduces a new instrument, a change to the so-called precautionary credit line (PCCL), that would provide general access to an ESM loan without the respective country necessarily drawing on it. Such a precaution would be intended to calm the financial markets should they begin to doubt the debt sustainability of a country. The new PCCL would not entail reform prescriptions as in other ESM programmes, but would require existing sound economic policy fundamentals and the clearly stated intention to ensure the continuation of these as a precondition. Choosing the ESM as a crisis support mechanism would be a better way to tackle the current challenges than relying on the ECB with its overly lax Transmission Protection Instrument (TPI, see below).[3] Thus, the ESM reform, which has been ratified by all but one ESM member state, should now be fully ratified.

Implementing the reformed SGP in a sound manner

The SGP is the key instrument in the EU to ensure that member states' fiscal policies remain on a resilient and sustainable path. The SGP has recently been reformed.[4] The reform is, in principle, a step in the right direction, but it has its pros and cons:[5]

- On the positive side, the reformed SGP puts a stronger focus on medium-term fiscal sustainability, as proposed, for example, by Blanchard et al.[6] As ageing costs will become an increasing burden for the budgets of many member states in the medium term, it is important to take precautions and to build fiscal buffers now for the future. Moreover, the reform introduces a fiscal expenditure rule that should make the operation and monitoring of the SGP's recommendations easier and more straightforward.[7]
- On the negative side, there are certain challenges with regard to implementing the reformed SGP. In particular, the reform grants considerable discretion to the European Commission, which is often subject to significant political pressure and could thus potentially allow overly lax fiscal policies.

Recommendation 4: Depoliticise EU-level economic governance

Too often, the euro area's fiscal governance has been influenced by political instead of economic considerations. Thus depoliticising the SGP is of major importance. To this end, more power should be given to independent institutions such as national fiscal councils and the European Fiscal Board (EFB).[8] Moreover, the EFB needs to become a truly independent organisation and should no longer be institutionally attached to the European Commission.

Recommendation 5: Ensure sound fiscal governance by the Commission

The reformed SGP needs to be soundly managed by the European Commission. It is true that the Commission's leeway has been somewhat limited in the final version of the reform compared to the original proposal through the introduction of several numerical safeguards to ensure minimum levels of fiscal consolidation. Nevertheless, it still has considerable discretion.

- The reformed SGP allows the possibility for countries to be granted longer fiscal adjustment periods, of up to seven instead of four years, if certain important reforms or investments are implemented. This time horizon is rather long and should be used only rarely. Fiscal consolidation efforts should not be unduly postponed into the future, otherwise public debt sustainability might not be guaranteed for countries with already high public debt levels.

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[3] J. Matthes, *Coming out of the Shadows*.

[4] European Commission, 'New Economic Governance Framework'.

[5] C. Wyplosz, 'Reform of the Stability and Growth Pact: The Commission's Proposal Could Be a Missed Opportunity', *VoxEU*, 17 November 2022; Kauder, Matthes and Sultan, *Reforming Economic and Monetary Union*; Z. Darvas, L. Welslau and J. Zettelmeyer, *The Implications of the European Union's New Fiscal Rule*, Bruegel Policy Brief 10/24 (June 2024).

[6] O. Blanchard, A. Leandro and J. Zettelmeyer, *Redesigning EU Fiscal Rules: From Rules to Standards*, Peterson Institute for International Economics, Working Paper 21–1 (Washington, DC, 2021).

[7] A. Bénassy-Quéré et al., *Reconciling Risk Sharing With Market Discipline: A Constructive Approach to Euro Area Reform*, Centre for Economic Policy Research, Policy Insight 91 (London, 2018); Darvas, Welslau and Zettelmeyer, *The Implications of the European Union's New Fiscal Rule*; B. Busch and B. Kauder, *Der Stabilitäts- und Wachstumspakt. Bestandsaufnahme und Vorschläge für mehr fiskalpolitische Disziplin in Europa*, IW-Analysen no. 142 (Cologne, 2021).

[8] Bénassy-Quéré et al., *Reconciling Risk Sharing With Market Discipline*; EFB, Annual Report 2020 (Brussels, 2020); Busch and Kauder, *Der Stabilitäts- und Wachstumspakt*.

- Moreover, when the Commission conducts public debt sustainability analyses for the medium term, the influence of assumptions is large. It is therefore important that the Commission is fully transparent about the data and assumptions used in its debt sustainability analyses, so that researchers can cross-check the results.

Recommendation 6: Build fiscal buffers in good times

Governments often fail to build fiscal buffers in good times. In bad times, they therefore often have to cut public spending, and particularly public investment, which tends to deepen the economic slowdown. This procyclicality has plagued fiscal policy for decades and relates to the above-mentioned deficit bias.

The new fiscal expenditure ceilings in the reformed SGP could mitigate procyclicality. The ceilings are derived from medium-term growth forecasts of the economy instead of short-term growth performance. In good times, with high economic growth, fiscal expenditures would thus grow slower than GDP, and in bad times they would grow faster, stabilising the economy in an anticyclical way. It will still be challenging to determine the correct level of medium-term growth rate—especially as European economies have recently been plagued by several crises and thus exceptional downs and ups. Nevertheless, these expenditure ceilings should be heeded by national governments so that fiscal buffers can build up in good times.

Defending an independent eurozone monetary policy

The ECB has an important role in the European governance framework. As an independent institution, it is tasked with achieving and maintaining price stability by administering an appropriate monetary policy.

Fiscal and monetary policy interact in important ways. If fiscal policy is too lax, the economy can heat up and inflation may rise. Should this happen, monetary policy will have to interfere through the implementation of higher interest rates to dampen demand. Higher interest rates, however, increase the debt servicing burden of national governments. In countries with high public debt ratios, a situation known as fiscal dominance may occur.[9] This arises when higher interest rates cause public debt servicing to become unsustainable. Therefore, fiscal policy needs to be constrained to enable the ECB to remain truly independent.

Recommendation 7: Maintain the independence of the ECB from fiscal policy

The ECB's independence is key for guaranteeing price stability. If inflation increases, interest rates have to rise accordingly, no matter how this affects the debt sustainability of highly indebted member states. The ECB's decisions must not be concerned with fiscal implications, regardless of the political pressure applied to it.[10]

Recommendation 8: Ensure the conditionality of the ECB's support to governments

In times of high economic uncertainty, financial markets can trigger a severe sovereign debt crisis. This situation can occur, particularly in countries with elevated debt levels, if interest rates rise continuously, creating unsustainable public debts.[11] In order to prevent interest rates from spiralling out of control in an unwarranted way, the ECB is able to use its immense market power to intervene in sovereign debt markets in order to stabilise market expectations.

9 T. J. Sargent and N. Wallace, 'Some Unpleasant Monetarist Arithmetic', *Federal Reserve Bank of Minneapolis Quarterly Review* 5/3 (1981).
10 F. Heinemann, 'Fiskalische Dominanz als Gefahr für die Europäische Zentralbank – Analysen und Empfehlungen', *Integration – Vierteljahreszeitschrift des Instituts für Europäische Politik* 45/4 (2022).
11 P. De Grauwe and Y. Ji, 'Mispricing of Sovereign Risk and Multiple Equilibria in the Eurozone', *Journal of Common Market Studies* 50/6 (2012).

However, caution is warranted with regard to ECB actions intended to protect governments from a loss of market confidence. In cases where unsound national fiscal policies have contributed to this loss of confidence, the ECB should only be able to intervene if the respective country agrees to an ESM programme with reform conditions.[12] Otherwise, the prospect of ECB interventions could undermine member states' incentives for sound fiscal finances.

Recommendation 9: Reform the ECB's TPI

For euro states with sound economic policies, the TPI of the ECB allows sovereign bond purchases as a way to contain unwarranted interest rate hikes. The TPI was hastily introduced after the Russian invasion of Ukraine, which led to rapidly rising energy prices and significantly higher inflation, as there was the fear of a loss of market confidence. While this innovation in the European fiscal governance framework is justified in principle, the design of the TPI is problematic.[13] The current arrangement tends to lower the incentives of member states to follow a sound fiscal policy, as the ECB has a lot of leeway and could potentially also protect countries with unsound fiscal policies. Moreover, the significant amount of discretion the ECB has regarding decisions about the eligibility of countries for TPI interventions raises serious concerns about legality, democratic legitimacy and, ultimately, fiscal dominance, which could endanger the ECB's independence.

A better solution would be to involve the ESM. In contrast to the ECB, the ESM is governed by elected politicians. As the above-mentioned envisaged ESM reform introduces a new PCCL that has very similar conditions to the TPI for countries with sound economic policies, the use of the TPI should only be permitted if a country in need adopts an ESM programme. In this way, the ECB's intervention power would be connected to the democratically legitimised ESM.

Conclusion

As public debt sustainability could be endangered in highly indebted countries under the expected economic conditions in the near future, fiscal policy needs to prioritise stability to avoid a detrimental sovereign debt crisis. Other spending objectives, even though highly important in themselves, can only be realised if public debt sustainability remains guaranteed.

The European People's Party (EPP) should therefore make one of its priorities strengthening the incentives for member states to ensure fiscal prudence. As common EU debts tend to be problematic in this respect, the option of joint borrowing should be reserved only for very exceptional circumstances. Moreover, a clear redemption path for the debts incurred as a result of the NGEU should be defined soon. To bring the ESM back onto the EU stage, the EPP should try to ensure that the ESM reform is finally ratified so that the new PCCL can enter into force—giving the ESM a more benign face. In terms of controlling the use of the reformed SGP, the EPP needs to ensure that the significant amount of discretion given to the Commission is not misused. Finally, the introduction of the TPI has overburdened the ECB. Therefore, the EPP should work towards giving the ESM a larger role in combating any financial crises that arise that affect countries with sound economic policies.

12 Matthes, *Reforming Economic and Monetary Union*.

13 K. Bernoth et al., *The ECB's Transmission Protection Instrument: A Legal & Economic Analysis*, ECON Committee of the European Parliament, Monetary Dialogue Papers (Brussels, September 2022); L. Feld et al., 'The ECB's Toxic Bond-Purchase Program', *IFO Viewpoints*, 12 August 2022; I. Angeloni and D. Gros, 'ECB Transmission Protection Instrument Needs a "User Manual"', *Official Monetary and Financial Institutions Forum*, 17 August 2022; Matthes, *Reforming Economic and Monetary Union*.

	Programme 1	Programme 2	Programme 3
	Empowering good fiscal governance at national level	**Defending an independent eurozone monetary policy**	**Simplifying and depoliticising EU-level economic governance**
Project 1	Responsibility for keeping fiscal policy sustainable rests with member states. EU institutions should not interfere with these national responsibilities to enable governments to clearly discern how lax fiscal policies can result in a loss of market confidence.	Raise interest rates accordingly if inflation increases, no matter how this affects the debt sustainability of highly indebted member states. The ECB's decisions must not be concerned with fiscal implications regardless of the political pressure. Its independence is key to guaranteeing price stability.	Depoliticise and simplify the SGP, for example by giving more power to independent institutions such as national fiscal councils or the EFB. Too often the euro area's fiscal governance has been influenced by political instead of economic considerations.
Project 2	Joint borrowing by the EU interferes with the connection between national fiscal policies and market confidence. Raise EU debts only in exceptional circumstances. There is no need for an NGEU 2.0 or other common funds financed by EU debts on a regular basis. Prioritise making the best of the NGEU funds, which are still plentifully available.	Exercise caution in ECB actions to protect governments from a loss of market confidence. In cases where unsound national policies contribute to a loss of market confidence, the ECB should only intervene if the respective country agrees to an ESM programme with reform conditions (as is provided for by the Outright Monetary Transaction programme).	The SGP reform renders public debt sustainability more central to fiscal policy guidance. The European Commission should manage the SGP soundly and not make decisions influenced by political pressures.
Project 3	As lender of last resort, the ESM has been sidelined in recent years because of allegations that it interfered unduly with national sovereignty. A pending ESM reform would change this and introduce an ESM programme without any reform conditions for countries with sound economic policies. All member states should ratify this reform. The new ESM programme could also be the key condition for the use of the TPI.	Use the democratically legitimised ESM to decide on the soundness of a member state's economic policies and thus its eligibility for the TPI. For euro states with sound economic policies, the ECB's TPI allows sovereign bond purchases in order to contain unwarranted interest rate hikes.	The SGP reform aims to change the pattern of governments often failing to build fiscal buffers in good times to avoid excessive spending cuts in bad times. New expenditure ceilings will be introduced that are derived from medium-term instead of short-term growth performance. National governments should heed these ceilings so that fiscal buffers can grow in good times.

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Ensuring Financial Stability

by Fredrik N. G. Andersson and Lars Jonung

Summary

The financial system is a cornerstone of the modern economy, acting as a bridge between savers and investors. It facilitates the allocation of capital, supports the trading of stocks and other financial products, and helps with pricing risks. When functioning well, the financial system is a powerful engine for economic growth. However, it can also be a source of instability. Financial disruptions and imbalances have historically led to some of the most severe economic crises. A stark example is the global financial crisis of 2008–9, which triggered the European debt crisis and dealt a significant and long-lasting blow to the EU's economy. Despite institutional reforms since 2008, significant weaknesses persist within the European framework for financial stability, particularly in terms of both crisis prevention and crisis resolution. While the measures taken have undoubtedly strengthened the system, challenges remain that could undermine the EU's ability to effectively prevent future crises and manage them when they occur. We highlight important issues related to crisis avoidance, crisis preparedness and the digitalisation of the financial system.

Keywords EU – Debt – Crisis avoidance – Crisis preparedness – Digitalisation

Introduction

The current EU framework for safeguarding financial stability is built upon two main pillars: the evaluation of macroeconomic risks and the enactment of macroprudential stabilisation policies, coupled with enhanced oversight and assessment of micro-level risks and of the conduct of individual financial institutions. At the institutional level, the European Systemic Risk Board was founded in 2010, and the European Central Bank has assumed a considerable role in fostering financial stability. A number of other institutions have been set up to improve financial supervision and stability, such as the European System of Financial Supervision, which is centred around the European Central Bank. The establishment of the Banking Union in 2012 is also part of the strengthening of financial stability within the EU. Furthermore, the Capital Markets Union, launched in 2015, is another attempt to foster an efficient financial system in the EU.

Our three programmes are summarised in the table below. For each programme, three specific projects are proposed which seek to improve the overall financial stability of the EU.

Programme 1: Avoiding crises

Avoiding a crisis is, of course, essential. The table outlines three key projects proposed to limit the risk of a future financial crisis. First, with today's technological advancements and the growth of the fintech sector, lawmakers must ensure that regulation and supervision are adequate to manage the new landscape. The principle of 'same activity, same risk, same rules' must be applied to all EU regulatory and supervisory actions in these areas.

The focus of the current EU financial stability framework on regulating the aggregate amount of credit and the risks undertaken by individual households and financial institutions is well-founded, judging from studies indicating that significant credit expansions often precede financial crises.[1] However, research also highlights

[1] A. Sufi and A. M. Taylor, 'Financial Crises: A Survey', in G. Gopinath, E. Helpman and K. Rogoff (eds.), *Handbook in International Economics* (vol. 6) (North Holland: Elsevier, 2022).

that a volatile and fragile macroeconomic backdrop can precipitate a financial crisis, particularly as banks face challenges in maintaining profitability amid uncertain and low returns.[2] The risk of households, firms and governments failing to repay their loans increases as GDP growth declines.

Between 1999 and 2022, growth in the euro area averaged 1.4% annually, in contrast to the 2.2% annual growth rate in the US. The euro area also experienced greater macroeconomic volatility. This was especially evident during and after the Covid-19 pandemic. This tepid and volatile economic growth not only prolonged the recovery from the global financial crisis but also contributed to the subsequent European debt crisis, which in turn further lowered the level of growth. Europe risks being stuck in a vicious circle of low growth and recurring crises.

To avert future financial crises, it is crucial not only to regulate the financial system and control the level of credit available, but also to place greater emphasis on fostering economic growth in the EU, aligning it with the performance of high-growth economies.

Regulating the volume of credit and other financial variables cannot by itself limit all aggregate macroeconomic financial risks. Thus, our second proposed project relates to strengthening economic growth through structural reforms, including by completing the single market for services and deepening the capital market. In particular, the consolidation of the EU's stock exchanges, clearing houses and national securities laws must be advanced to unlock deeper and more liquid pools of capital. Naturally, the Banking Union must also ensure that banks are robust and able to withstand any future financial crises. This is an example of how growth-enhancing reforms should be combined with micro-level regulation of the financial system.

The third project relates to avoiding a rerun of the European debt crisis that prolonged the economic misery of the global financial crisis. We suggest that all EU legislative proposals should be fully costed by an independent, non-partisan European Parliament Budget Office (EPBO). The EPBO would produce a cost estimate for every bill that is approved by a full committee of the European Parliament. This tool would allow policymakers to better avoid future budgetary crises.

Programme 2: Preparing for crises

Although strengthening economic growth may reduce the probability of a financial crisis occurring, it is still essential to stay prepared to deal with any future crisis. As outlined in the table, there are some features of the present system that need further improvement. Both the first and second projects of this programme relate to public finances.

The global financial crisis exposed notable vulnerabilities in the euro area's crisis preparedness, particularly the absence of coordinating mechanisms for fiscal policy and the sharing of fiscal costs. The Five Presidents' Report[3] of 2015 initiated steps to address this deficiency, with tangible progress observed during the pandemic. However, on their own, the coordination and sharing of fiscal responsibilities are inadequate to prevent a future sovereign debt crisis from causing financial turmoil.

Crucially, maintaining a low debt burden prior to a crisis is vital, as this allows governments during and immediately after any crisis to substantially increase public debt to support the financial system and the real economy. Researchers including Laven and Valencia[4] and Andersson and Jonung[5] estimate that the public-debt-to-GDP

[2] A. Demirgüc-Kunt and E. Detragiache, 'The Determinants of Banking Crises in Developing and Developed Countries', *IMF Staff Papers* 45/1 (1998); IMF, 'Chapter 1: Financial Stability Challenges in a Low-Growth, Low-Rate Era', in IMF, *Global Financial Stability Report* (October 2016).

[3] J.-C. Juncker et al., *Completing Europe's Economic and Monetary Union* (2015).

[4] L. Laven and F. Valencia, *Systemic Banking Crises Revisited*, IMF Working Paper 46232 (2018).

[5] F. Andersson and L. Jonung, 'Preparing for the Next Crisis: Lessons From the Successful Swedish Fiscal Framework', in B. W. Poulson, J. Merrifield and S. Hanke (eds.), *Public Debt Sustainability: International Perspectives* (Lexington Books, 2021).

ratio typically surges by 30–40 percentage points in such situations. This indicates that EU member countries should have fiscal headroom of at least that much to avoid being forced to cut government expenditure, raise taxes and hike interest rates in ways detrimental to economic performance.

To ensure effective crisis preparedness, it is necessary to reduce the public-debt-to-GDP ratios in euro area member states in the near future to levels that can accommodate significant increases in public debt in response to a financial crisis, without triggering a fiscal crisis. The Maastricht budget criteria should remain the relevant guidelines in this regard. Furthermore, within a monetary and banking union, the fiscal power of individual countries to deal with the costs of a financial crisis should be distributed more evenly. To make the risks and costs more evenly spread, member states should try to fulfil the Maastricht budget criteria. The fiscal framework for bank crisis management and national deposit guarantee schemes (the Bank Crisis Management and Deposit Insurance framework) could then be implemented more successfully.

Finally, it is essential that the current regulatory frameworks for crisis management, such as the Bank Recovery and Resolution Directive, keep up with the changes to the financial system brought about by technological advancements. The digitalisation of the financial system is creating new financial products and introducing new actors into the financial system. This creates new risks concerning the prevention and resolution of financial crises. The frameworks and institutions set up after the global financial crisis run the risk of becoming obsolete if they are not brought up to date.

Programme 3: Digitalising the financial system and the emergence of new actors—Big Tech and fintech

The existing system of financial regulation reflects a reactive approach, primarily aiming to prevent a recurrence of past crises similar to the global financial crisis. The focus is on the existing financial system, in particular on the commercial banking sector. In the near future, however, the financial system is poised for significant transformation driven by new digital technologies including artificial intelligence.[6]

This evolution will introduce innovative methods for assessing risks and investment opportunities, as well as new financial products. Actors including Big Tech companies and new fintech companies will enter and transform the financial system to an extent unknown today. Overall, this process is likely to provide benefits to consumers, companies and society, fostering financial inclusion. However, new risks will emerge that require vigilant monitoring by financial regulators.

Within this programme there are three essential projects. The first is to ensure the robust implementation of existing supervisory mechanisms, including the Basel Accords, which set international standards for bank capital adequacy, stress testing and liquidity requirements. There is a danger that, along with new actors, a shadow banking system could emerge that may increase the level of systemic risk unless it is fully monitored and regulated.

The second project addresses the fact that applying the existing rules is not enough. These must also be adjusted to the changes to the financial system brought about by digitalisation. It will be necessary to develop new EU-wide mechanisms to manage the new types of risk presented by a financial system that relies on peer-to-peer and peer-to-business lending, where new as well as old financial institutions will function as intermediaries.

The third project focuses on the need for international cooperation with regard to new financial regulations.

[6] K. Petralia et al., *Banking Disrupted? Financial Intermediation in an Era of Transformational Technology*, International Center for Monetary and Banking Studies (Geneva, 2019); S. Cevik, *Is Schumpeter Right? Fintech and Economic Growth*, IMF Working Paper 24/20 (2024).

It is particularly important that EU and US regulation is coordinated to create a level playing field and similar frameworks for competition and control. The remit of the EU–US Trade and Technology Council should be expanded to include the digitalisation of the financial system.

Conclusions

Preserving the stability of the European financial system requires more than just enforcing existing regulations or concentrating solely on the actions of the current financial institutions. Ensuring future stability demands a proactive approach that considers the ongoing evolution of the financial landscape, particularly in light of the digitalisation of finance. As technological advancements continue to introduce new financial products and bring new players to the market, it is crucial that the financial stability framework evolves in parallel. Adapting to these changes is essential to safeguard the system against emerging risks and ensure its resilience in the face of future challenges.

Often overlooked in discussions on financial stability are the critical roles of macroeconomic growth and public-sector debt. Low economic growth frequently contributes to financial crises, while high public indebtedness prior to a crisis can hinder effective crisis mitigation and exacerbate the situation by leading to a debt crisis.

To prevent future financial crises and ensure robust crisis preparedness, it is essential that the EU implements structural growth reforms. These reforms should aim to align Europe's economic performance with that of the world's high-performing economies. Key to this effort is the strengthening of the single market, which will enhance economic integration, boost growth and increase resilience across the EU.

Furthermore, it is crucial that public debt levels are reduced to create the fiscal space needed for effective crisis management. Strict adherence to the Maastricht budget rules is essential in this regard. The experience of Europe's most successful economies demonstrates that it is possible to combine structural growth reforms with budget discipline. This approach offers a far more promising path than the current trajectory of high debt and low growth. By committing to these principles, Europe can strengthen its economic foundation and enhance its resilience against future financial crises.

	Programme 1	Programme 2	Programme 3
	Avoiding crises	**Preparing for crises**	**Digitalising the financial system**
Project 1	Lawmakers must ensure that regulation and supervision are adequate to handle the new landscape, which includes today's technological advancements and the growth of the fintech sector. The principle of 'same activity, same risk, same rules' must be applied to all EU regulatory and supervisory actions in these areas.	Ensure that current regulatory frameworks for crisis management, such as the Bank Recovery and Resolution Directive, keep up with the changes to the financial system brought about by technological advancements.	Ensure robust implementation of existing supervisory mechanisms including the Basel Accords, which set international standards for bank capital adequacy, stress testing and liquidity requirements.
Project 2	Further deepen the EU's single market for capital. Reforms that spur future growth are an essential, indirect measure to prevent future financial crises. In particular, progress the consolidation of the EU's stock exchanges, clearing houses and national securities laws to unlock deeper, more liquid pools of capital.	Reduce current debt levels in the euro area to create sufficient fiscal space to successfully cope with a future financial crisis. The Maastricht budget criteria should remain the relevant guidelines in this regard.	Develop new EU-level mechanisms for managing risks in a financial system that will be increasingly reliant on peer-to-peer and peer-to-business lending, where new as well as old financial institutions will function as intermediaries.
Project 3	Establish an independent, non-partisan EPBO to fully cost all EU legislative proposals. The EPBO should produce a cost estimate for every bill that is approved by a full committee of the European Parliament. This tool will allow policymakers to better avoid future budgetary crises.	Complete the Banking Union to ensure that banks are robust and able to withstand any future financial crises. The Bank Crisis Management and Deposit Insurance framework should be implemented.	Financial regulation requires international cooperation. Coordinate EU and US regulation to create a level playing field and similar frameworks for competition and control. The remit of the EU–US Trade and Technology Council should be expanded to include the digitalisation of the financial system.

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The Middle Way: Three Ways to Balance Growth and Fairness

by Eoin Drea

Summary

Vast swathes of the established middle classes have lost the belief in their ability to achieve a higher standard of living and offer better opportunities for their children. Although Europe's well-developed welfare states have traditionally mitigated the worst effects of income inequality, it is clear that a perception now exists which emphasises inequality of opportunity and lack of social mobility. Amplified by the recent pandemic, social mobility across Europe is also struggling against the meta trends of increasing automation and rapid technological change. This paper sets out a three-point plan that balances the objective of increasing economic growth with that of ensuring higher social mobility. The three points set out the priorities. First, a focus on the single market as the most important wealth generator in the EU and the potential source of the revenues needed to support increased investment in the future. Second, greater priority for middle-class families, to allow them to better deal with the economic realities they are faced with on a day-to-day basis. This aims to put a sense of control back into the middle-class lexicon. Third, an evolved social market economic model based on the inclusivity of compassion, focusing on mental health, rural areas and affordable housing.

Keywords Middle class – Single market – Social market economy – Intergenerational inequality – Mental health – Affordable housing

Introduction

Writing in 1938, the future British Prime Minister Harold Macmillan noted that the ongoing crisis in 'international political relationships followed hard upon the crisis in domestic and in world economic affairs. This was not an accidental occurrence; the two things are closely related'.[1] In linking internal societal cohesion with broader global unrest, MacMillan was prescient in acknowledging the importance of improving socio-economic conditions as part of soothing larger global conflicts. In his view, this could be best achieved by liberating 'men from want and the unfolding of new possibilities of a more satisfactory and abundant life'.[2]

Although writing nearly a century ago, MacMillan's identification of the centrality of social mobility to societal cohesion remains highly relevant today. In the aftermath of the global financial crisis, the ability of many young Europeans to improve their economic prospects began to decline.[3] Europe's education system—contrary to public perception—has failed to close the attainment gap between children from richer and poorer backgrounds.[4] Amplified by the recent pandemic, social mobility across Europe is also struggling against the meta trends of increasing automation and income inequality.[5]

[1] H. MacMillan, *The Middle Way: A Study of the Problem of Economic and Social Progress in a Free and Democratic Society* (London: MacMillan, 1938), 10.
[2] MacMillan, *The Middle Way*, 12.
[3] *Eurofound*, 'Diverging Trends Across Europe Highlight Stagnation and Decline in Social Mobility' (19 April 2017).
[4] C. Bodewig and L. Gortazar, 'Education's Hollow Promise of Social Mobility in Europe', *Brookings*, 7 December 2016.
[5] M. Giordano and M. C. Padberg, 'Why Europe's Employers Can – and Should – Do More to Improve Social Mobility', *World Economic Forum*, 27 March 2024.

In the broader context, vast swathes of the established middle classes have lost the belief in their ability to achieve a higher standard of living and offer better opportunities for their children. Although Europe's well-developed welfare states have traditionally mitigated the worst effects of income inequality,[6] it is clear that a perception now exists which emphasises inequality of opportunity and lack of social mobility. This self-perception is based on the understanding that 'while on average the economic conditions of the middle class are not worse than they used to be, comparison with the previous generation creates an illusion of great poverty'.[7]

This paper sets out a three-point plan to balance the objective of increasing economic growth with that of ensuring a higher level of fairness and social mobility. These priorities, akin to MacMillan's 'more satisfactory and abundant life' have always been the mainstays of the social market economic model. Yet, these principles now require updating and reinforcing in light of the succession of crises evident in Europe over the past two decades. These crises, accompanied by rapid technological and social change, have made the need for a modernised social market economic model more urgent than ever.

The EU's growth is the mother of all investment

The social market economic model is not just about growth statistics, debt levels and employment figures. At its heart it is about people. However, a growing economy is essential to accrue the financial resources necessary to ensure that social mobility and societal fairness can be revitalised in this post-Covid age. The situation is further aggravated by the fact that significant public investments in digital infrastructure, defence and decarbonisation, and to alleviate the financial burdens of unfavourable demographics, have become unavoidable. De-risking from China will add to the burden.[8]

Politically, the crises of the past two decades—underscored by the ongoing war in Ukraine—have resulted in a focus on policies designed to combat immediate problems. And while this approach is understandable, it has unintentionally resulted in economic growth being overlooked as the essential starting point for public investment. Unfortunately, rather than focus on growth as a prerequisite for further spending, joint borrowing is emerging as a favoured option at the EU level, particularly among those on the left of the political spectrum.[9]

This political focus on the potential of joint borrowing has resulted in the EU's historical source of wealth generation—the single market—being overlooked as the obvious driver of the required financial resources for the decade to come. However, the incoming European Commission still has the opportunity to ensure that further deepening of the single market is repositioned as the most pressing economic objective over the course of its mandate.

It is impossible to overstate the importance (and still unrealised potential) of the EU's single market. Data from before the Covid pandemic highlighted that each year, the EU's GDP was 1.7% higher as a result of integration, which amounted to €250 billion per year.[10] The removal of obstacles has led to a significant increase in trade within the EU. While exports of goods to other EU countries amounted to €671 billion in 1993, this had risen to more than €3.4 trillion in 2021.[11] Even without a dedicated free-trade agreement,

6 G. Fisher and S. Filauro, 'Income Inequality in the EU: General Trends and Policy Implications', *VoxEU*, 17 April 2021.
7 A. Siegmann and M. Schafer (eds.), *No Robots: The Position of Middle-Class Households in Nine European Countries*, Wilfried Martens Centre for European Studies, CDA-WI Research Institute and Konrad-Adenauer-Stiftung (Brussels, 2017), 7.
8 K. Welle and E. Drea (eds.), *The 7Ds – Debt in Depth*, Wilfried Martens Centre for European Studies (Brussels, 2024).
9 Party of European Socialists, *Manifesto for the 2024 European Elections* (2024).
10 P. Muller et al., *The EU Single Market: Impact on Member States*, LE Europe (February 2017).
11 *European Parliament*, '30 Years of EU Single Market: Benefits and Challenges' (2024).

trade between the EU and the US alone is estimated to support around 9.4 million direct jobs.[12]

Yet, the economics of the single market remain dependent on political will, particularly in the areas of services and capital. It requires significant leadership to reduce cross-border obstacles to trade, often in the midst of tenacious, entrenched domestic opposition to liberalisation. The sad reality is that we do not need another report on competitiveness or fostering economic growth. What the EU requires is an unequivocal political commitment to creating jobs and growth.

In this context, it is important for the incoming Commission to clearly signal its rediscovered commitment to further developing the single market as the key driver of growth and jobs in the EU over the next five years. This paper proposes that:

1. The portfolios of the European commissioners for the internal market and for trade be merged, and this role be reclassified as first vice-president of the Commission. This would send a very clear political message to the member states as to the importance of the single market for the incoming administration.
2. Every new EU legal act, policy programme or strategy should undergo a comprehensive competitiveness check to ensure its contribution to boosting the EU's economic efficiency. It is imperative that such a check be conducted in an impartial and independent manner.
3. Every new legislative initiative should be accompanied by a detailed regulatory impact assessment, verified by the Regulatory Scrutiny Board. This assessment must be updated (as required) across all EU institutions.

Real policies for real people

The period since the 1950s has been characterised by fundamental change, wrought by technology and changing social norms. Yet, the basic structure of much socio-economic policy remains firmly based on the models of the past. Social security and pension systems, taxation and even education all are predicated on a system of life-long, continuous employment with a defined retirement date.

However, it is clear that the challenges facing younger generations today are fundamentally different to those faced during the golden age of European economic recovery in the post-war decades. As previously noted, it is also clear that declining social mobility, perceived income stagnation and a pervasive sense of precariousness have fundamentally altered the political landscape of the middle class.

Now topics such as globalisation, free trade, immigration and even stable political systems are viewed as tools of the 'elite', designed to prevent progress for working- and middle-class families. This is the 'politics of fear' which has found fertile ground over the past decade in a Europe largely characterised by an increasing generational divide between younger citizens and those approaching or enjoying retirement.

In this context, many people are understandably desirous of protecting their position, rather than risking aspiring to even greater social mobility. This situation is compounded by the static socio-economic policies, which are often viewed by younger workers as tools to protect the now unaffordable privileges granted to earlier generations.

[12] *European Commission*, 'EU Trade Relations With the United States' (May).

Therefore, it is essential that a higher priority is given to allowing middle-class families to better meet the actual economic realities that they face on a day-to-day basis. This, in effect, means real policies for real people. It aims to put a sense of control back into the middle-class vocabulary. At the heart of this approach is understanding the difficulties of building up wealth and asset accumulation, including saving for retirement. This is a situation which many middle-class families view as having been easier for their parents and grandparents. It is also necessary to directly address the underlying sense of grievance regarding income inequality, and how the fair and transparent distribution of taxation across all sectors of the economy is essential to fostering a broader sense of social cohesion.

While acknowledging that most socio-economic issues fall outside EU competences, it is clear that Brussels can still play an important role in issues such as tax fairness, tackling intergenerational inequality and providing the analytical frameworks for further reform. In particular, this paper proposes that:

1. The impact of reducing the burden of national income taxes on economic growth, employment and financial security should be clearly identified for each member state. Europe's middle-income workers are overwhelmingly pessimistic about their future economic prospects. Reducing income taxes is important to allow them greater control over their financial well-being. *Further expansion of the EU budget must not result in higher taxes on workers' income*s.

2. Childcare is often a huge logistical and financial burden for families, particularly for those with small children and working parents. The EU should support national childcare models to give every type of European family the widest range of work–life balance options. The socio-economic benefits of affordable and accessible models of childcare are well established. They are drivers of social mobility, gender equality, economic growth and social inclusion, particularly in disadvantaged areas.[13]

3. The EU—in conjunction with its member states—should continue to lead the development of a business tax system in Europe which ensures every company contributes its fair share, regardless of size or domicile. This is essential for social fairness. The EU must also support and expedite the ongoing OECD process in this area on a global level.

The compassion of inclusivity

Technology and labour mobility are shaping Europe like never before. The opening up of opportunities to work in different countries has transformed how many people live. Successful urban centres have become magnets for jobs, people and investment. Simultaneously, however, much of rural and small-town Europe is facing a declining population (particularly among the young) and limited employment opportunities.

Yet, the EU's rural and exurban areas account for over 80% of its total area and are home to over 30% of its population. Across Europe these communities feel disconnected and detached from an increasingly remote political process—one which, they believe, gives precedence to the priorities of urban decision-makers rather than to the needs of smaller, less-vocal communities. In many sectors, particularly in agriculture, people believe that their way of life is threatened by an unending deluge of European and national-level regulations. Many feel abandoned by traditional political parties and disorientated by the rapid pace of economic and social change.[14]

[13] H. Penn, *Putting Childcare at the Heart of the Social Market Economy*, Wilfried Martens Centre for European Studies (Brussels, 2019).
[14] E. Drea and J. Daul, *Rural Europe: Our Contract With Rural Europe – A Five-Point Plan for Europe's Heartlands*, Wilfried Martens Centre for European Studies (Brussels, 2023).

In addition, the increasing prevalence of technology has had a host of unintended consequences, particularly among the young. This is a trend that was exacerbated by the recent pandemic. A growing body of evidence links a rise in depression in children to social media use.[15] As it becomes clear that technology—driven by mobile social media access—is building 'an anxious generation' of children, the necessity of public intervention in growing.[16]

To complete the societal challenges facing younger generations today, access to affordable, secure, long-term housing has re-emerged as a key dividing line, often both geographically and generationally. The social consequences of this trend for this group include, but are not limited to, delayed independent living and family formation, declining mental health and a diminishing belief in their ability to match the living standards of their parents. Increasingly vulnerable and insecure, many young people now link the issue of housing with inward migration. Left unresolved, this issue will further polarise (and radicalise) the political choices of younger generations in the years ahead.

The traditional social market economic model needs to be developed based on the compassion of inclusivity. It must be understood that the politics of the middle ground will only prosper if the majority of the population feel that their concerns are addressed in a meaningful way. The following priorities are identified.

1. Develop a more ambitious EU strategy on mental health which specifically sets out cross-border measures to provide support, advice and treatment for citizens of all ages. This has become particularly pressing because digitalisation and the Covid-19 pandemic have brought about a huge increase in the number of Europeans suffering from mental health issues. A key focus should be on developing consistent strategies which address the role of smartphone usage among children and teenagers. Policies should be developed for reducing smartphone access in schools and limiting exposure to social media for children and young teens.

2. Establish an EU health and education corps to place professionals such as family doctors, teachers and community nurses in underserved rural areas. Such postings would be for a fixed period and in return for financial support for training. Rural areas are Europe's heartlands. Yet, many of them are suffering from a shortage of basic public services, including health and education professionals.

3. The lack of access to affordable, secure, long-term housing is worsening divisions in society, reducing social mobility and widening the wealth gap between generations. It is also a key factor fuelling young people's disenchantment with politics. While housing policy must remain a national competence and does not require a European commissioner, the European Investment Bank should significantly expand its existing social and affordable housing financing programmes. In addition, EU state aid rules should be clarified (if required) to facilitate national-level spending on social and affordable housing.

4. If policymakers are serious about confronting the generational wealth gap, they will need to confront the basic inequalities at the heart of Europe's current taxation models. This step poses a significant challenge, particularly for centre–right political parties, which draw substantial support from property owners. However, such is the scale of the social and political challenges outlined in this paper that the greater taxation of existing wealth—primarily housing—will be essential to ensuring increased social mobility, fewer taxes on income for working families and more sustainable social security models in the decades to come.

[15] J. Smyth and H. Murphy, 'The Teen Mental Health Crisis: A Reckoning for Big Tech', *Financial Times*, 26 March 2023.
[16] J. Haidt, *The Anxious Generation: How the Great Rewiring of Childhood Is Causing an Epidemic of Mental Illness* (London: Penguin Random House, 2024).

Conclusion

Vast swathes of the established middle classes have lost the belief in their ability to achieve a higher standard of living and offer better opportunities for their children. Although Europe's well-developed welfare states have traditionally mitigated the worst effects of income inequality, it is clear that a perception now exists which emphasises inequality of opportunity and lack of social mobility. Amplified by the recent pandemic, social mobility across Europe is also struggling against the meta trends of increasing automation and income inequality. This article has identified three priority areas for political action based on the day-to-day socio-economic challenges facing middle-class families today.

	Programme 1	Programme 2	Programme 3
	Reinvigorating the single market, which drives jobs and growth	**Making work pay**	**Developing an inclusive social market economic model**
Project 1	Merge the portfolios of the European commissioners for the internal market and for trade, and reclassify this role as first vice-president of the Commission. This enlarged portfolio should be supported by a designated directorate-general for the single market, as this is the basis of the EU's global prominence.	Reduce the burden of national income taxes (by increasing the levels at which higher income tax rates apply). Europe's middle-income workers are pessimistic about their future economic prospects. Reducing income taxes is important to allow them greater control over their financial well-being. Further expansion of the EU budget must not result in higher taxes on workers' incomes.	Develop a more ambitious EU strategy on mental health which specifically sets out cross-border measures to provide support, advice and treatment for citizens of all ages. This has become particularly pressing because digitalisation and the Covid-19 pandemic have brought about a huge increase in the number of Europeans suffering mental health issues.
Project 2	Restore competitiveness to ensure the future of the single market. Every new EU legal act, policy programme or strategy should undergo a comprehensive competitiveness check under the direction of the first vice-president for the single market and trade. This check must be carried out free from all political considerations.	Support national childcare models to give every type of European family the widest range of work–life balance options. The socio-economic benefits of affordable and accessible models of childcare are well established. They are drivers of social mobility, gender equality, economic growth and social inclusion, particularly in disadvantaged areas.	Establish an EU health and education corps to place professionals such as family doctors, teachers and community nurses in underserved rural areas. Such postings would be for a fixed period and in return for financial support for training. Rural areas are Europe's heartlands. Yet, many of them are suffering a shortage of basic public services, including health and education professionals.

	Programme 1	Programme 2	Programme 3
Project 3	Ensure that every new legislative initiative is accompanied by a detailed regulatory impact assessment, verified by the Regulatory Scrutiny Board. This assessment must be updated (as required) across all EU institutions.	Lead the development of a business tax system in Europe which ensures every company contributes its fair share, regardless of size or domicile. This is essential for social fairness. Support and expedite the ongoing OECD process in this area on a global level.	Housing policy must remain a national competence and does not require a European commissioner due to the unique characteristics of national housing markets. However, the European Investment Bank should significantly expand its existing social and affordable housing financing programmes. In addition, EU state aid rules should be clarified (if required) to facilitate additional national-level spending on social and affordable housing. National incentives to stimulate private-sector-led activity in the 'homes for sale' market should also be utilised where necessary. To combat declining social mobility and increasing intergenerational inequalities, the taxation of existing wealth—primarily housing—must become an even more important source of government revenue in the decades ahead.

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The EU's Own Resources

by Alain Lamassoure

Summary

For the last 30 years, the EU has ignored the issue of how to properly fund its policies. Despite enlargements, new treaties and multiple crises, a consensus in the European Council managed to cap the EU's common budget at 1% of its gross national income. A murky assortment of various intergovernmental funds was expected to make up for the obvious shortfalls.

However, the consequences of global warming, the pandemic, the war in Ukraine and relentless migration pressures have made the current approach unsustainable. Therefore, the time has come for a complete overhaul of both how the EU is funded and the wider system of the EU's own resources. The basis for this should be simple, clear and democratic guidelines: democratic consistency, subsidiarity and fiscal constancy. The transfer of competences to a European level should not result in an increase in overall spending or overall taxation for taxpayers: all other things being equal, Europe must be built at constant costs. New own resources must support the more efficient operation of the single market, the common currency and wider EU priorities.

Keywords Own resources – Single market – Subsidiarity – EU budget – Fiscal constancy – Democratic consistency

Introduction

The discrepancy between the responsibilities conferred upon the EU and its financial means has been the black hole of the European debate for too long. Treaty after treaty, crisis after crisis, the EU has grown into a formidable normative power. Worried by this development, experts from other continents have lamented the 'Brussels effect', whereby Europe's competitors are forced to adopt the same standards, thus making the European model contagious.

And still, inexplicably, this giant has not only feet made of clay, but tiny ones: like a sky-high sequoia with bonsai roots. For the last 30 years the EU common budget has been stuck at 1% of EU gross national income (GNI). Therefore, the global ambitions of the European Council have long been murkily funded by a mishmash of various intergovernmental funds that have escaped parliamentary control, or have been resounding commitments deprived of specific timetables.

In 2020 the great disruption of the virus-driven crisis was a game-changer. A European Recovery Programme, with funds five times higher than the annual budget, was established through European borrowing, guaranteed by fresh EU own resources that were to be specified at a later date. This programme was announced as a one-time operation, meant to save national budgets from a once-a-century crisis, not to fund EU policies. Then, a short while later came the war in Ukraine and the prospect of a further enlargement of the EU. Throughout, global warming has been getting worse. As a result, the gap between the sum of European commitments and the EU budget has become wider and increasingly unaffordable. Any way out of this quagmire requires the creation of new EU own resources.

State of play

A unique feature which makes the EU stand out among international organisations is its capacity to raise public revenues. From day one the basic treaty specified: ‘The Union shall provide itself with the means necessary to attain its objectives and carry through its policies. . . . The budget shall be financed from own resources’ (art. 311, Treaty on the Functioning of the European Union).

In the early days, the customs duties levied on imports from third countries were sufficient to fund the budget, which was mostly dedicated to agriculture. But over time, EU policies and members have multiplied, while global trade agreements have reduced the income from duties. National contributions to fill the gap were introduced in the late 1980s, intended to be temporary and complementary. Today, they account for two-thirds of the EU’s total revenue. This GNI-based resource is supplemented by two other national contributions which are based on value-added tax (VAT) and the levy on plastic packaging waste. Together, these national monies bring in almost 80% of the EU budget: €136 billion out of €142 billion in 2024. Moreover, these national contributions are not fair. A legacy of British membership is that the contributions of the richest countries are capped, meaning that the poorest ones pay relatively more.

On top of this, the EU budget as such is embedded in a seven-year framework. This Multiannual Financial Framework (MFF) sets annual spending ceilings for the seven categories of EU policies. It is adopted by unanimity by the Council, with Parliament only being allowed to give or withhold its consent.

Such a procedure ensures that the last word belongs to the stingiest or the least keen member of the club: every national leader is bound to compare their contribution with the direct return for their country. It is small wonder that the current MFF is set at less than 1% of GNI, at €1,065 billion for the term 2021–7. The original priorities of the 1990s, agriculture and regional policies, still absorb two-thirds of the budget. Thus new requirements, such as competitiveness, research, green energy, digital technologies and defence are left with a paltry amount, well below the necessary critical mass. Europe literally pays itself with words.

During the last term of office, in return for its consent for a frustrating MFF, Parliament called for a schedule for the tabling of new own resources proposals by the Commission. However, the latter kept postponing the agreed deadlines and put forward a blend of half-serious and half-unrealistic schemes, while the Council sometimes did not even vouchsafe to put them on its agenda.

In 2020 an elephant entered the room: owing to the consequences of the pandemic, the sleight of hand of the European Recovery Plan brought in a further €800 billion, entirely borrowed by the EU on the financial markets. This can be viewed either as a splurge on European common priorities or as a salve for national finances. But the facility is not designed to last for ever: this spending spree will be over after 2026 and we will be back to square one.

Policy recommendations

More money for Europe through new European taxes: it is difficult to imagine a battle less likely to be won. That is, that would be the case if we do not change the perspective or build on solid foundations. Therefore, the time has come for a complete overhaul of the system in order to build it on simple, clear and democratic principles, in line with the European People’s Party’s philosophy.

The principles

The first principle is that of democratic consistency. European decisions democratically taken must be democratically funded by elected European decision-makers wielding European own resources. From this principle flow the following:

- The timespan of the MFF should overlap with the terms of office of the Parliament and the Commission. Thus, the election campaign should include the proposed funding for the respective platforms, giving the new team in charge the means needed for their tenure.
- The MFF should be passed by a super-qualified majority in the Council, and amended by a qualified majority in the Parliament. Without this change, the stingiest or the grumpiest of the member states would still be able to stall the whole process.
- The same procedure should apply to the creation of new own resources. This would not need a transfer of tax sovereignty. If a member state refused to levy a new European resource, a penalty could apply to its returns from the EU budget.

The second principle is that of subsidiarity. Subsidiarity means that every public task must be entrusted at the most relevant level, not at the lowest or the highest. In budget matters, subsidiarity translates into the principle of constancy. Whatever the choices in the distribution of roles, in no case should the transfer of competences and means to another level result in an increase in overall spending or taxation for taxpayers: all other things being equal, Europe must be built at constant costs.

We can even expect the pooling of resources and talents to sometimes guarantee more efficiency for less money. Thus devised, the EU budget must not be a burden on national finances but rather offer a more efficient replacement of national tasks and costs at the EU level. For instance, if we mean business in transforming Frontex into a fully fledged European agency, the 10,000 or so border guards employed at the EU level will no longer be needed at the national level.

These considerations give rise to the following recommendations:

- *Ex ante* measurements should be taken of the net savings possible at the national level in return for new EU action. No European agency or administration should be created without comparing the advantages and costs of action at the national and European levels.
- Likewise, national staff and financial means should be transferred in line with new transferred competences.
- Every tax rise or creation at the EU level should be compensated for by a fall in another tax or at another level.

The whole system should be monitored by national and European parliaments. To make the approach credible, an overview should be provided by a competent and independent judge. The best plan would be to network the European Court of Auditors and the national equivalents. These bodies could evaluate, for instance, the savings made possible at the national levels by the transfer of competences to the EU level. The guarantee that savings would be made at a national level would be an absolute condition, necessary to placate the foreseeable concerns from ordinary citizens and national parliamentarians.

Proposals

Once this overarching precondition has been assured, several avenues are worth exploring for the creation of new EU own resources. Technical and political realism recommends close linkages with the single market and EU competences.

The simplest idea, which has never been considered, is to utilise VAT. There is a misunderstanding about VAT and EU own resources. As early as the 1980s, VAT was utilised as an additional financial resource to complement the income from customs duties. However, VAT has so far only been used to assess the respective wealth of member states, in parallel to GNI. Even if the methods chosen for this first attempt were flawed, let us not forget that VAT offers several merits as a common reference point:

- It is the most efficient of all taxes: it brings in half of total revenue at the national level.
- For 40 years it has been the only harmonised European tax. Thus, our administrations are completely familiar with the technical specificities, which are the same in all the member states.
- The arrangements necessary to devise a common European supplement to national VAT rates would be relatively simple to work out, and likewise simple to agree upon at the political level.
- The proceeds of VAT are entirely proportionate to economic growth, and are closely linked to the development of the single market. An extra mini-rate added to each national base rate could easily appear on invoices, enabling the consumer/taxpayer to realise that they are financing the EU budget.

An alternative would be to levy a corporation tax. As early as 2020, the European Parliament, the Council and the Commission jointly agreed that an own resource linked to the corporate sector should be proposed. Similarly to VAT, there are wrong and right approaches. The wrong one refers to a vague global agreement obtained in the OECD's *Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy*: this agreement is subject to implementation by all OECD members, including the US.[1] The right approach would build on a very concrete and purely European project, the Common Consolidated Corporate Tax Base, as proposed by the European Commission in 2016. A further merit of this scheme would be to settle the issue of taxing multinational technology companies. Hailed and supported by an overwhelming majority in the European Parliament six years ago, this proposal was set aside by the Council in favour of the OECD mirage.[2] It needs to be revisited, both to improve fair competition inside the Union and to offer a base of one or two extra percentage points of funding for EU policies.

A third option would be to impose green taxes. A global key challenge, and a mainstay of EU policies since the Green Deal, is the economic desire to make the wasting of energy expensive: all are in favour of 'green' taxes, and allocating some to the Union also garners broad consensus among European states and political parties.

[1] OECD, *Statement on a Two-Pillar Solution to Address the Tax Challenges Arising From the Digitalisation of the Economy* (Paris, 8 October 2021).

[2] The timeline for the European Council's withdrawal of this proposal is set out in *European Parliament, Legislative Train Schedule*, 'Common Consolidated Corporate Tax Base (CCCTB)'.

The following points can be added:

- The tax on plastic packaging waste should be turned from a statistical curiosity into genuine taxation. Set up in 2021, it has provided a not insignificant sum to national contributions to the EU budget, unbeknownst to taxpayers and barely noticed by members of national parliaments.
- The proceeds of the European Trading System represent a blueprint for European own resources. The scheme affects 1,500 major industrial facilities in the Union, but so far the auctions of these 'rights to pollute' have fuelled national budgets and not the EU one. Still, the market is Europe wide, the legal basis of the scheme is European, it is managed by the Commission and its target showcases the EU's priorities (i.e. the Green Deal). There is no reason why a sizeable part, if not all, of this revenue should not accrue to the EU. This is all the more the case since member states are obliged to spend all of their revenues from the scheme on climate action: so far, it has operated as a reversed own resource!
- For smaller polluters, the Commission and the Parliament have been intent on establishing a carbon border adjustment mechanism. But its foundation is questionable: how can the carbon content of an imported product be measured? And how can such a protectionist customs duty (in all but name) be designed in such a way as to make it admissible by the WTO? Pending the relevant answers, its entry into force has been postponed until 2028. It would be simpler to add an extra European contribution to the excise duties on fossil fuels that exist in most member states.

Fourth, the proceeds of GNI could be treated as a genuine own resource. This would mean that all unexpected receipts could be made available to increase the volume of EU spending, if necessary. Fines imposed by the Commission or the Court of Justice on the grounds of breaching the competence rules often reach into the double digits of billions of euros. Currently, these are treated as national resources since they are deducted from national contributions. This is unfair and does not encourage the Commission to punish well-off trespassers.

Fifth, the 'seignorial duty', earned by the European Central Bank due to its monopoly on issuing money in the eurozone, is probably highly profitable (its value is a secret to all but central bankers and finance ministries). Its use would be well-suited to spending on policies implemented by eurozone members, safe in the knowledge that, in the long run, all EU members will have to join the eurozone.

However, the potential for developing larger own resources at the European level cannot be considered in isolation from the issue of further EU joint borrowing.

A fresh, relevant approach would be to link further EU borrowing with compliance with the Stability and Growth Pact (SGP). Those countries fulfilling their SGP commitments could qualify for relief on their own investment efforts via a European fund financed by further EU borrowing. Any project financed by European loans would be limited to eurozone members and guaranteed by existing taxes. Until these guarantees are established, every member state should incorporate its share of the common debt into its national debt. Only policies generating measurable financial, economic or environmental profits and duly specified in the MFF should qualify for EU borrowing.

Also, it would be helpful in many ways to launch the titanic work of harmonising the key concepts and rules of public accounting in the EU, in order to secure transparency and fairness between member states. The matter has always been deemed too technical to appeal to politicians, and civil servants are not eager to upset their traditional ways of working. But had we achieved this boring chore previously, a lot of misunderstandings and good or bad faith spats around the interpretation of the SGP could have been averted.

Conclusion

The prerequisite for tackling this thorny issue is that the ostriches pull their heads out of the sand. Fixing the EU budget and putting in place new own resources does not need a legal revolution: on the occasion of the agreement of the next MFF or the settlement of the European Recovery Programme, the signing of a new interinstitutional agreement could be enough, pending a possible treaty. After all, the MFF procedure had been smoothly applied for two decades before its introduction in the Lisbon Treaty.

	Programme 1	Programme 2	Programme 3
	Founding the EU's financial resources	**Introducing green taxes as an important additional contributor to own resources**	**Ensuring the right technical framework is in place**
Project 1	Compensate for every tax rise or creation at the EU level with a fall in another tax or at another level. An expanded EU budget must not be a burden for national finances but a more efficient replacement of national tasks and costs at EU level.	Turn the tax on plastic packaging waste from a statistical curiosity into genuine taxation.	Use the profits from 'seignorial duty' as part of the EU's expanded own resources to contribute to policies implemented by eurozone members. Seignorial duty is the difference between the value of money and the cost to produce and distribute it. It is probably highly profitable (its value is a secret to all but central bankers and finance ministries).
Project 2	Apply an extra mini-rate of VAT to each national base rate. This could easily appear on invoices, enabling the consumer/taxpayer to realise they are financing the EU budget. VAT is uniquely suited to underpinning the EU's financial resources. It is the most efficient of all taxes: it brings in half of total revenues at the national level. It also applies across all member states.	Use a sizeable part, if not all, of the proceeds of the European Trading System to fuel the EU budget instead of national ones.	Link any possible future joint borrowing at the EU level with compliance with the SGP. Any project financed by European loans should be reserved for eurozone members and guaranteed by existing taxes. Until these guarantees are established, every member state should incorporate its share of the common debt into its national debt. Only policies generating measurable financial, economic or environmental profits and duly specified in the MFF should qualify for EU borrowing.
Project 3	Create the basis for the EU's financial resources to be linked to the corporate sector. The Common Consolidated Corporate Tax Base—which was supported by an overwhelming majority in the European Parliament six years ago—would both improve fair competition inside the Union and increase the means of funding EU policies.	Add an extra European contribution to the excise duties on fossil fuels that exist in most member states.	Take the project of harmonising public accounting standards across the EU seriously and implement it as soon as possible.

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EU Debt and the Credibility of the EU Budget

by Adriaan Schout[1]

Summary

A credible EU budget is more important than its size. Rather than starting with negotiations on the size of the EU budget—a sensitive matter—it might be useful to first diagnose and improve its quality. Applying the EU principles of good governance could provide the structure for a much-needed discussion of the quality of EU spending. Good governance principles relate to evidence-based assessments of results, independent accounting, keeping EU regulation (also regarding EU funds) as light as possible and ensuring that member states have their own independent capacities for assessing the usefulness of this spending (subsidiarity). As it stands, little is known about the actual outcomes (effectiveness) of this spending. EU funds suffer from bureaucratisation that complicates project selection. Moreover, the need to invest in predetermined public goods, the trend towards adding conditionality and the list of requirements for funding complicate the selection of projects, transparency and the extent to which member states feel ownership.

Keywords Multiannual Financial Framework – Eurobonds – Good governance – EU public goods

Introduction: the credibility of the EU budget

As we move towards 75 years of European integration and cooperation, the question that needs to be addressed is, what level of common standards for member states can be set and supervised? Essential good governance standards include transparency, the independence of information gathering and monitoring, subsidiarity and proportionality. These requirements create national ownership of and public respect for (EU) policy. In 2026 it will be 25 years since the White Paper *European Governance* was published after the fall of the Santer Commission. This paper uses good governance principles to examine the quality of the EU budget. Put differently, the budget is a case study to reflect on the quality of EU governance.

With the ever more ambitious EU agenda, the debate over eurobonds will remain high on the agenda. How can this next step in the EU's finances be justified? The focus here is not on the size of the EU budget or on its priorities. The first requirement for the acceptance of EU debt will be the assurance that the Union's expenditures are credible.[2] Credibility of spending is partly determined by whether member states are able to select effective projects, manage these projects efficiently, avoid giving the impression that the absorption of funds is a goal in itself, and achieve the agreed objectives, such as convergence and sustainable development. Moreover, it has to be clear that programmes are well audited and duly evaluated so that the legality of EU spending is ensured and the public knows that the funds have delivered (effectiveness).

This 7Ds contribution is about the quality of the *ex ante* project selection and the *ex poste* accountability of EU spending. Given the widely shared criticism of the functioning of the EU budget, any discussion on its future has to be linked to quality guarantees to ensure that solidarity goes hand in hand with solidity.

[1] This contribution to the 7Ds project is based on two Clingendael publications: A. Schout, *Cohesion Policy: A Management Audit*, Clingendael, Policy Paper (2024) and A. Schout, *Maximizing Effectiveness and Efficiency of the EU Budget: EU Investment Programs and National Public Investment Capacities,* Clingendael, Policy Paper (2024).

[2] The idea of 'credibility' overlaps with the broader term 'legitimacy'. Both relate to trust in quality and public support. Yet, legitimacy also touches on the role of parliaments. The assessment of credibility in this paper is, however, limited to *ex ante* and *ex post* quality-control systems.

Priorities now high on the EU agenda include industrial policy, defence, continued support for Ukraine, implementation of the Green Deal, managing migration and improving infrastructure (energy, digitalisation and transport). This list has resulted in considerable political pressure to continue with the debt-financed Next Generation EU (NGEU) programme, which almost doubled the EU's budget for the 2021-7 period. Moreover, the member states are already overburdened, with public debt levels of well over 80%. Given the difficulties in reforming the existing budget and its priorities, and as also indicated in the Draghi Report, a serious debate on funding is necessary. Although transfers from the EU budget are often seen as a form of necessary solidarity and as compensation from strong Northern countries for access to the internal market, this does not make debating the quality of the EU budget less important.

Enduring support for EU spending depends on the Union financing the right things. This demands proper investment planning and appropriate accounting. Both these aspects need to be reconsidered. Despite the political sensitivities surrounding the EU budget, its credibility has received little attention. Importantly, credibility highlights the unresolved issues in the debates on the EU budget: its effectiveness, the way in which funding priorities are defined, the extent to which member states actually take ownership of the objectives of EU funding and whether accountability is sufficiently transparent.

Unpacking 'credibility'

The Multiannual Financial Framework is often presented as a relic of the past. Despite many attempts, it has proven difficult to reform, and attempts by the Commission have stumbled over political sensitivities in the Council. Given the pressures to align the EU budget to the new geopolitical and policy priorities, reforms will be hard to postpone at this point. Rather than starting at the policy end, this paper proposes starting with a debate on the budget's credibility, defined as the legality and effectiveness of EU spending. The concepts of legality and effectiveness relate to rules and procedures, and this technocratic perspective might trigger fewer battles over vested interests and offer suggestions for long-term solutions.

Broadly speaking, two phases can be distinguished in the management of any budget: the initiation of projects and the *ex post* approval of spending (see Table 1). When it comes to evaluations of the EU budget, most attention has traditionally been devoted to the legality of the spending at the end of a project and in the annual reports of the European Court of Auditors (ECA) (Box II, Table 1). The legality of the spending relates to whether money was spent according to the rules of the specific fund, of public procurement and of state aid. Legality is first audited by the member states and subsequently by the Commission's own internal auditors. Moreover, the European Court of Auditors checks the accounts and the spending of the European Commission and presents an annual report on the budget. In the Court's opinion, it is of key importance that irregular spending should not exceed 2% ('materiality threshold'). As a result of the additional NGEU budget, and the push to commit the funds on time (absorption), the margins of error reported by the ECA in 2023 for Cohesion Policy increased to 6.6% due to the need to spend more and the temporary 100% EU financing. Higher spending and the lack of co-financing therefore come with a risk to the credibility of the budget.

Aside from this percentage being too high, the auditing of Cohesion Policy funds highlights the politicised struggle that goes on behind the scenes when the legality of expenditures is audited. National authorities and the European Commission are the first to report on the margins of error. Yet, the member states tend to lack sufficient independent capacity to report the figures correctly. Subsequently, the Commission audits the figures provided by the member states and corrects irregularities in the reporting, but only to some extent. Hence, the error margins identified by the ECA end up being greater than those reported by the member states and the Commission. These discrepancies indicate that the accounting process lacks transparency and point to the well-intended but politicised involvement of the Commission in project management and project auditing. Ensuring legitimacy requires that the accounting and reporting methods should be revisited to align them with the principles of good governance.

With the focus being on the legality of spending, much less attention is devoted to the results—that is, to the effectiveness of these expenditures (Box IV, Table 1). The ECA has begun to write more Special Reports on the outcomes. However, given the number of projects across the EU and the need for a detailed knowledge of their impact, more insight into the effectiveness of spending will have to come from the member states and regions where the impact of EU spending is felt. Yet, the national audit authorities (supreme audit institutions) have, by and large, avoided examining the impact of EU spending. The European Commission does report on the results of EU funding programmes, but its central involvement and interests in absorption complicate its role as independent assessor. Experts tend to be critical of the Commission's 'marketing' reports on achievements (an expression that was used by an expert in a personal conversation). As things stand, Boxes I and II are more or less covered in current ways of working. But credibility is to a large extent based on the actual results for which Boxes III and IV are important and for which we see only limited attention.

Table 1 The credibility of the EU budget

	Project initiation	*Ex post* accountability
Legality	I Complying with both rules as defined in the Regulations for EU funds and public procurement rules to stimulate competition and avoid corruption	II Auditing of expenditure by the Commission and by the ECA (the current way of working for most EU financed programmes)
Effectiveness	III Project selection aimed at maximising added value for the EU and/or for the member states	IV Independent assessment of results

Reconsidering 'effectiveness'

Another aspect of the EU budget that has received relatively little attention is project management (project selection and the setting-up of project-management structures; see Box III) even though it is at this stage that the effectiveness of projects is determined. Within bodies such as the International Monetary Fund, the OECD and the EU, the challenges of setting up project-management systems aimed at delivering results are well known—but again with an emphasis on efficiency. For the EU the 'efficiency gap' is estimated to be between 15%–20% due to, among other factors, waste, corruption and lack of competition.[3] However, the variations are large, given the differences between advanced and less-advanced countries and regions, and between sectors. Infrastructure projects generally score better given their size, political salience and the related careful scrutiny of the Commission. The efficiency gap can be ameliorated through careful project selection and design of management systems, and the Commission offers ample assistance in project management and for capacity building. Yet the differences in efficiency in spending among the member states remain considerable.

[3] G. Schwartz et al. (eds.), *Well Spent: How Strong Infrastructure Governance Can End Waste in Public Investment*, International Monetary Fund (Washington, DC, 2020).

When it comes to effectiveness, a specific problem relates to a tendency to bureaucratise project management. The many objectives of the EU, from growth and greening to social inclusion, and the need to meet the reporting requirements of many indicators (e.g. measuring the contribution to sustainability and gender balance) dilute the focus of projects and steer their management towards a box-ticking exercise. One of the recurrent themes in the debates on reforming the budget is the reduction of bureaucracy to increase the efficiency and effectiveness of spending.

It is understandable to some extent that effectiveness has received less attention. Effectiveness should not be a problem in democratic societies where the political level decides on the objectives of the investments. It is the subsequent task of the administrative system to ensure value for money (efficiency). In a perfect democratic system, effectiveness is guaranteed, given that the political level decides on what is important. In reality, EU decisions on the objectives to be achieved through the provision of funding are compromises between the member states and the EU institutions.

These compromises create various kinds of problems. First, EU programmes define the areas for investment, but these EU priorities may not match the specific needs of countries and regions. Compromises can cause ‘target overload’. This can be seen in Cohesion Policy, for example, which covers a plethora of social, regional, gender and environmental objectives. The Resilience and Recovery Facility of the NGEU targets specific objectives (greening, digitalisation and competitiveness), as well as obligations to reform policies and institutions. The overload of objectives and requirements complicates the allocation of funds, hampers transparency on decisions as to whether spending is justified and gives the Commission ample room for manoeuvre to award funding as it can always be justified. This also explains why member states generally receive the funding. Hence, the focus has been on following procedures (the legality of spending), not on effectiveness.

This triggers a second problem, that of ownership. Member states receive earmarked funding and are keen to use it even though the subsidised projects may be politically and economically less relevant than projects on the national list of priorities. Moreover, even if ‘EU added value’ were to be defined at the EU level, this would not imply that this added value would be equally felt in the member states. Transport is an obvious example where EU preferences for long-distance cross border connections clash with the realities of national and regional interests. EU public goods may not be identified as being national public goods.

A third problem is the mismatch between funding needs and the funds that are available. Some member states have departments set up specifically to spend the sizeable EU funds. These departments operate quite independently from the national public investment agenda, for which money may be scarce. This gives rise to a situation in which, on the one hand, EU funds may be looking for projects—and even projects that the countries involved do not really want—while on the other hand, national projects that are needed may be suffering from underfunding. Italy is currently stopping projects funded by the Recovery and Resilience Facility, whereas in other countries the costs of projects are going up due to a lack of competition for the funds available.[4]

Conclusions and discussion

Debates on EU investments and EU debt will increase while prospects for budget reform look slim. Continued frustrations over the modernisation of the EU budget are quite likely. Instead of meeting the debates over the size and distribution of the EU budget head-on, it might be wise to start by mapping

[4] S. Cantarini, ‘MEP: Italy’s Post-RRF Spending Cuts Set Dangerous Precedent for EU Funding’, *Euractiv*, 3 June 2024.

and diagnosing the underlying problems concerning the legitimacy and effectiveness of EU spending. Political pressure to deliver a new budget will be high, so it might be productive to begin by defining the quality criteria for a credible EU budget.

To arrive at a more legitimate budget, auditing needs to be placed in the hands of independent and transparent bodies operating outside of the European Commission and the responsible national ministries. Neither the Commission nor the member states will be inclined to move in this direction. The current ways of working allow for almost continuous negotiations between member states and the Commission over changes to projects and, if necessary, over the scaling down of expectations. This helps to ensure flexibility in project management in the face of price increases and setbacks along the way, but it also raises the question of whether the Commission is too closely involved. Moreover, member states are more or less guaranteed to get their funding and audits approved. The system is focused on the absorption of funds and on preventing member states from ending up with unpaid bills.

Improving the management of the EU budget should be linked to the good governance principles of (network-based) subsidiarity, independent monitoring and accounting, and transparent reporting. To strengthen the EU's effectiveness, national audit institutions (independent agencies) should assess the legality and results of projects. So far the national supreme audit institutions have shown little interest in assessing the outcomes of EU spending.

Moreover, the question needs to be raised of at which level political decisions should be made regarding defining the objectives of funding programmes. Should the EU budget aim to achieve EU added value despite less national ownership or finance national added value in the hope that in the end everyone benefits? Should member states themselves decide on how to use the subsidies? This would allow the centralised rules and supervision to be slimmed down. Some countries may prefer to spend more on the green transition or education, while others might spend more on growth and defence. Such changes can only happen, however, if independent and transparent auditing of the outcomes of projects is guaranteed. National flexibility requires national credibility.

The introduction of eurobonds is likely to remain part of the debates on the EU's finances. Given the current state of play of the EU budget, there are good reasons to be critical of the use of common debt. So far little progress has been made to address the underlying weaknesses in assessing the effectiveness of spending. Addressing the issues that undermine the credibility of the EU budget could be a useful step out of the impasse and of the repetition of failed debates on budget reform. A credible budget is more important than its size.

	Programme 1	Programme 2	Programme 3
	Building on the EU level: good governance	**Ensuring multilevel interdependence**	**Establishing national-level preconditions**
Project 1	Use the EU budget as a case study to assess the quality of the core themes of good governance, including transparency, accountability and independent supervision. EU debt will, in part, depend on the quality of EU spending. In 2026 it will be 25 years since the White Paper *European Governance* was published after the fall of the Santer Commission.	Assess the themes highlighted in the 2001 White Paper *European Governance*. What is the state of transparency? Have independent agencies been accepted at the national level? The management of the EU budget indicates that major gaps persist both at the national level and in EU networks.	Using teams, assess the national investment systems—the quality of these varies considerably.
Project 2	Re-examine the level of harmonisation, with a view to allowing member states more flexibility in spending.	Examine the role of the budget in stimulating economic convergence. Some countries have had persistent problems with convergence; others have performed remarkably well. To what extent is convergence linked to the use of the budget? This could offer a basis for reconsidering the role of the EU budget.	The next Commission should assess the quality of the legislation of EU funds with a view to subsidiarity, proportionality and impact. The bureaucracy of EU funds hampers the effectiveness of its spending.
Project 3	Give priority to enforcement, the required networked-based institutions of checks and balances, and the separation of roles, which are currently in the hands of the Commission.	Examine the effects of the reports by the ECA that have highlighted the weaknesses in EU spending. This spending as a shared responsibility has been the object of 25 years of frustration.	Member states should reconsider the use of conditionality. Does conditionality complicate the effectiveness of EU spending? Does it hamper national ownership of the EU funds?

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Decarbonisation

Table of abbreviations

ACER	Agency for the Cooperation of Energy Regulators
CBAM	Carbon Border Adjustment Mechanism
CfD	Contract for Difference
CRM	Critical Raw Materials
CRMA	Critical Raw Materials Act
EIB	European Investment Bank
EMD	Electricity Market Design
ESG	Environmental, Social and Governance
GDIP	Green Deal Industrial Plan
MFF	Multiannual Financial Framework
NZIA	Net Zero Industry Act
PPA	Power Purchase Agreement
R&D	Research and Development
REE	Rare-Earth Element
RES	Renewable Energy System
SME	Small and Medium-Sized Enterprise
UNEP	United Nations Environment Programme
WTO	World Trade Organisation

Introduction

by Peter Hefele

With its 2019 Green Deal and the goal of carbon neutrality by 2050, the EU aims to become the most influential global actor when it comes to advancing the international agenda on decarbonisation and the fight against climate change. Geopolitical conflicts have increasingly shifted political priorities and resources, making the commitments pledged in the previous decade even more challenging to achieve. At the same time, resilience and economic security have become key criteria for the future transformation.

Through its domestic and external relationships, the EU has to be able to ensure a sufficient and reliable supply of materials, fuels, technologies and skills, while meeting the energy demand of its citizens and industries in a secure, flexible and efficient manner. The benefits of the transformation project must be balanced with the need for social acceptance. Openness towards manifold innovation patterns is as important as political and regulatory predictability.

Given the gigantic financial resources needed to transform the existing fossil-based economies, the role of the private sector is crucial to making this happen faster and in a more cost-efficient manner. The volume of private investment in technology and infrastructure must be scaled up massively, as public sources will be less available due to the already high levels of debt. Due to the the existing regulatory framework, financial instruments are still not sufficiently accessible for a large part of the corporate sector. In particular, small and medium-sized enterprises (SMEs) lack access to bond market investors and various sophisticated products.

For too long, issues linked to the green transition have been separated from those related to the security of raw materials. But this ignores the ways in which both kinds of issues are inextricably bound up with each. This is because some of these raw materials are components essential to digitalisation, and the green transition and digitalisation are inseparably linked with each other. Ensuring a stable and affordable raw material supply chain without getting into new import dependencies, with all their geopolitical implications, requires a strategic reorientation of European politics.

The EU has to regain lost ground in the design and production of innovative clean technology. Most of the progress in this area is being made in North America and Asia, and it is there that most large-scale production is also taking place. State subsidies have distorted the level playing field and given rise to daunting challenges for European companies.

Wielding Decarbonisation to Swell Energy Security and Energy Resilience in the EU

by Bernd Weber and Sam Williams

Summary

This paper outlines strategies for enhancing energy security and resilience in the EU amidst geopolitical upheavals and the protectionist and interventionist industrial policies adopted by global competitors. Focusing on technological innovation and green business models, this paper suggests a change of paradigm, positioning decarbonisation as the catalyst to reach EU energy security, energy resilience and economic growth. Key recommendations include implementing a future-proof electricity market, diversifying energy supply chains, supporting small and medium-sized enterprises and cleantech startups, and creating polycentric energy and climate partnerships.

The paper also emphasises the importance of integrating the EU's energy markets to increase supply and decrease energy costs. By fostering a single market for innovation, offering financial incentives and leveraging international cooperation, the EU can mitigate import vulnerabilities and drive the green transition, while avoiding short-sighted, isolationist strategic autonomy approaches that run the risk of stifling innovation and growth.

Keywords EU energy security – Energy resilience – Decarbonisation

Introduction

Recent geopolitical disruptions and increasingly protectionist and interventionist competition from global powers have exposed vulnerabilities in the EU's energy supply chains, necessitating a comprehensive re-evaluation of industrial and energy security strategies. The EU's heavy reliance on a few third countries for energy imports and specific parts of the value chain with regard to renewable energy[1] and clean technologies[2] has highlighted the urgent need for a resilient and sustainable energy policy approach. This paper explores the current state of the EU's energy resilience, taking a look at the electricity market, cleantech and the industrial decarbonisation race, and international partnerships, and provides concrete policy recommendations for strengthening energy resilience through innovation and international cooperation.

State of play

Geopolitical tensions, such as Russia's war on Ukraine, have underscored the risks for the EU associated with relying on only a few energy sources from a limited number of third countries, as disruptions to supply could have severe economic and social consequences. Simultaneously, increased competition in cleantech manufacturing and the procurement of raw materials on the global stage by actors such as the US and China is challenging the EU and highlighting the risks of accepting the status quo,[3] which would effectively mean falling behind in terms of wealth creation and innovation.

Defined as 'the ability to shield the energy system from internal and external shocks', energy resilience must

1 *European Commission*, 'Energy Statistics – An Overview' (2022), 1.
2 For example, solar panels; B. McWilliams et al., 'Smarter European Union Industrial Policy for Solar Panels', *Bruegel* (2024), 2.
3 For example, with regard to lithium-ion batteries: Cleantech for Europe, *EU Cleantech Quarterly Briefing* (Brussels, 2024).

increasingly be understood as a synonym for energy security and energy transition.[4] A holistic approach to ensuring energy resilience is needed, as energy resilience and an industrial agenda geared towards climate change are mutually dependent and mutually reinforcing. This approach needs to reflect the role energy systems play and the services they provide with regard to two elements. First, it should ensure the sufficient and reliable supply of the materials, fuels, technologies and skills needed to maintain the pace and scope of the planned transformation of the energy systems. Second, it should provide for the ability to meet the projected primary energy demand, and enable the system to produce (affordable and clean) energy for industries and households to use in a secure, flexible and efficient manner, at all times.

The US has initiated substantial investments in climate-friendly technology through the Inflation Reduction Act, focusing on building a future energy economy and manufacturing industry, while countries in Asia have also made strides in supporting the domestic production of climate-friendly technologies. China leads in solar and wind energy, while Japan, Korea and India are all enhancing the incentives to produce cleantech.[5]

The EU has responded by focusing on integrating climate policies into its trade and economic strategies. It has also, to some extent, been working on enhancing its energy infrastructure and fostering cross-border integration to support the sustainable energy transition. Despite still being in ‘the driving seat of global decarbonisation’ thanks to the European Green Deal,[6] Europe faces several challenges to fully integrating its climate policies into a cohesive economic, industrial and trade strategy, starting with issues with its internal electricity market.[7] Additionally, the EU’s strategy on energy security dates from 2014, calling for a prompt and contextualised update.

Following the recent reforms to the electricity market design (EMD),[8] the EU’s electricity market needs further mid- and long-term adjustments, focusing on integration and evolution to lower procurement costs and provide investment and innovation incentives. The main issues include insufficient price signals, lack of flexibility, limited system integration of renewable energy sources (RES) and market fragmentation across member states. With the inherently intermittent nature of RES, enhancing flexibility and storage capacity is crucial to maintaining a stable and reliable energy supply.

If not tackled, these challenges will hinder the market’s efficiency, stability and ability to adapt to evolving energy demands and decarbonisation goals.[9] The European Commission has highlighted the need for investment in grid infrastructure to accommodate growing RES and electrification demands. The Grid Action Plan emphasises the importance of anticipatory investments and faster permitting procedures for efficient grid expansion and modernisation. Additionally, the EU has stressed the need to create a regulatory framework that incentivises grid operators to invest in these necessary upgrades while managing consumer electricity costs fairly.[10]

The Net Zero Industry Act (NZIA) suggests the use of various instruments and measures to bring EU industries to net zero. These include promoting carbon capture and storage technologies to address emissions from hard-to-abate sectors. It also recommends the use of energy regulatory sandboxes that could be effective for scaling new and currently less-developed technologies, for instance, innovative storage solutions. The NZIA emphasises the importance of the development of ‘hydrogen valleys’ for industrial use, accelerating the

4 B. Weber et al., ‘An Industrial Agenda to Increase Germany’s Energy Resilience’, *EPICO KlimaInnovation* (2024), 4.
5 M. Pieper and B. Weber, ‘One Year on, Europe Is Still Missing a Business Case for Industrial Decarbonisation’, *Euractiv*, 16 August 2023.
6 Ibid.
7 EPICO KlimaInnovation, *Accelerating EU Industry Competitiveness: Paving the Way for the Next Policy Cycle* (Brussels, 2024).
8 European Parliament and Council Regulation amending Regulations (EU) 2019/942 and (EU) 2019/943 as regards improving the Union’s electricity market design (Text with EEA relevance), OJ L2024 (13 June 2024), 1747.
9 B. Weber et al., *Where to Go? Assessment of Market Design Options for the European Electricity and Gas Market*, EPICO and Aurora Energy Research (Berlin, 2022), 11.
10 European Commission, *Grids, the Missing Link – An EU Action Plan for Grids*, Communication, COM (2023) 757 final (28 November 2023).

deployment of hydrogen technologies across borders. Reducing regulatory burdens and supporting industrial symbiosis in 'net-zero acceleration valleys' are highlighted as strategies to enhance the competitiveness of EU industries in the green transition. The Act also insists on additional investments in renewable energy technologies, such as wind and solar, as well as energy-efficiency improvements such as smart grids.[11]

However, several issues remain, including the strongly selective, top-down approach that limits innovation; limited consideration of broader challenges, such as investment barriers; and coordination of EU green policy. An EU-level funding strategy is also missing, making cleantech deployment dependent on fragmented national policies.[12]

The NZIA rightly encourages leveraging existing EU funding instruments, such as the Innovation Fund, and emphasises the need to de-risk investments through the use of financial tools such as guarantees to attract private capital to cleantech development and deployment. However, as is noted more generally in the Draghi Report on competitiveness,[13] too much focus remains on the public sector: the EU should not deploy an extra €800 billion or take on massive public debt annually. To develop and scale cleantech, funders, startups and developers encounter high costs. Addressing this funding shortage requires the creation of an EU-wide harmonised legislative framework to develop coherent cross-border funding strategies to promote innovation. These strategies should provide investors and developers with a clearer understanding of the financial markets and access to de-risking tools such as guarantees to attract capital, and should streamline financial and industrial regulations for high-value investments to support the scaling of cleantech startups.

The single market also requires strengthening in order to effectively deploy strategic net-zero technologies and to facilitate direct and indirect electrification, which is essential for achieving climate goals.[14] A report on the single market authored by Enrico Letta found that a 'fifth freedom', focused on research, innovation and education, could promote knowledge sharing and drive technological advancements.[15] The Draghi Report suggests improving competitiveness across the EU by securing natural gas supplies, increasing interconnection infrastructure financing to strengthen European power systems, lowering energy taxation and earmarking more Emissions Trading System revenues for energy-intensive industries. It also highlights that cleantech is an area where the EU can hold its own vis-à-vis other regions, provided that it takes decisive action, such as via the accelerated implementation of the NZIA.[16] Yet, the EU still needs to carry out significant work to fill these gaps.

In parallel, dependence on a limited number of third countries for energy imports, renewable energy deployment and manufacturing is becoming an increasing liability. Energy-intensive industries need to diversify their energy supply chains; adopt sustainable business models, including circularity; and prioritise efficiency and innovation.

While the overall dependency on energy imports is expected to decrease, there will still be a need to import certain energy carriers, particularly renewable hydrogen. This is the case for Germany, which plans to increase the deployment of RES by at least 70% by 2045 compared to total energy imports from non-renewable sources.[17] Given its importance to reaching net zero, hydrogen stands out as an area in which EU energy diplomacy should be improved in order to deal with competition for an initially scarce resource and a much-

[11] European Parliament and Council Regulation on establishing a framework of measures for strengthening Europe's net-zero technology products manufacturing ecosystem and amending Regulation (EU) 2018/1724 (Text with EEA relevance), OJ L2024 (13 June 2024), 1735.

[12] S. Tagliapietra et al., *Rebooting the European Union's Net Zero Industry Act*, Bruegel (2023), 7.

[13] M. Draghi, *The Future of European Competitiveness*, European Commission (Brussels, 2024), 59.

[14] B. Weber et al., *An Industrial Agenda to Increase Germany's Energy Resilience*, EPICO KlimaInnovation (2024), 5.

[15] E. Letta, *Much More than a Market*, European Council (Brussels, 2024), 7.

[16] Draghi, *The Future of European Competitiveness*, 43.

[17] S. Samadi and J. Lechtenböhmer, *Climate Neutrality by 2045: Comparison of Developments in the Energy System in Current Scenarios for Germany* (2022).

needed global ramp-up at the same time. The international hydrogen market faces several key issues: high production costs, significant infrastructure investment needs and intense global competition. The focus on renewable hydrogen is crucial for meeting climate goals, but achieving cost parity with fossil hydrogen remains challenging. Stable prices and strategic investments are an essential missing piece of the puzzle to support growth and competitiveness.[18]

The EU member states encounter common issues in hydrogen diplomacy. The challenge of aligning regulatory and sustainability standards across different regions needs to be addressed, while the geopolitical tensions arising from regional conflicts and dependencies are complicating diplomatic and economic partnerships. There are also legitimate socio-ecological justice concerns, including the fair and equitable treatment of local communities and the environment in partner regions, and the risk of environmental degradation due to large-scale energy projects that could harm ecosystems and biodiversity.[19]

Policy recommendations

Shifting the paradigm to leverage decarbonisation goals and catalyse energy security and resilience means that the EU must adopt a holistic and forward-looking approach. The following recommendations provide a roadmap for achieving these objectives. More concretely, the EU must increasingly focus on accelerating technological advancements and innovative and scalable green business models, and integrating these into the energy system.

Implementing a future-proof electricity market

Electricity will become increasingly important for our overall energy system, boosting its resilience. However, the electricity market needs to be fit for purpose, particularly in terms of adapting to an ever-increasing share of renewables. Making the electricity market future-proof will also require close cooperation between member states and the European level.

First, there is a need to speed up the market-driven expansion of RES. The new European EMD sets out the broad strategy for this. For example, it calls upon member states to implement guarantees to scale market-driven private agreements through the use of direct contracts between suppliers and industrial consumers in the form of power purchase agreements (PPAs). These should also be made available for small and medium-sized enterprises (SMEs). Furthermore, the EMD determines that public support for renewables expansion should be ensured by member states by using two-way contracts for difference (CfD)[20] when directly financing RES build-outs. The EU should provide Union-wide guidelines for both smart CfDs and PPAs to help to create a more competitive and dynamic energy market. The Agency for the Cooperation of Energy Regulators (ACER) has acquired additional competences, for example, with regard to an EU-wide PPA platform, and this should lower barriers for access to these contracts for manufacturing companies. If member states were to

[18] B. Lotz et al., 'Design Options for a European Hydrogen Bank', *EPICO KlimaInnovation, Konrad-Adenauer-Stiftung and Guidehouse* (Brussels, 2023).

[19] S. Schäfer et al., *EU Hydrogen Diplomacy in Africa and the Middle East: A Just Regional Energy Transition*, EPICO KlimaInnovation and the Iberdrola Energy and Climate Chair of the College of Europe (Brussels, 2023). For example, Kazakhstan, with its abundant renewable resources, has potential as a green hydrogen producer and exporter. Increased cooperation with other similar countries has the potential to result in the development of green hydrogen supply chains. Yet, challenges such as a lack of decarbonisation incentives, limited local research and development, inadequate transport infrastructure and water scarcity remain significant barriers to fully realising this potential. See EPICO KlimaInnovation, *EU–Kazakhstan Green Hydrogen Partnership: Mapping Barriers and Establishing a Roadmap* (Brussels 2023).

[20] A two-way CfD is a contract signed between an electricity generator and the state, which sets a strike price, usually by competitive tender. The generator sells the electricity in the market but then settles the difference between the market price and the strike price with the state. This allows the generator to receive a stable revenue for the electricity it produces, while providing limiting revenue for generators when market prices are high. In a two-way CfD, if the market price is below the strike price, the generator receives the difference; if the market price is above the strike price, the generator pays back the difference.

act too slowly with regard to the aforementioned PPA guarantees, the EU might also consider stepping in, for instance, via the European Investment Bank (EIB). The goal of such guarantees would be to enhance the bankability of projects by reducing off-taker risks. Guarantees would also help SMEs and cleantech startups, that is, companies that might otherwise pay a higher risk premium, gain access to PPAs.

Second, an ever-increasing share of RES in our electricity mix means that flexibility becomes paramount. This is necessary both to keep system costs in check, but also to ensure competitive power prices for households and industry. This flexibility could consist of demand-side adjustments in the household sector, for example, by shifting the times at which electric vehicles are charged; flexibility on the industrial side; or storage solutions which could help to increase adaptability. In the EMD, member states are called upon to assess the current flexibility in their respective markets and to identify targets for improving it. These flexibility strategies are to be based on a common methodology, developed by ACER at the European level. Both the methodology and an exchange on the best policy instruments should become the nucleus of an EU-wide flexibility strategy.[21]

There is also a strong need to implement alternative financing methods for grid expansion and to focus on cross-border integrated grid planning to maintain competitive electricity prices. Expanding transmission capacities between countries will reduce costs and volatility, and a focus on renewable energy will ensure competitiveness and resilience.

The EU should improve the long-term visibility of infrastructure planning and underpin it with binding political commitments that encourage financial investment in supply chains. Greater coordination of gas and hydrogen supplies and infrastructure actors should be prioritised. With the necessary infrastructure, the EU can support the deployment of renewable energy technologies and enhance energy resilience. The report on EU competitiveness by Mario Draghi proposes making public guarantees regarding the financing of EU interconnections. This would leave ample room for member states to come up with proposals on how to finance the purely domestic parts of energy infrastructure.[22]

A blueprint for developing cross-border cooperation could come from the North Sea, an area which is key to achieving energy security. This region includes a lot of offshore wind potential, which could be pivotal for Europe's electrification and production of hydrogen. The European Network of Network Operators for Hydrogen, the European Network of Transmission System Operators and the European Network of Transmission System Operators for Gas should work together to establish clear and ambitious offshore hydrogen production targets, favouring innovative financing models such as tax incentives, public guarantees and hydrogen purchase agreements. Together, these could significantly boost investment and mitigate financial risks. Encouraging public–private partnerships and utilising advanced technologies will foster cost-efficient development. Infrastructure that integrates hydrogen production with existing energy systems and industrial hubs should be promoted to optimise space and resources, ensuring a resilient and efficient transition to a hydrogen-based economy.[23]

Boosting cleantech and industrial decarbonisation

To drive the green transition, the EU must establish innovation incentives that support startups while also signalling the temporary nature of certain financial instruments, offering predictability to companies, investors and the public sector. By providing clear and consistent support for innovation, the EU can foster the development of new technologies and business models that contribute to industrial decarbonisation and energy resilience.

[21] EPICO and Aurora Energy Research, *Accelerating a Technology-Neutral Flexibility Strategy for the German Power Market* (Berlin, 2024).
[22] Draghi, *The Future of European Competitiveness*, 59.
[23] S. Williams et al., *Connecting Borders Through Offshore Hydrogen: Infrastructure and Financing in the North Sea*, EPICO KlimaInnovation (Brussels, 2024), 5.

Strengthening the single market will also entail creating a conducive environment for innovation, hence providing increased support for SMEs and cleantech startups. It is crucial to enhance regulatory harmonisation and simplify bureaucracy, thus reducing compliance costs and barriers for businesses. In contrast to mere subsidies, greater integration can foster competition and leverage economies of scale. Tax incentives, grants and public guarantees are all tools that could enhance the bankability of smaller companies, and should therefore be further developed and implemented.

The EIB should thus expand the rollout of public guarantee products to support cleantech manufacturing and reinforce EU competitiveness. Enhancing guarantees for manufacturing and loans, supporting long-tenure investments and facilitating access to green capital markets could all aid this much-needed innovation. The EIB should also provide guarantees to reduce risk and increase private investment, ensuring European manufacturers can scale production and maintain market leadership in the global green energy transition.[24] Creating a single market for innovation that prioritises these agents of change, rather than solely the incumbents, will harness the EU's domestic potential.

The NZIA recommends the use of energy regulatory sandboxes,[25] and these should be swiftly implemented to expedite the adoption of new and less-developed technologies and to streamline regulatory frameworks for fostering innovation across the member states. Developing such sandboxes could provide the ability to test new technologies, market mechanisms and business models in key areas such as demand-response, energy-storage and smart-grid technologies in a controlled environment. This would enable critical issues to be identified and resolved, enhancing Europe's energy system flexibility. One such issue relates to market barriers, predominantly the diverse compensations that aggregators have to pay to suppliers in some member states.[26] Policymakers should therefore systematically establish sandboxes across the EU in a speedy and coordinated way to enable the exchange of information and the identification of common obstacles.

Forming polycentric energy and climate partnerships

Bilateral partnerships should complement multilateral ones, with the EU Global Gateway enhancing cooperation with third countries through investments and additional funding to better mitigate the risks associated with energy import dependencies and to ensure a stable supply of essential resources.

For example, EU hydrogen diplomacy in the Middle East and Africa should focus on partnerships with local communities, enhancing sustainability standards and boosting financial support for renewable hydrogen projects. This would ensure local stakeholders are involved and benefit from hydrogen initiatives, promoting socio-economic development. Two key parallel approaches are also needed. First, establishing enhanced sustainability standards is key to minimising environmental impacts, for example, ensuring water use is managed responsibly and biodiversity is protected. Second, the international part of the European Hydrogen Bank needs to overcome investment barriers and scale up projects.[27]

Whereas the domestic pillar of the hydrogen bank is already underway, with two auction rounds having taken place, the structure of the international pillar still needs to be developed. This could be done in three complementary ways. The first would be to combine default guarantees with supply-side auctions to reduce investment risks and incentivise renewable hydrogen production by covering the gap between production

[24] B. Weber, *An Industrial Agenda to Increase Germany's Energy Resilience*; Cleantech for Europe, 'The EIB's Strategic Roadmap 2024–2027 Should Stimulate More Public Guarantees to Unlock the EU's Cleantech Competitiveness' (Brussels, 2024).

[25] Energy regulatory sandboxes are controlled environments where innovative energy technologies or business models can be tested under relaxed regulations to foster development without regulatory risks.

[26] G. Sgaravatti, 'Electricity Tariffs Dashboard', *Bruegel* (Brussels, May 2024).

[27] EPICO KlimaInnovation and the Iberdrola Energy and Climate Chair of the College of Europe, *EU Hydrogen Diplomacy in Africa and the Middle East*.

costs and market prices. The second would be to develop a robust infrastructure, including pipelines and terminals, to support hydrogen imports and create a stable market. The third would be to implement import prioritisation benchmarks, ensuring alignment with sustainability goals and supporting global energy transition targets. For example, the European Hydrogen Bank should facilitate matchmaking between hydrogen producers and consumers to bridge supply and demand gaps, thereby fostering efficient transactions and maximising the limited molecules available.[28]

Going forward, EU policy should focus on stronger climate diplomacy. The Climate Club, which was launched at the Conference of the Parties 28 in 2023, offers another framework for establishing partnerships outside of bilateral and multilateral relationships in emission-intensive industrial sectors (e.g. steel and cement), and its potential should be harnessed for future industrial policy in the EU. By following a sectoral model, it could foster knowledge exchange and enhance climate finance mechanisms. Cooperation should focus on upstream areas (e.g. green iron ore, renewable hydrogen and scrap) and downstream areas (e.g. markets for climate-friendly steel products).[29]

The EU should also decouple discussions on the Carbon Border Adjustment Mechanism from the Climate Club to avoid contentious debates and missed opportunities for cooperation. For example, in the steel sector, the priority should be to seize ‘quick wins’ by promoting green steel and the use of renewable hydrogen, and to lead in the markets for intermediate and finished products through promoting green public procurement. Additionally, the EU should provide financial and technical support for green steel projects and create a conducive environment for dialogue to build trust among member countries, which could enable cooperation on more challenging decarbonisation issues in the future.[30]

Conclusion

Ongoing challenges predominantly stem from the discrepancies between the EU’s decarbonisation goals, the involvement of energy-just international energy partnerships and the need for economic growth. This calls for a stark paradigm shift in EU energy and climate policymaking.

The EU stands at a critical juncture. By strengthening both its single market and the electricity market, supporting innovation and enhancing international cooperation, the EU can build a resilient and sustainable energy framework. Taking these measures will mitigate the risks associated with geopolitical tensions and ensure a reliable supply of energy, fostering a secure and prosperous future.

EU energy security and resilience could be significantly enhanced through a combination of strategic policy interventions and international cooperation. By focusing on technological innovation, supporting SMEs and cleantech startups, and fostering diversified partnerships, the EU can reduce its dependency on external sources and build a more resilient energy system. This will require a concerted effort, but will achieve a secure, resilient and net-zero energy future that benefits all citizens and industry.

[28] B. Lotz et al., ‘Design Options for a European Hydrogen Bank’.

[29] P. Kumar, *Piloting the Climate Club in the Steel Sector*, EPICO KlimaInnovation (Berlin, 2023).

[30] Ibid.

	Programme 1	Programme 2	Programme 3
	Implementing a future-proof electricity market	**Boosting cleantech and industrial decarbonisation**	**Forming polycentric energy and climate partnerships**
Project 1	Shift subsidies from fossil fuels to guarantees of PPAs for SMEs to boost market-driven renewable-energy expansion. Provide EU-wide guidelines for complementary two-way CfDs that incentivise innovation and efficiency. Develop an EU-wide storage and flexibility strategy on the demand side. Ensure EU compatibility of capacity mechanisms, complementing hydrogen-ready gas or nuclear power plants.	Establish innovation incentives to support startups and signal that European carbon CfDs are temporary, offering predictability to companies, investors and the public sector. Carbon CfDs should be linked to the EU Emissions Trading System, initially have a term of 10 years, and be focused on applications where they provide clear added value in terms of resilience.	Couple hydrogen diplomacy with EU climate diplomacy. Support third countries in developing a voluntary certification scheme for green hydrogen and its derivatives that is aligned with EU requirements. The European Commission should identify key regions that are only taking the first steps in the hydrogen economy and provide concrete support to them on the formulation of standards and certification.
Project 2	Improve the long-term visibility of infrastructure planning and underpin it with binding political commitments that encourage financial investment to ramp up supply chains. Grid capacity bottlenecks cannot cope with an ambitious RES expansion.	The EIB should pursue its rollout of guarantees, focusing on scaling manufacturers of clean technologies through coverage of up to 80% of the risk. Such guarantees should aim to make cleantech bankable in the long term. The European Commission should schedule related funding for the next Multiannual Financial Framework.	Boost the energy pillar of the Global Gateway with projects aimed at mobilising additional funding to import hydrogen derivatives, through guarantees and support for off-takers. Priority should be given to sectors with the highest potential for carbon emissions abatement.
Project 3	ACER, INNOH, the European Network of Transmission System Operators and the European Network of Transmission System Operators for Gas should further detail hydrogen infrastructure planning. The first step should be to develop an integrated offshore and onshore hydrogen infrastructure plan for the North Sea as a blueprint to be replicated in other key areas in the EU.	Simplify, standardise and speed up the application process for permits and licences. To this end, energy regulatory sandboxes should be swiftly further detailed on a sector-by-sector basis, with the eventual aim of enabling regulators to assess the effectiveness of different regulatory approaches and their impacts on the EU's energy system.	Strengthen the EU's role in the Climate Club established by the G7, particularly in cooperation on sectoral strategies for industrial decarbonisation. The Climate Club offers a framework for establishing partnerships outside of bilateral and multilateral relationships in hard-to-abate industrial sectors. It could play a crucial role in enhancing the international dimension of the EU's climate resilience.

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Supporting EU Clean Technologies

by Artur Patuleia and Domien Vangenechten

Summary

The recently announced Clean Industry Deal presents an opportunity to realise the EU's ambitions for leadership in clean technologies in a challenging geo-economic context. If implemented correctly, it has the potential to be the overarching initiative that aligns markets, incentives and institutions with the need to foster investment in industrial decarbonisation and scale up the manufacturing of EU clean technologies. To stay competitive, the EU must be able to create new market opportunities, address infrastructure gaps, simplify administrative processes, and put in place time-limited and targeted financing instruments to support its investment needs. The EU will also be required to pursue mutually beneficial international partnerships that create local added value, going beyond access to critical raw materials, if Europe is to thrive in the new geopolitical reality. The Union's institutional setting should also be addressed to enable it to capitalise on regional strengths and be ready to coordinate the implementation of instruments at the regional and national levels.

Keywords Industrial strategy – Clean technologies – Competitiveness

Introduction

In the European Green Deal the EU has found a guiding compass in times of crisis, putting a green recovery at the heart of its Covid-19 response[1] and accelerating the energy transition as the means to combat the spiralling energy prices caused by Russia's invasion of Ukraine.[2] In the first seven months after Russia's invasion, the EU saved €99 billion in gas imports thanks to renewable energy generation.[3]

The EU is currently facing a polycrisis. Geopolitical tensions are rising, with two wars raging in its backyard. Europe's sluggish economy has been battered by an energy crisis, inflation, surging capital costs and a trade shock resulting from new Chinese competition in key European sectors, such as the automobile industry,[4] while also dealing with ever-intensifying climate impacts.[5] This situation has raised fundamental concerns about the resilience of the European economy, especially its manufacturing sector. As with any guiding compass, the European Green Deal will need to continuously adapt to these new circumstances to function effectively.

As questions around the future of Europe's industrial base and the bloc's relevance in strategic value chains, including the production of semiconductors, advanced artificial intelligence, biotech and clean technologies, are dominating the EU political debate, boosting the EU's manufacturing base is going to be a key political priority for the next five years.

With the announcement of a Clean Industrial Deal as part of her successful re-election bid,[6] Ursula von der Leyen firmly embedded her response to these questions in the European Green Deal. The Clean Industrial Deal seeks to boost Europe's business case for clean manufacturing as it charts a pathway to achieving an emissions reduction of at least 90% by 2040, and climate neutrality by 2050. The coming years will be key to delivering this agenda.

1 European Commission, *Europe's Moment: Repair and Prepare for the Next Generation*, Communication, COM (2020) 456 final (27 May 2020), 6–8.
2 European Commission, *REPowerEU Plan*, Communication, COM (2022) 230 final (18 May 2022), 1.
3 P. de Pous et al., 'More Renewables, Less Inflation – Restoring EU Economic Stability Through Investment in Renewables', *E3G and Ember*, 17 October 2022, 4–5.
4 A. Al-Haschimi et al., 'Why Competition With China is Getting Tougher Than Ever', *The ECB Blog*, 3 September 2024.
5 European Environmental Agency, *European Climate Risk Assessment*, Report no. 1/2024 (11 March 2024), 61–72.
6 U. von der Leyen, *Europe's Choice. Political Guidelines for the Next European Commission 2024–2029*, European Commission (18 July 2024), 6.

Clean industry for Europe's prosperity

The case for clean industrial manufacturing has never been stronger

In recent years, we have seen evidence that sustained investment in decarbonisation will make Europe's economy more resilient and competitive, while also generating economic growth. Nearly one-third of the bloc's economic growth already results from the deployment and manufacturing of clean technologies.[7] To meet decarbonisation efforts, investments in clean-energy manufacturing more than doubled between 2022 and 2023. Climate policies have also set the conditions for the EU to be a leader in critical clean technologies—such as electrolysers, heat pumps and wind—and to host global-level flagship industrial decarbonisation initiatives—as is the case for green steel and cement.

A thriving European industry with a strong presence in net-zero value chains built on solid competitiveness fundamentals will be a strong lever to create more and better jobs—up to 1.6 million by 2035 and 2 million by 2040, according to some estimates.[8] This will contribute to making the EU economy more productive and add to the fundamentals of global knowledge and innovation leadership.

Competition from China and the US is fierce

The benefits of having a strong presence in strategic clean-industry value chains have been driving a global race to secure technological leadership and manufacturing capacity. This has led to strong competition for the EU's own global position in these new industries. China's active industrial policies have created new players, in some cases making innovative products in critical technologies, that are competing for an increased market share globally, including in the EU. China's leadership in lithium iron phosphate battery technology is already affecting decisions about investments in new battery plants by European manufacturers.[9] The Inflation Reduction Act in the US has introduced a mix of tax incentives, grants and loan guarantees[10] to promote clean-technology manufacturing, leverage innovation and decarbonise existing industrial capacity, causing some manufacturers to rethink investments in the EU.[11]

But whilst China and the US have been rolling out policies aimed at driving massive public and private investment to scale up the manufacturing capacity of strategic clean technologies, the EU has not been able to follow suit in this area of climate policy. Rather, the Union has largely relied on the expectation that the demand resulting from economy-wide climate targets and incentives would be a sufficient driver for local manufacturing investment, and that the necessary economic shifts would not require decisive industrial policy action. While this might have worked a few decades ago, today's world is different, and far-sighted and strategic industrial policy—predominantly in China—has been able to anticipate and capture these emerging markets.[12]

With the benefit of hindsight, one can conclude that the EU's policy framework has not met expectations, but has opened up its market to competitors. The imperative to course-correct has become even more pressing since recent crises have exposed Europe's vulnerabilities to supply-chain disruptions and external fossil-fuel supply shocks, raising fears of social instability and deindustrialisation. The increase in the gap in GDP between the EU and the US, in purchasing power parity terms,[13] has further fuelled these fears, increasing the pressure on the EU to focus more on investing in new sources of growth.

7 L. Cozzi et al., 'Clean Energy Is Boosting Economic Growth', *IEA*, 18 April 2024.
8 L. Kalcher and N. Makaroff, *Forging Economic Security and Cohesion in the EU*, Strategic Perspectives (Brussels, 11 April 2024), 25.
9 H. Dempsey et al., 'Europe's Battery Industry Hit by EV Slowdown', *Financial Times*, 8 July 2024.
10 J. Badlam et al., 'The Inflation Reduction Act: Here's What's in It', *McKinsey & Company*, 24 October 2022.
11 J. Smyth and P. Nilsson, 'German Companies Flock to US With Record Pledges of Capital Investment', *Financial Times*, 19 February 2024.
12 A. Bentley and J. Nahm, 'Strategies of Green Industrial Policy: How States Position Firms in Global Supply Chains', *American Political Science Review* (2024), 2–3.
13 M. Draghi, *The Future of European Competitiveness – A Competitiveness Strategy for Europe*, European Commission (9 September 2024), 8.

To prosper, Europe needs to adapt

Although the EU recognises the need to adapt to a new global context, its flagship policy package—the Green Deal Industrial Plan (GDIP)—has disappointed many observers.[14] The Plan mainly relies on national policy instruments and state aid support, does not sufficiently address the challenges of heavy industry, and is not backed by the financial, regulatory and coordinating capacity necessary to foster innovation and strengthen European unity. Most of all, due to the lack of a concrete vision and strategy for the future of Europe's industry rooted in an analytical assessment of its strengths and leadership opportunities, the GDIP tries to support too many objectives with too few means, while also causing concerns about the integrity of the internal market through its relaxation of state aid rules.[15]

Ultimately, the emerging fragmented approach is jeopardising the integrity of the internal market, and there is a risk that the lack of concrete action to support EU clean technologies will be compensated for by defensive trade measures intended to protect against foreign competition—an area in which the EU does have clear competences, in contrast to fiscal and industrial policy. The current approach will likely fail to raise the necessary investments to scale up manufacturing capacity, negatively affect Europe's stance among key trading partners, and make the transition more expensive for households and businesses.

The hope of EU technological leadership in tomorrow's net-zero economy may fade away, with businesses delaying investment decisions to transform production or to scale up clean-technology manufacturing, while key competitors cement their dominant positions in the clean-technology markets, as has already been seen with regard to China's dominance in electric vehicles and the battery value chain.[16]

Priorities for boosting EU clean technologies

The current approach to industrial policy—characterised by untargeted action, uncoordinated national incentives, the reshuffling of existing EU funds, defensive trade measures and sometimes unstable regulatory signals—will not enable Europe to compete in today's world.

The recently announced Clean Industrial Deal presents an opportunity to hit the reset button. It needs to ensure that the EU acts strategically and in unity, focusing on regulation that enables innovation and scales up markets, driving investments supported by time-limited and targeted financial support, and forging mutually beneficial partnerships to build resilient supply chains.

If successful, it would mean securing strategic industrial capacity and capturing market share in the fast-growing clean-technology market, which already represents 10% of global GDP growth.[17] As a key enabling condition, the decarbonisation of the power system by 2035 would lead to a further reduction in fossil-fuel use, improving energy security and increasing resilience to fossil-fuel supply shocks—achieving a 90% emissions reduction could save up to €856 billion in gas, oil and coal imports.[18] A more efficient and productive industry would create high-quality jobs generating higher added value.

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[14] S. Tagliapietra, R. Veugelers and J. Zettelmeyer, *Rebooting the European Union's Net Zero Industry Act*, Bruegel (22 June 2023), 5–8; N. Redeker, 'Chasing Shadows: What the Net Zero Industry Act Teaches Us About EU Industrial Policy', *Hertie School Jacques Delors Centre* (1 March 2024), 2–3; A. Waliszewska et al., *How to Make the Best of the Green Deal Industrial Plan: Pragmatic Recommendations for Policy Makers*, E3G (22 May 2023), 3.

[15] S. Ferraro, G. Cannas and K. van de Casteele, 'The Use of Crisis State Aid Measures in Response to the Russian Invasion of Ukraine (Until End-June 2023)', *Competition State Aid Brief* 1/2024 (February 2024), 1–9.

[16] Dempsey et al., 'Europe's Battery Industry Hit by EV Slowdown'.

[17] Cozzi et al., 'Clean Energy Is Boosting Economic Growth'.

[18] Kalcher and Makaroff, 'Forging Economic Security and Cohesion in the EU', 14–15.

For this, three interlinked priorities need to be considered.

Creating an inducive environment for the scaling up of clean manufacturing

1. *Effective regulation*. Long-term demand targets, standards and public procurement instruments would improve market visibility, supporting businesses in their investment decisions and transition plans. They would also leverage research and development investment and strengthen the business case for net-zero technologies. These instruments are key to de-risking and scaling up manufacturing expansion, driving an increased global market share.

2. *Skills*. The electrification of industrial processes and the manufacture of high-added-value technologies would increase productivity and create more and better-paid jobs. This will require local upskilling and reskilling. Better jobs—unionised, secure and well paid—are a cornerstone of the broader societal benefits of a clean-industry agenda.

3. *Clean transition partnerships*. Balanced and fair partnerships with emerging economies would ensure long-term supply-chain resilience for EU clean industries. These partnerships need to drive local added value and support the transition, thereby constituting a relevant lever for development and improving the EU's geopolitical position.

Making clean power a cornerstone of Europe's energy security and competitiveness

1. *Decarbonised power by 2035*. Abundant renewable energy would ensure that businesses have access to affordable power, could improve efficiency and would be less exposed to external fossil-fuel supply shocks. This is reflected in demands by European businesses to have access to clean energy. Clarity on a target of 2035 for power-sector decarbonisation would improve grid investment planning and delivery, accelerating renewable energy integration and the electrification of industrial processes—other major economies, such as the UK and the US, have already followed this pathway.[19] The benefits of accessing clean energy can be maximised by taking decisive action to electrify the EU's industrial base, spurring productivity and efficiency.

2. *Digital grids*. Local flexibility markets are critical to integrating increased electricity demand and renewable-energy generation. They enable efficient energy system development and ensure consumer access to the cheapest costs. For this, the priority should lie in deploying digital infrastructure (e.g. smart meters) and setting the standards for the rapid and harmonised implementation of local flexibility markets.

3. *Strengthening the energy infrastructure planning framework*. The manufacturing of clean technologies, such as batteries, requires a lot of energy. This will come on top of increased demand for clean energy—electricity in particular—from sectors that need to decarbonise, such as industry. To avoid infrastructure bottlenecks jeopardising the viability of projects, energy system operators need to understand where, when and how much future demand to anticipate—as demonstrated by the situation in the Netherlands, where grid connection constraints are affecting business investment.[20] The EU needs to adapt infrastructure governance structures to ensure timely and cost-effective delivery. This will require fully independent systems operators and cross-vector energy system planning to create the strategic spatial energy plan that is required.

[19] UK Department for Business, Energy and Industrial Strategy and K. Kwarteng, 'Plans Unveiled to Decarbonise UK Power System by 2035' (7 October 2021); The White House, 'Factsheet: President Biden Sets 2030 Greenhouse Gas Pollution Reduction Target Aimed at Creating Good-Paying Union Jobs and Securing U.S. Leadership on Clean Energy Technologies' (22 April 2021).

[20] T. Sterling, 'Dutch Employers Warn Electric Grid Problems Are Harming Investment', *Reuters*, 22 January 2024.

Setting up EU institutions to deliver support for clean technologies through joint industrial policy

1. *An industrial strategy to leverage common strengths*. Many of Europe's strengths are regional, such as the established industrial bases, skills, and access to low-cost renewables and critical raw materials in south-western Europe. Being able to tap into the low-cost clean energy that is available in some European regions would strengthen the viability of retaining the energy-intensive parts of value chains within the EU.[21] An EU industrial strategy should identify priority industries, and locational strengths and value chains, and then seek to grant support through competitive bidding processes to ensure efficient resource allocation.

2. *A dedicated governance and coordination structure*. Better coordination in developing EU net-zero value chains, considering priority industries and locational factors, would lead to the more efficient allocation of public and private capital and better mobilisation of labour resources. Coordination also needs to deliver administrative simplicity for businesses to enable them to participate in EU net-zero value chains.

3. *Well-resourced administration for fast and responsive decision-making*. Reducing the asymmetric delivery of the European Green Deal would ensure businesses across the bloc have similar opportunities to improve their competitiveness and participate in EU net-zero value chains. It is therefore critical to enhance national administrative capacities and make sure that independent expert advice is integrated into the infrastructure planning framework.

Conclusion

The EU is facing a moment of truth with regard to securing its future economic prosperity. With the global economy quickly moving to net zero and competition heating up, bold action to scale up clean-technology manufacturing and invest in cutting-edge innovation is essential for the EU's relevance in tomorrow's economy.

Clean technologies are becoming increasingly strategic assets for international influence and delivering socio-economic growth and stability. They represent a fast-growing market sustained by advanced technologies and will increasingly shape global supply chains and trade balances. The benefits of capturing a relevant market share of these new technologies have been driving strong competition from China and the US, with these players putting in place assertive industrial policies which are creating uncertainty in the EU.

Although the EU is starting from a solid leading position, its industrial policy framework needs to be made fit for a global economy that is going through a fundamental transformation, where the dynamics of competition are changing. The publication of the GDIP shows that there is a risk of creating ineffective responses that do not address fundamental shortcomings.

The recently announced Clean Industrial Deal is Europe's opportunity to get things right. This flagship initiative should leverage market creation signals and combine this with decisive action to scale up manufacturing, transform existing industrial capacity and invest in groundbreaking innovation. The initiative should learn from the recent crisis responses and prioritise coordinated EU-level action supported by a strong governance framework that taps into Europe's regional comparative advantages and ensures the effective use of public funds. The stakes are high, and only united action can set the structural conditions for the EU's future competitiveness and prosperity.

[21] S. Gokbekir et al., 'The Future of Energy-Intensive Industry in Northwestern Europe: A Balancing Act', *PwC*, 24 April 2024, 4–5.

	Programme 1	Programme 2	Programme 3
	Creating an inducive environment for the scaling up of clean manufacturing	**Making clean power the cornerstone of Europe's energy security and competitiveness**	**Setting up EU institutions to deliver support for clean technologies through joint industrial policy**
Project 1	Ensure long-term clarity for clean manufacturing by delivering stable policy and demand signals. Regulatory instability is the Achilles heel of nascent industries—the EU should set transparent long-term objectives supported by the rollout of demand–pull instruments such as those relating to standards or public procurement.	Launch the necessary initiatives on key enabling technologies (e.g. non-fossil flexibility, smart grids, labour shortages) to put the EU on track to be a decarbonised power system by 2035. This would enable European businesses to have access to cheap and abundant renewables and would reduce exposure to future fossil price and supply shocks.	Develop a coherent EU industrial strategy which leverages the EU's collective strengths and the single market. This requires identifying strategic industries and their value chains; considering the added value of EU cooperation; and building on the existing skills, manufacturing hubs and competitive advantages of diverse geographical areas.
Project 2	Make job attractiveness a priority and ensure upskilling delivers locally and inclusively. To be attractive to workers, new clean industries must deliver quality jobs: unionised, secure, well-paid, safe and socially well-respected. Incentives such as financial breaks should be designed to reskill and employ locally, enhance foundational skills and target those in precarious employment.	Invest in the digitalisation of grids to enable the implementation of demand-side management solutions and the faster rollout of clean technologies such as batteries, heat pumps and electric vehicles, and to reduce the exposure of electricity prices to gas markets. This will also strengthen the EU's market-leading position in clean-technology solutions and manufacturing.	Set up a dedicated governance and coordination structure for EU industrial policy with sufficient analytical capacity and competences to identify and support projects across the value chain of (strategic, clean) industries. It should also explore the possibility of a European funding approach that offers a structural and long-term financing solution to complement national investments.
Project 3	Develop strategic and mutually beneficial clean transition partnership models with emerging economies to build resilient supply chains, while supporting partner countries to navigate the global energy transition. Secure diversified, long-term access to critical supplies and contribute to economic development in partner countries.	Move forward with independent and integrated infrastructure planning to manage energy system costs. Coordination is needed to achieve mass electrification, the uptake of hydrogen, and the deployment of carbon capture and storage solutions—all while decommissioning chunks of the existing gas grid in a cost-effective way.	Support the enhancement of national, regional and local administrative capabilities to coordinate strategic planning and infrastructure development, as well as to streamline permitting. Regional comparative advantages (e.g. in the form of skills or natural resources) risk remaining under-exploited due to uneven capacities to develop and deliver policies to attract or scale up clean-technology investments.

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Securing Europe's Independence in Critical Raw Materials and Technological Components

by Frank Umbach

Summary

The paper analyses the EU's present import dependence for critical raw materials (CRMs)—particularly on China—and its efforts to 'de-risk' this through various countermeasures in the EU's raw material policies. It reviews such policies since 2008 (with a focus on the EU's Green Deal and its Critical Raw Materials Act), the challenges for the EU considering the rapidly rising global demand for CRMs, the implications for its foreign raw material policies and the inherent conflicts of competing strategic objectives. It concludes by making the following three major recommendations, and providing details of the concrete measures to be taken: (1) expanding domestic mining and stockpiling with sustained political, public and financial support; (2) strengthening the EU's foreign raw-materials policy; and (3) promoting the 'de-risking' of the supply chain for CRMs and disruptive technologies (components).

Keywords Critical raw materials – Energy transition – Green technologies – Supply chains – Import diversification – Refining – Stockpiling – De-risking

Introduction

The global energy transition and climate-change targets (i.e. limiting global warming to 1.5°C) are becoming ever more dependent on the critical raw materials (CRMs) which are required for green technologies.[1] Alongside the increasing geopolitical rivalries, China's control of many CRMs has also become a major concern for Western arms industries and in terms of the resilience of CRM supply chains in major crises or conflicts with China.[2] A US analysis warned last May: 'The countries that are able to secure their own supply chains for critical technologies will be in the position to write the rules of global economic governance for years to come'.[3]

China is the world's largest producer of green technologies such as solar cells, wind turbines and electric vehicles (with a 60% share of the global market). It has benefited from its strong position in raw-materials extraction and processing for green technologies and electromobility from the outset, and uses its strategically dominant position in mining, metallurgy and materials science to its advantage. New developments in its supply chains are not constrained to increasing mining, but complete the process by adding refining, reprocessing, recycling and manufacturing systems.

In contrast to China, the EU is heavily dependent on imports of CRMs from abroad (100% for primary metals)—and thus on access to foreign mines and the availability of their products on the international commodity markets. Currently, China supplies 98% of the EU's rare-earth elements (REEs) and around 62% of the 34

1 See also F. Umbach, *Energy Security in a Digitalized World and Its Geostrategic Implications*, Konrad Adenauer Foundation (Hong Kong, September 2018); F. Umbach, *The New 'Rare Metal Age'. New Challenges and Implications of Critical Raw Materials' Supply Security in the 21st Century,* S. Rajaratnam School of International Studies and Nanyan Technological University, Working Paper no. 329 (Singapore, 27 April 2020); F. Umbach, *Strengthening Energy Security and Building Resilience in the Asia–Pacific*, UN Economic and Social Committee in Asia and Pacific (Bangkok, 2021).

2 G. Wischer, 'The U.S. Military and NATO Face Serious Risks of Mineral Shortages', *Carnegie Endowment*, 12 February 2024; J. Emont, 'America's War Machine Runs on Rare Earth Magnets. China Owns That Market', *Wall Street Journal*, 4 May 2024; M. Bazilian and G. Wischer, 'The West Needs to Produce More Critical Minerals. Here's How the Pentagon Should Help', *Defenseone.com*, 30 May 2024; L. Zhen and S. Hyeon Choi, 'The US Wants to Decouple Its Military Supplies From China – But Can It?', *South China Morning Post*, 18 June 2024; F. Umbach, 'Rare Earth Minerals Return to the U.S. Security Agenda', *Geopolitical Intelligence Service* (1 August 2019).

3 R. C. Berg, H. Ziemer and E. Polo Anaya, 'Mineral Demands for Resilient Semiconductor Supply Chains. The Role of Western Hemisphere', *CSIS Briefs*, Washington, DC (May 2024), 1.

CRMs defined as such by the EU in 2023.

REEs are just one example of how China dominates the global supply of CRMs, the country being responsible for nearly 80% of global production of the 17 REEs and more than 90% of their refining processes. Currently, Chinese companies also control about 80% of global refined cobalt production, more than 60% of global lithium-ion production capacity and 75% of all lithium-ion battery production. China is the only superpower to have positioned itself so dominantly in the entire clean-tech supply chain and the mining, metallurgy and materials science fields.

In a move comparable to Russia's gas-export policies, China weaponised its production and export monopoly of REEs as early as 2010. This was the result of an escalating maritime territorial and resource conflict with Japan, which led to the imposition of an export ban on REEs to Japan without any prior notice. At that time China controlled some 97% of the global production of REEs, despite having less than 40% of the world's reserves and only 57% of global resources. Towards the end of the 38-day diplomatic conflict between China and Japan in autumn 2010, the US and the EU were also drawn in when Japan began importing Chinese REEs from them, thus circumventing the direct export ban.[4]

New disruptive technology developments, such as batteries for electromobility, are having a lasting impact on geopolitical dynamics regionally and globally. They require new supply chains, trade routes and strategic partnerships, including to secure the supply of CRMs. This is leading to the forging of new geopolitical alliances and geo-economic rivalries that need to be anticipated in the EU's economic, trade, foreign and security policies.

In 2017 a World Bank study explicitly warned that the global energy transition and climate-protection policies would demand significantly greater use of CRMs. The warning was confirmed by a report from the UN Environment Programme (UNEP) in the same year: the envisaged 2°C limit to global warming would require around 600 million tons more metallic raw materials than a 6°C target by 2050. The International Energy Agency has forecast that the global demand for CRMs could rise to 40 times the 2020 level by 2040. According to industry forecasts, global demand for the REEs used in magnets could increase fivefold by 2040.[5] Given the rocketing demand for copper for achieving net-zero targets, as much new copper will be required as the world has produced in all recorded history.[6]

Generally speaking, there are no acute geological restrictions on the availability of CRMs, including REEs. However, there are concrete limitations to extraction, processing and recycling due to geopolitical and geo-economic risks, as well as domestic constraints in the producing and exporting countries (restrictive environmental regulations, lack of good governance, resource nationalism, lack of local public acceptance etc.). Hence, the global supply of many CRMs is limited to coming from a few, often politically unstable, countries. Furthermore, global competition for access to these CRMs will further intensify due to the needs of the global energy transition, electromobility, the digitisation of all industrial sectors and our private lives, and the development of artificial intelligence.

4 See also Umbach, *Energy Security in a Digitalized World and its Geostrategic Implications*, 50.

5 See also World Bank Group, *The Growing Role of Minerals and Metals for a Low Carbon Future*, (Washington, DC, June 2017); UNEP, *Sustainable Trade in Resources: Global Material Flows, Circularity and Trade* (Nairobi, 14 May 2020); UNEP, *Mineral Resource Governance in the 21st Century. Gearing Extractive Industries Towards Sustainable Development* (Nairobi, 2020); OECD, *Global Material Resources Outlook to 2060* (Paris, 2020); D. Gielen, *Critical Minerals for the Energy Transition*, International Renewable Energy Agency, Technical Paper 5/2021 (2021); International Energy Agency, *The Role of Critical Minerals in Clean Energy Transitions* (Paris, 2021); International Energy Agency, *Global Critical Minerals Outlook 2024* (Paris, May 2024); World Bank Group, *Minerals for Climate Action: The Mineral Intensity of the Clean Energy Transition* (Washington, DC, 2020)

6 See V. Beiser, 'The Green Economy Is Hungry for Copper – and People Are Stealing, Fighting, and Dying to Feed it', *Wired.com*, 22 August 2024.

Against this backdrop of growing dependence on the import of CRMs, particularly from China, Western mining projects and plants often have to cope with exploding investment needs and budgets, delays, missed production goals and insufficient commercial profitability. They all have to compete with low and subsidised Chinese prices. The involvement of any Western project will ultimately increase the price of the final product—be it renewables or already expensive high-tech Western weaponry. Rare-earth magnets produced in the US, for instance, are around 50% more expensive than Chinese ones. Moreover, even new Western reprocessing projects have to rely on Chinese technology, which China could cut off access to. Last year, it banned exports of REE-processing technologies.

Beijing is seeking to control key technology and value chains to further its strategy of asymmetric interdependence. In 2024 it ordered its state-owned companies to increase annual REE production by almost 13%, up to 135,000 tons. Its deliberate overproduction—on top of lower demand growth than expected—has already dropped prices to a three-year low, hampering Western counter-strategies for building up alternative REE supply chains.[7] Beijing has also curbed the export of antimony, another CRM vital to the Western defence industry. China has also reportedly discovered a large potential reserve of REEs in the Himalayas, where it has a long-standing violent territorial conflict with India. Together with its increased mining of CRMs in Afghanistan and its huge CRM reserves, this discovery could further strengthen its dominant global market position.[8]

EU raw-materials policies and strategies since 2008

European awareness of supply-chain issues has changed in recent years due to the EU's pandemic experience with critical-supply disruptions and the concerns arising from the geopolitical overdependence of Western supply chains on China. China is no longer seen just as an economic partner and competitor, but also as a 'systemic (geopolitical) rival'.[9] As early as 2018, Vice-President of the European Commission Maros Sefcovic warned that CRMs could become the 'new oil'.[10]

Although the European Commission introduced a common raw-materials policy in 2008, it was not until 2017 that the Commission, Germany and some other member states began to push ahead with appropriate industrial strategies to meet the challenges of raw-material supply for electromobility and the construction of European battery gigafactories. Currently, the EU27 can only cover 9% of the EU's total raw material needs. Europe accounted for only 5% of the world's mining in 2020 and is the only region in the world with a declining mining industry. Global demand for lithium could increase eighteen-fold, cobalt by fifteen-fold by 2030 and by sixty-fold by 2050. Demand for REEs could increase tenfold by 2050.[11]

Both Germany's and the EU's raw-materials policies have promoted a 'three-pillar strategy' since 2010. These pillars comprise: (1) using domestic raw materials; (2) importing primary raw materials not available in

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7 C. Lu, 'China's Antimony Curbs Expose U.S. Critical Mineral Supply Chain Vulnerabilities', *Foreign Policy*, 23 August 2024; *Economist*, 'China Controls the Supply of Crucial War Minerals', 13 July 2023; E. White, 'China's Overseas Investment in Metals and Mining Set to Hit Record', *Financial Times*, 31 July 2023; C. Cytera, 'China, Gallium, and Germanium – the Minerals of the Chip War', *Cepa.org*, 8 August 2023; P. Andersson, *The Growing Secrecy Around China's Mineral Resource Planning, Implications for the EU*, Swedish National China Centre, Commentary 2/2024 (2024); C. Lu, 'Beijing Tightens Its Grip on Critical Mineral, Rare-Earth Supply Chains', *Foreign Policy*, 7 November 2023; J. Emont, 'China Is Winning the Minerals War', *Wall Street Journal*, 21 May 2024; H. Dempsey, 'Western Graphite Producers' Shares Soar After Beijing Announces Export Curbs', *Financial Times*, 23 October 2023; K. Johnson and E. Groll, 'China Raises Threat of Rare-Earths Cutoff to U.S.', *Foreign Policy*, 21 May 2019; C. Lu, 'Beijing Tightens Its Grip on the Critical Minerals Sector', *Foreign Policy*, 7 November 2023; E. Morina, 'Rare-Earth Prices Are in the Doldrums. China Wants to Keep Them That Way', *Wall Street Journal*, 15 July 2024; M. Wilowski, 'China Restricts Exports of Graphite, Key Mineral Used for Making EV Batteries', *Investopedia.com*, 20 October 2023.

8 See also F. Umbach, 'Chinas Interesse an Afghanistans Rohstoffreichtum. Implikationen für die EU-Versorgungssicherheit bei kritischen Rohstoffen', *Europäische Sicherheit und Technik* (July 2022); F. Umbach, 'Scenarios for Afghanistan's Critical Raw Materials', *Geopolitical Intelligence Service* (18 October 2021); S. Chen, 'Chinese Scientists Turn to Artificial Intelligence as Potential 1,000km Seam of Rare Earth Found in Himalayas', *South China Morning Post*, 21 June 2023.

9 See F. Umbach, 'EU–China Relations at a Crossroads: Decoupling or a European "Sinatra Doctrine"?, *East Asian Policy* 13 (Spring 2021).

10 F. Simon, 'EU's Sefcovic: Real Risk That 'Raw Materials Become the New Oil', *Euractiv*, 20 November 2018.

11 See footnote 5.

Europe; and (3) reducing dependence on primary raw materials through recycling, substitution and increasing resource efficiency.[12]

The growing concern about and geo-economic importance of the EU's current and future raw-material supply security is also reflected in the European Commission's list of defined CRMs: the number has risen steadily from 14 in 2011 to 34 in 2023. The latest list was produced after assessing 70 raw materials and minerals, comprising 67 individual materials and 3 material groups: 10 heavy REEs, 5 light REEs and 5 platinum group metals. Copper and nickel did not meet the CRM thresholds but have been included on the list of 'strategic raw materials'.

The EU's Green Deal and Critical Raw Materials Act

With the Critical Raw Materials Act (CRMA) presented in March 2022, the EU has provided a comprehensive conceptual approach to the numerous challenges to the security of the future raw-material supply for its electromobility and battery industries. The EU wants to limit and reduce demand growth for its CRMs in the medium term by introducing a circular economy with much higher recycling and reuse levels, to diversify its imports and to expand its domestic mining in Europe. The following are the goals up to 2030:

- at least 10% of annual consumption to be covered by the EU's own raw-material extraction;
- at least 40% of annual consumption to be generated by EU-based processing (instead of between 0% and 20% as before);
- at least 15% of annual consumption to be ensured through recycling; and
- a maximum of 65% of annual consumption for each CRM at all stages of processing to be imported from a single third country.[13]

The CRMA also aims to reduce administrative burdens and shorten permitting procedures for CRM projects in the EU, while still ensuring a high level of social and environmental protection. In addition, selected strategic projects will receive financial support (in Spain, Portugal, Sweden and Norway) and have shorter approval periods (27 months for extraction permits and 15 months for processing and recycling permits).

The EU and the European Bank for Reconstruction and Development have also set up a new facility under the InvestEU umbrella, providing equity investments for CRM exploration. The facility aims to mobilise €100 million in investments that will support the EU's CRMA and REPowerEU.

The EU has also contemplated the idea of buying more than 30 CRMs on the global markets as a collective buyer (following the model of the gas joint-buying platform). However, mining executive managers have remained sceptical of buying CRMs collectively.[14]

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[12] See also F. Umbach, 'Neue Herausforderungen für die deutsche Rohstoffversorgungssicherherheit', *Energiewirtschaftliche Tagesfragen* 1/2 (2020); European Commission, *Tackling the Challenges in Commodity Markets and Raw Materials*, Communication, COM (2011) 25 final (2 February 2011).

[13] European Commission, *A Secure and Sustainable Supply of Critical Raw Materials in Support of the Twin Transition*, Communication, COM (2023) 165 final (16 March 2023).

[14] A. Hancock and T. Wilson, 'Mining Industry Sceptical of EU Joint Purchasing Plan for Critical Minerals', *Financial Times*, 21 May 2024.

Challenges and policy recommendations

Despite having developed a coherent, sustainable and comprehensive strategy for CRM supply security, the implementation of the CRMA is hampered by manifold uncertainties with regard to increasing European production and expanding its processing capacities. These include cost competitiveness, bureaucratic overregulation, local failures of acceptance due to environmental and other objections, and potential Chinese counter-strategies on the global supply market.

Medium-sized industries face even greater problems with the future supply of raw materials, because they do not have direct access to international mining projects (with no shares in mining projects they have to rely on intermediary suppliers) and therefore to sufficient raw materials on the world markets, compared to large Chinese, Russian and other competitors with their own mining projects. The European extractive industry is currently not in a position to extract from new or old mines without large subsidies from the EU or its member states as these mines are barely financially competitive—especially against Chinese state-owned companies. For this reason, the EU's raw-materials policy aims to improve the framework conditions for the extraction of raw materials both from imports and domestically. As the EU has made only limited progress in diversifying its global supply chains for CRMs and disruptive technologies in recent years, the following recommendations intend to enhance the EU's security of supply for CRMs.

Expanding domestic mining and stockpiling with sustained political, public and financial support

So far, the European Commission has had much less authority over and strategic influence on the raw-materials policies of its member states than their energy and gas policies. In many cases, the policies are ineffective as the member states (rather than the European Commission) have overlooked or marginalised the inherent risks of European CRM import dependencies—particularly with regard to China. These dependencies are much higher than the former 40% dependence on Russia for European gas imports.

To cope with the ever-increasing demand for CRMs, which form the basis of the most important and disruptive technology supply chains (e.g. in the energy and defence sectors), the EU should develop enhanced and resilient CRM policies that give more authority to the European Commission in cooperation with the member states. This would allow better Europe-wide management and avoid the duplication of efforts or rivalries developing within the EU. The Commission does not so much have a problem with a lack of strategic thinking and concepts as with the timely and coherent implementation of its policies and concepts by the member states.

While full strategic autonomy is neither realistic nor desirable, diversification of the supply and import of CRMs is necessary. Strengthening the resilience of the raw-material supply chain includes expanding domestic mining, processing and refining capacities in Europe to reduce imports and undesirable geopolitical dependencies, as well as global climate emissions. Alongside political leadership, appropriate political support and public communication strategies regarding the European mining of CRMs are urgently needed to achieve these strategic goals. In the best-case scenario, the EU could produce around 30% of its raw-material demand domestically in the future. However, this is highly unlikely, even though the EU is providing significantly more financial support for extractive projects in Europe. This is due to the lack of social and local acceptance in densely populated member states such as Germany.[15]

[15] See also F. Umbach, 'Critical Raw Materials for the Energy Transition: Europe Must Start Mining Again', *Energypost.eu*, 10 January 2022; F. Umbach, 'Geopolitical Dimensions of the EU's Future Supply of Critical Raw Materials', *Euractiv*, 1 June 2021.

Furthermore, domestic mining in Europe needs to factor in responsible sourcing and environmental regulations. This has already further increased the price difference with Chinese mining production costs and decreased the EU's global competitiveness. Therefore, simplifying EU permitting procedures as part of less bureaucratic regulations for all member states is essential to shorten the time frames for new CRM mining and refining, as well as recycling projects and supply chains.

However, many environmental groups are opposed not only to fossil-fuel mining, but also to raw-material mining, believing that future recycling and reuse of CRMs alone can offset the need for it and replace the estimated growth in demand. This seems highly unrealistic, at least in the next decade, as recycling and reuse, as well as other alternatives to reduce the demand for and import growth of CRMs also face numerous challenges and limitations. In addition, the replacement of larger quantities of batteries, solar panels and wind turbines will not occur until after 2030, meaning the resources within them will not be available for reuse until then. While the introduction of a circular economy is of paramount importance for both climatic and industrial reasons as well as for supply security, it alone will not be a 'silver bullet' for the rapidly growing European demand for CRMs and the associated security of supply risks in the next decade.

This poses a strategic dilemma in the form of a *conflict of goals and objectives*, which green parties and environmental non-governmental organisations try to avoid discussing publicly or stifle discussions on with the argument of the supposed silver bullet solution of recycling as the central component of a circular economy. As is currently the case with wind-power projects, green parties and non-governmental organisations have to choose between local environmental protection and global climate protection. Hence, local environmental standards may have to take a back seat in favour of national and international climate protection policies and agreed goals. For the latter, European raw-material mines are more necessary than ever, for two reasons. First, because they are a prerequisite for the faster implementation of electromobility and the massive expansion of renewable energies and energy storage. Second, because the existence of European raw-material mines would significantly lower CO_2 emissions due to the stricter EU environmental protection regulations and shorter transport routes involved than if the EU remained dependent on significant raw-materials imports from Latin America, Africa and Asia (China).[16]

The EU currently has no REE mining. Sweden's Norra Karr REE mining project, which could supply a large share of Europe's demand, has been delayed for 10 years due to environmental opposition. However, in Romania, Europe has restarted magnesium mining for the first time in more than a decade as a way to decrease its dependence on China after Beijing curbed and temporarily stopped magnesium exports in 2021.

Any efforts to reduce the dependency on Chinese REEs have also been hampered by the fact that key European REE companies have long had operations in China or joint ventures with Chinese companies. They are dependent on Chinese technologies for REE mining and refining. In addition, all European and Western countries will have to address the shrinking size of the mining workforce, including mining engineers, due to the increasing number of workers who will reach retirement age in the coming years. The best efforts to attract the next generation from universities are complicated by the industry's 'dirty' reputation, which conflates mineral mining with coal mining.

In addition to education and efforts to change stereotypes about the mining and refining industries, the EU needs to promote the creation of raw-material stockpiles of its 34 CRMs, both at the centralised EU level and among companies (by offering tax breaks and credits). Thus, it is useful to consider recent US experiences:

[16] See also F. Umbach, 'Unpopular, but Strategically Necessary: Why Europe Needs Domestic Resource Extraction', *Sustainable Supply Chains*, 11 March 2024.

the US's current national defence industry stockpile is considered insufficient as it still only covers 40% of the military's needs for a one-year conflict followed by three years of recovery and replenishment.[17] Thus, the capacities of the various stockpiles need to be based on clearly defined strategic needs and objectives.

Strengthening the EU's foreign raw-materials policy

According to industry analyses, around 300 new raw-material mines will have to start operating by 2035 to meet the expected demand for CRMs such as lithium, nickel, cobalt and REEs. However, since the average global lead time from the planning to the commissioning of raw-material mines takes an average of 7 years (in Western democracies, more like 10–15 years), there is the threat of a global supply bottleneck for CRMs. This makes the accelerated decarbonisation of global industry to achieve the 1.5°C target highly challenging.

As a late-moving actor, the EU is also facing problems with its mineral foreign policy. Africa plays an increasingly important role in coping with the rapidly rising global demand for CRMs, not only for China, but also for the US, Japan and the EU. Western interest in Africa can be explained not just by the continent's vast reserves of raw materials, but also by the more positive economic development, successful political reforms, greater political stability and improved investment opportunities for foreign investors in several African countries in recent years. The African continent accounts for 60% of the world's diamond deposits, 50% of cobalt reserves, 40% of phosphate (used in fertiliser) and almost 90% of the precious metal platinum, as well as huge deposits of bauxite (for aluminium) and numerous other industrial metals. It is therefore hardly surprising that most direct investment in the continent flows into Africa's extractive sector—including from China.

When considering its raw material foreign policies, the EU should consider the approach of the US, which currently has just one free-trade agreement (out of 20) with an African country (Morocco, which has the world's largest phosphate reserves). While the EU's commodity partnerships with African and Latin-American countries are certainly useful and necessary to diversify import dependencies, as are long-term contracts, neither of these provides any real guarantee, especially in times of crisis with changing framework conditions. Such partnerships and contracts could, under certain circumstances, also lull politicians and industry into a false sense of security regarding the stability of supply of raw materials if they are not part of a comprehensive and strategically defined raw-materials strategy.

The US and the EU may already be too late to work with some African countries. The example of the Lobito Corridor project (reviving a 100-year-old railway line to connect the Republic of Congo in central Africa with the Angolan port of Lobito in western Africa) for transporting CRMs to the US and the EU highlights this, as most of the African supply of such materials has already been locked in by China.[18] Therefore, the following concrete recommendations should be considered:

- Expand and deepen partnership agreements for CRM cooperation and common mining and refining projects, particularly with like-minded democratic countries with market economies (e.g. Norway, Canada, Australia and others, including those—if possible—in Africa and Latin America).
- Promote and financially support friend-shoring projects for CRM mining/refining/processing in strategic partnership countries (e.g. Norway).

[17] G. Wischer and M. Bazilian, 'The US Government Should Build a Resilient Resource Reserve for Wartime and Peacetime', *Atlantic Council*, 29 August 2024.
[18] See A. Schipani, 'The US-Backed Railway Sparking a Battle for African Copper', *Financial Times*, 21 August 2024; W. Schneidman and V. Songwe, 'Biden's IRA Shuts Africa out of Critical Minerals Supply Chains', *Foreign Policy*, 3 August 2023; K. Bartlett, 'US, China Compete for Africa's Rare Earth Minerals', *Voa News*, 10 February 2023; *RANE Worldview*, 'What Africa's Largest Mining Project Means for Guinea, China and the World', 16 July 2024.

- Become a more active partner of the US in its Minerals Security Partnership and deepen transatlantic partnership projects in Africa, Latin America and Asia.[19]
- Develop similar rules to those of the US on 'Foreign Entities of Concern' to work with partner countries to reduce their dependence on China. These US rules mandate that companies qualify for tax credits from the Inflation Reduction Act if Chinese state-owned companies do not control more than 25% of the operation in partner countries. Such investment limits help to reduce Chinese profits and the country's interest in new investment projects.
- Develop new global regulatory frameworks for CRM mining and refining by adjusting environmental, climate and technology standards as part of transatlantic and G7 policies in the UN and other international organisations.

Promoting the 'de-risking' of the supply chain for CRMs and disruptive technology (components)

The global environment is rapidly changing, with critical supply chains becoming more fragmented due to rising competition and conflicts between Western democracies and autocratic–dictatorial systems in Russia, China and the Global South. Beijing seeks to control the most important global supply chains for new disruptive technologies (e.g. clean energy, batteries, chips and semiconductors, artificial intelligence and quantum computing). It has also enhanced its 'civil–military fusion' policy, which subordinates all economic and civilian technology policies to meeting China's military needs and its arms build-up.

A simplistic, unbalanced and naive liberalisation of the markets has weakened the national security of Western democracies because of their non-diversified import dependencies—in areas ranging from energy supply to medical equipment, medicines, semiconductors, telecommunications and CRMs—which are open to exploitation for geo-economic and geopolitical leverage. The EU needs to develop new economic security strategies as not just politicians, but even businesses and companies often have little understanding of their own supply-chain vulnerabilities and the potential cascading impacts of these on other sectors and national economic security. Geopolitical resilience has become a competitive advantage for companies operating in the unstable international environment. With its newly developed comprehensive Economic Security Strategy, published in June 2023, the European Commission seeks to reconcile the imperatives of economic growth and technological innovation with the needs of (geo-economic) security.[20] In this complex and rapidly changing geopolitical and geo-economic international landscape, the following actions will help to develop more resilient European supply chains:

Prioritise projects within a strategy that balances supply security with incentives for free and fair bilateral trade and which also operates within global competition rules (without decoupling and unfair provisions of

[19] For transatlantic cooperation perspectives, see SAFE, *A Global Race to the Top. Using Transparency to Secure Critical Mineral Supply Chains* (Washington, DC, 2023); M. Moschella, 'Potential for EU–US Coordination on Diversification and Resilience of Supply Security', IAI Papers 24/24 (September 2024); J. Smyth, M. McCormick and H. Dempsey, 'Western Nations Join Forces to Break China's Grip on Critical Minerals', *Financial Times*, 23 September 2024; J. A. Rupp, 'How the US Can Confront China's Critical Mineral Challenge', *Financial Times*, 10 October 2023; C. S. Hendrix, 'The US Strategy on Critical Minerals Needs Clearer Priorities', *Piie.com*, 1 August 2023; K. Lebedur and E. Weinthal, 'Can South American Lithium Power Biden's Battery Plans?', *Foreign Policy*, 12 April 2023; R. Blakemore and P. Ryan, 'One Year After the IRA, the Hard Work to Build Resilient Mineral Supply Chains Is Only Beginning', *Atlantic Council*, 16 August 2023; S. Finizio, 'Climate Action, Geopolitical Risks and Strategic Policy: The Western Race to Secure Critical Raw Materials', IAI Commentaries 23/53 (October 2023).

[20] This strategy is based on three pillars: (1) promotion of the economic base and its competitiveness, (2) protection against risks, and (3) partnerships with countries that share common concerns and interests. It also identifies four areas that require continuous risk assessment: (1) resilience of supply chains, including energy security; (2) physical and cybersecurity of critical infrastructure; (3) technology safety and leakage; (4) weapons of economic dependency and coercion. European Commission, *European Economic Security Strategy*, Communication, JOIN (2023) 20 final (20 June 2023).

protectionism). The balancing of competing strategic objectives needs strong EU and political leadership with clearly defined strategic priorities.

Prioritise financial support for friend-shoring projects by introducing tax breaks and credits for the development and production of disruptive technologies and critical technology components.

Increase information exchange and best practices for disruptive technologies and critical technology components among the G7 and the US Minerals Security Partnership, as well as with other strategic partner countries.

	Programme 1	**Programme 2**	**Programme 3**
	Enhancing supply security of CRMs	**Implementing a CRM foreign policy**	**Promoting the 'de-risking' of the supply chain for CRMs and disruptive technology (components)**
Project 1	Expand European projects to increase mining, refining and processing capacities.	Expand CRM partnership agreements and common projects with like-minded democratic countries with market economies (such as Norway, Canada and Australia).	Prioritise projects within a strategy that balances supply security with incentives for free and fair bilateral trade and which operates within the global rules of competition (without decoupling and unfair provisions of protectionism).
Project 2	Promote raw material stockpiling.	Promote and financially support friend-shoring projects in CRM mining/refining/processing.	Prioritise financial support for friend-shoring for the development and production of disruptive technologies and critical technology components.
Project 3	Transfer more national authority for CRM supply security to the European Commission, as happened with the EU's gas policies.	Develop new global regulatory frameworks for CRM mining by adjusting environmental, climate and technology standards.	Increase information exchange and best practices for disruptive technologies and critical technology components among the G7, as well as with other strategic partner countries.

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The EU's Path to Global Leadership in Decarbonisation

by Jarosław Pietras

Summary

The EU faces the challenge of balancing sustainability and competitiveness as it seeks to lead global decarbonisation efforts. To achieve these goals, the Union must carry out a profound economic transformation, invest significantly in new technologies and harmonise environmental priorities with economic growth. As a global leader in climate policy, the EU must confront competition from economies with less ambitious climate actions. As the Union implements climate measures, their stringency seriously impacts the competitiveness of European industries. Therefore, providing greater clarity about obligations and simplifying compliance rules are vital for the EU's own enterprises and those in other countries.

For the EU to influence others, particularly in the Global South, it must demonstrate that its own strategies are successful. This would involve tangible proof that its measures deliver positive outcomes for climate, the environment and the economy. Without clear results, global economic partners may oppose the EU's approach. This includes the Carbon Border Adjustment Mechanism, which aims to prevent carbon leakage. The EU must pursue active climate diplomacy, offering technical assistance and financial support, and engaging in international trade reforms, such as greening the World Trade Organization. Success in these efforts will position the EU as a global leader in sustainability and economic transformation.

Keywords Decarbonisation– Sustainability – Carbon Border Adjustment Mechanism (CBAM) – WTO – Climate diplomacy

Introduction

The urgency of preventing climate change and seeking to decarbonise economic processes cannot be overstated. The Intergovernmental Panel on Climate Change has consistently warned that limiting global warming to 1.5°C above pre-industrial levels requires a drastic reduction in greenhouse gas emissions. The EU has responded to this challenge with the European Green Deal, a comprehensive strategy to make Europe the first climate-neutral continent by 2050. This ambitious plan sets the stage for the EU to lead by example, demonstrating that economic growth and environmental sustainability need not be mutually exclusive, but can be mutually reinforcing. This is no easy task, as the EU faces the challenge of maintaining the global competitiveness of its economy as a whole and its industries in particular. This was well documented in Mario Draghi's recent report on European competitiveness.[1] It is becoming clear that the only way to ensure that the EU can drive global decarbonisation while maintaining its competitiveness is through an active trade policy coordinated with the EU's domestic economic policies. The EU has long been an advocate of open, rules-based trade and must now use this position to promote sustainable practices around the world. Greening trade involves ensuring that trade agreements and policies encourage low-carbon technologies, reduce carbon footprints and support the global transition to a sustainable economy. It also means that trade rules and the World Trade Organization (WTO) system must be able to take climate and sustainability issues into account and make them widely accepted.

1 European Commission, *The Future of European Competitiveness: Part A – A Competitiveness Strategy for Europe* (Brussels, 2024).

Balancing policies of sustainability and competitiveness

The EU has been very active for years in the climate negotiations leading up to the Paris Agreement on climate change. It has become clear that progress on climate targets will not be achieved unless it is accompanied by consistent efforts by all emitters in both developed and developing countries. While the EU has made significant progress in reducing its own emissions, global climate targets cannot be achieved without the active participation of other large emitters, including emerging economies, which are expected to account for the majority of future emissions growth. The EU should seek to ensure that the Paris Agreement targets are met through the actions of all the parties and that other countries increase their nationally determined contributions over time. In this context, the EU's own climate commitments are crucial to maintaining its credibility as a global leader. The EU's commitment to reducing greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels and to achieve net-zero emissions by 2050 sets a high standard for others.

The EU, undertaking ambitious measures in climate policy, confronts international trade competition from economies with modest climate actions. In the long run, as the EU implements more and more stringent climate policies, such a situation could seriously impact the competitiveness of European industries. To achieve global climate goals, other countries should be incentivised to take significant steps to mitigate climate change.

A central pillar of the EU's strategy to green international trade is the introduction of the Carbon Border Adjustment Mechanism (CBAM). This mechanism seeks to level the playing field for European industries by imposing a carbon price on imports from countries with less stringent climate policies. By doing so, CBAM aims to prevent carbon leakage—when companies move production to countries with laxer environmental regulations—and tries to ensure that European industries are not disadvantaged by their commitment to sustainability.[2] Furthermore, there is hope that CBAM will encourage other countries to adopt similar carbon pricing mechanisms, thus driving global efforts to reduce emissions. However, the success of CBAM depends on careful implementation and international cooperation.[3] The EU must engage in dialogue with its trading partners to ensure that CBAM is seen not as protectionism but as a necessary step toward global climate action.

Another pillar affecting EU trade relations is legislation requiring the greening of its supply chains, particularly in sectors that are heavily reliant on imported raw materials and components. By setting sustainability standards for imports and promoting the use of recycled materials, the EU tries to reduce the carbon footprint of its own industries and encourage global suppliers to adopt more sustainable practices. Additionally, it is done via trade agreements which include provisions that promote environmental protection and ensure that partner countries commit to implementing international environmental agreements, such as the Paris Agreement. However, that this measure is not anchored in international agreements, even being fully legitimised, provokes negative reactions from countries and companies coping with compliance. Like CBAM, it requires significant documentation and paperwork, involving additional costs in export and import transactions.

An additional piece of similar legislation tries to prevent deforestation in other countries by requiring proof that in the process of production, regardless of the region and the supplier, there is no negative impact on existing forests. As it does with the requirements in the area of supply chains, it obliges EU importers to ensure documentation covering production sites beyond the EU territory. It extends obligations to producers and suppliers, particularly of developing countries, to provide detailed and credible proof of the lack of negative impact of production on the condition of the forests involved. Other legislation heads in the same direction,

[2] J. Pietras, *Navigating the Carbon Border Adjustment Mechanism: The Dangers of Non-compliance and Circumvention* (Brussels, Wilfried Martens Centre for European Studies, 2022).

[3] S. Weko et al., *The Global Impacts of an EU Carbon Border Adjustment Mechanism*, IASS Policy Brief no. 6/2020 (Potsdam, 2020).

such as the taxonomy indicating which investments conform to the requirements of sustainability.[4] Because international trade rules do not cover such measures, and the EU is merely permitted to have the taxonomy in place, the impact on trade might be significant.

The need to integrate sustainability with the WTO

All of these measures affecting exporters to the Union put a significant burden on those trading with the EU. While convincingly justified, they are not yet fully integrated within international trade rules. Very often they are seen as contradicting the principles on which the trading rules are based. They might be challenged as not fully conforming to the most basic principles enshrined in the WTO system. China and India have already made formal claims in the WTO Dispute Settlement system that CBAM is not compliant with some WTO provisions. Other countries may join in. Even if it is unlikely that these claims will lead to any meaningful outcome, the situation attests to the growing concerns that there is no agreement on climate-motivated trade measures.

Some EU trading partners, especially originating in the Global South, protest the unilateralism of the EU approach, which adopts measures without engaging in a comprehensive agreement on how they are constructed and implemented to minimise their negative impact without compromising the aims of these measures. The multitude of EU environmental and climate policies results in an aggravated impact in countries of the Global South still coping with the need to ensure economic growth and the enhancement of capacity while implementing the complex requirements for their industry.[5] The poorer countries also face a disproportionately excessive administrative burden on their institutions in coping with formal requirements and are not prepared financially to provide sufficient support to help the institutions complete required paperwork.

The paradox lies in the combination of the undisputed justification of climate change mitigation and the contested trade burdens on the EU. These measures fall within the scope of trade rules but are not explicitly covered by existing multilateral trade agreements. It is not only exporting countries that complain, but also EU companies and importers, especially small ones. For them, the cost of compliance is often more burdensome than the actual CBAM payments. To alleviate legitimate concerns, the EU should engage in building a common understanding of implementation requirements. For example, there are many different approaches to calculating emissions, including those developed by the International Organization for Standardization. These methods lead to substantially different results. To avoid inconsistencies, CBAM refers to the European approach. This creates problems for many manufacturers around the world, who may have to use different methods depending on who they trade with. It calls for negotiations to begin to establish the most widely accepted approach possible.

There are many similar practical issues related to the requirements for providing internationally accepted data for due diligence on the sustainability of supply chains or deforestation.[6] There is also an issue of the verification methods and how they are applied in practice. To minimise the negative reactions of trading partners and engage them in shaping global climate instruments, the EU should try hard to find solutions via dialogue and negotiations with its trading partners. The effectiveness and acceptability of the EU measures depend on the scale of involvement of other countries to create a set of rules covering these types of issues.

4 It is necessary to consider the trade impact of several pieces of EU legislation besides the CBAM Regulation. These include, *inter alia*, the Corporate Sustainability Reporting Directive; the Taxonomy Regulation, notably with its 'do no significant harm' assessment; the Sustainable Finance Disclosure Regulation; the Corporate Sustainability Due Diligence Directive; the Eco-design for Sustainable Products Regulation; the Industrial Emissions Directive; the Emissions Trading System; and also REACH.

5 It should be taken into account that the perception of climate actions and other environmental measures taken by the EU and particularly their impact might be considered as a prolongation of the long-lasting policies of exploitation of the Global South. See, for example, M. Lang, M. A. Manahan and B. Bringel (eds.), *The Geopolitics of Green Colonialism: Global Justice and Ecosocial Transitions* (London: Pluto Press, 2024).

6 B. Li et al., *Unpacking the EU Deforestation Regulation's Legal Production Requirement*, World Resources Institute (June 2024).

Therefore, the EU should promote the reform of the WTO aiming at the unequivocal inclusion of green measures in trading rules.[7] Elements to be considered in such a reform include the facilitation of trade in green products, focused on eliminating tariffs and other trade barriers, as well as the greening of international trade in services, and particularly low-carbon international transport, resulting in the reduction of the climate footprint related to international trade. In particular, the sustainability aspect in global value chains can help to identify problems which should be considered when reforming the WTO.

International agreement is also needed on another aspect of climate and environment policies having an impact on trade. The EU and many other countries use subsidies to accelerate decarbonisation and green transformation. The amounts in question are large, and their potential collision with trade rules is imminent. It is not only the issue of their size but also the conditions, circumstances and terms of their application. The EU has relaxed its policy in relation to green subsidies, which means that other countries could follow suit, weakening the subsidies' contribution to the green transformation and distorting their impact on trade.

Reforming the WTO along such lines would help to create a global green marketplace, which could be based on common environmental standards, methods of verification of emissions, subsidies and the development of climate-friendly technologies, and embedding circularity concepts into international trade. The creation of such a green global marketplace should be a guiding principle of the reform of the WTO. Tackling these issues in the WTO would help to alleviate some of the negative perceptions of the EU climate measures. But agreeing on them internationally would also be welcomed by European companies. It must be remembered that many formal, technical and practical difficulties in the implementation of CBAM—due diligence in supply chains, deforestation legislation and so on—pose significant problems not only for exporters in other countries but also the EU's own trading companies. Small and medium-sized companies, in particular, have great difficulty overcoming the complexities of compliance.[8] For them, the costs of compliance often outweigh the climate benefits many times over. Greater clarity and simplification would facilitate the unobtrusive implementation of sustainability legislation in the EU. Thus, it would contribute to maintaining the competitiveness of European companies.

EU international decarbonisation actions and diplomacy

For the EU to lead the global decarbonisation effort, it must engage in proactive climate diplomacy, building alliances and fostering international cooperation on climate action. This involves not only advocating for stronger climate commitments from other countries but also providing the necessary support to help them achieve these commitments. This requires climate diplomacy to become more intense and concrete. It can involve offering preferential trade terms to countries that meet certain environmental criteria or providing financial assistance for green initiatives in partner countries.

The EU should engage with all other countries through climate diplomacy, offering technical assistance, technology transfer and financial support to help them transition to low-carbon economies. This engagement should be based on mutual benefit, with the EU helping emerging economies develop their green industries, which in turn can create new markets for European products and services.

Achieving global leadership in decarbonisation will require unprecedented levels of investment in green technologies, infrastructure and innovation. The EU must mobilise both public and private finance to support sustainable

7 The EU is already strongly engaged in the debates concerning WTO reforms. See European Commission, *Reforming the WTO. Towards a Sustainable and Effective Multilateral System* (Brussels, 2021). But the EU should be clearer on including its own climate measures in trading rules to avoid the criticism of green unilateralism.

8 T. Delille, V. Giovannini and G. Messent, 'EU CBAM Reporting Obligations and Obligated Entities: Understanding the Complexity of a New System', Squire Patton Boggs (Washington, DC, 2024).

development, ensuring that the transition to a low-carbon economy is inclusive and equitable. The European Green Deal Investment Plan, which aims to mobilise at least €1 trillion in sustainable investments over the next decade, is a step in the right direction. Private sector investment should be complemented by public funding, with financial instruments tailored to support the commercialisation of innovative solutions. Mechanisms such as Carbon Contracts for Difference can help de-risk investments in emerging technologies by providing price stability, encouraging companies to invest in low-carbon solutions. However, this will require robust governance mechanisms to ensure that funds are allocated efficiently, and that they deliver measurable climate benefits while avoiding any weakening of EU competitiveness or distortion of international trade. The EU's Global Gateway initiative, which aims to mobilise €300 billion in investments for sustainable infrastructure worldwide, can play a crucial role in this effort. The Union's industrial strategy should prioritise investments in key technologies where Europe has a competitive advantage or strategic interest. By helping developing countries build sustainable infrastructure, the EU can promote global climate action while also creating new opportunities for European businesses.

The European Investment Bank has positioned itself as the EU's climate bank, with a commitment to align all its activities with the goals of the Paris Agreement by 2021. The bank can play a crucial role in financing the green transition by providing low-interest loans, guarantees and other financial instruments to support renewable energy projects, energy efficiency improvements and sustainable infrastructure development. Additionally, the European Investment Bank should focus on de-risking private sector investments in green technologies, encouraging more private capital to flow into sustainable projects.

The private sector is indispensable in financing the green transition. The EU must create a conducive environment for private investment in sustainable development through clear regulatory frameworks, incentives and the establishment of green finance standards. Moreover, the EU should support the development of green bonds and other financial products that allow investors to fund climate-friendly projects. The green transformation in Europe, as well as globally, requires large additional financial resources.

Conclusion

The EU has long been a key player in international climate negotiations, and it must continue to push for more ambitious global climate action. The EU's pledge to reduce greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels, and to achieve net-zero emissions by 2050, sets a high standard for others to follow. But the EU should also be able to demonstrate that this ambition can be beneficial to economic prosperity and growth.

The EU's industrial sectors, particularly those that are energy-intensive, will need to undergo significant transformation to align with the Green Deal's goals. This includes the adoption of near-zero emissions technologies in steel, cement and chemicals production, as well as the electrification of industrial processes. The EU should ensure that European manufacturers remain competitive in the global markets for low-carbon products.

The EU has a unique opportunity to lead the global decarbonisation effort, setting the standard for how economies can transition to sustainability while maintaining competitiveness. By reforming WTO and greening trade rules, agreeing on green subsidies and the financing of sustainable development, and engaging in proactive climate diplomacy, the EU can drive global climate action and create new economic opportunities for its industries. However, achieving these goals will require a comprehensive, coordinated approach that involves all levels of government, the private sector and civil society. The EU's leadership on climate change is not just about meeting emissions targets; it is about demonstrating that sustainable policies are necessary for prosperity. The key to success lies in the EU's ability to integrate its climate goals with broader economic and strategic interests, demonstrating that environmental leadership and economic prosperity can go hand in hand.

	Programme 1	Programme 2	Programme 3
	Greening of international trade between the EU and its trading partners	**Ensuring international cooperation on climate and intensifying climate diplomacy**	**Mobilising private finance to leverage sustainable development aid**
Project 1	Engage in WTO negotiations to facilitate trade in green goods and services. Support the reform of WTO rules that would make them indisputably consistent with climate objectives. Revitalise the Dispute Settlement Body.	Fully apply Europe's normative—soft—power to promote international climate actions through dedicated coordination between EU Representations and EU members' embassies. Create synergy between hard and soft external policy instruments in use by the EU Commission and the European External Action Service.	Ensure sustainable and environmentally responsible conduct from European companies investing abroad via the implementation of the Corporate Sustainability Due Diligence Directive. Strengthen cooperation on critical raw materials through targeted use of EU development funds.
Project 2	Urgently initiate measures to promote European export of products affected by CBAM. Review and analyse compliance requirements for involved companies. Use the 'CBAM international effect' on trading partners by enhancing relations with countries introducing a carbon price.	Facilitate the development of the G7 Climate Club with the positive agenda of cooperation in climate actions between club members. Initiate dialogue and negotiations to prevent the labelling of EU climate policies as 'green unilateralism'.	Finance the international just transition with available resources from European development assistance. Blend EU official development aid with private financial sources to ensure additional financing.
Project 3	Expand the networks of the EU free trade agreements with likeminded countries.	Find common ground in European climate diplomacy facing the divergent climate actions of the US, China, India and others by initiating comparisons of decarbonisation outcomes, and negotiate common standards and methodologies for measuring carbon emissions.	Green European development aid by focusing on the European Fund for Sustainable Development Plus. Make sure that the Global Gateway includes major climate components supported by EU funds.

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Lang, M., Manahan, M. A. and Bringel, B. (eds.), *The Geopolitics of Green Colonialism: Global Justice and Ecosocial Transitions* (London: Pluto Press, 2024).

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Pietras, J., *Navigating the Carbon Border Adjustment Mechanism: The Dangers of Non-Compliance and Circumvention* (Brussels, Wilfried Martens Centre for European Studies, 2022), accessed at https://www.martenscentre.eu/publication/navigating-the-carbon-border-adjustment-mechanism-the-dangers-of-non-compliance-and-circumvention/ on 8 October 2024.

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Financing the Sustainability Agenda

by Markus Demary and Adriana Neligan

Summary

Financing the necessary innovations and investments for a successful decarbonisation in the EU is challenging. The main reasons are tighter banking regulations, increased bureaucracy for loan applications and portfolio reallocations away from carbon-intensive industries. In addition, there is the risk that government and corporate debt levels might become unsustainable. The EU has already put forward a green bond framework to finance decarbonisation. Yet a large part of the corporate sector, particularly the small and medium-sized enterprise sector, has no access to this financial instrument. The EU therefore still needs the right mixture of reforms to both unlock private lending and investment and ensure that they stay financially sustainable so that risks do not build up in the financial sector. This paper offers several recommendations for reforms to enhance the financing of such investments by strengthening and auditing EU funds, reinforcing incentives for the transformation and supporting European small and medium-sized enterprises.

Keywords Climate-neutral industry – Decarbonisation – Transition finance

Introduction

The EU has set legally binding targets for climate neutrality by 2050. To succeed in the transition to a low-carbon economy, companies need to continuously develop new and improved climate-friendly technologies and adopt or move towards low-carbon business models. This will require investments in digital technologies, automation and AI, as well as stable supply chains, all of which will need to be consistent with the EU taxonomy for sustainable activities. To succeed in decarbonising the economy, we estimate, based on a meta-analysis, that the EU will have to invest between €758 and €1,055 billion per year until 2050 in the industry, energy, transportation and building sectors.[1]

For channelling the capital flows into environmental and climate protection investments, a key pillar of the EU Green Deal is the promotion of sustainable finance. The EU has adopted new regulations on sustainability reporting, most importantly the EU taxonomy defining sustainable activities, the EU Corporate Sustainability Reporting Directive and the EU Sustainable Finance Disclosure Regulation, which is tailored to financial companies. The main aim is to increase comparability and transparency regarding the inclusion of sustainability criteria.[2]

Small and medium-sized enterprises (SMEs) face several challenges

Financing the necessary innovations and investment volumes is challenging for the corporate sector due to tighter banking regulations, increased bureaucracy for loan applications and portfolio reallocations away from carbon-intensive industries, as well as government and corporate debt levels that might become unsustainable. How these immense volumes of investment are financed is particularly relevant to the successful mastering of the needed structural changes.

[1] M. Demary, *Wie hoch sind die Investitionsbedarfe in die klimaneutrale und digitale Transformation in NRW?*, Fin.Connect.Kompakt 01, Institut der deutschen Wirtschaft (Cologne, 2024).

[2] A. Neligan, T. Schaefer and E. Schmitz, *Nachhaltigkeitsbericht: ja, aber wie?*, Institut der deutschen Wirtschaft, IW Brief Report no. 38, (Cologne, 2024).

While the EU has developed a green bond framework for financing decarbonisation, a large part of the corporate sector has no access to this financial instrument. SMEs lack access to bond market investors since the needed issuing limits are too large for these businesses and bond investors are not interested in investing in small lot sizes. SMEs therefore depend on bank financing. However, bank financing will become more restrictive, as banks have to raise their equity capital to meet the requirements of the newest bank regulation package, namely, the Capital Requirements Regulation III and the Capital Requirements Directive VI. Schneider et al. estimate that banks will require €120 billion in additional capital to be ready for the implementation of the new bank regulations,[3] while we estimate that EU banks will need to expand their capital base by a further €276 to €384 billion until 2030 to finance the above-mentioned needed investments in decarbonisation. Thus, bank capital can become a limiting factor for the financing of decarbonisation, and freeing up bank equity capital for new SME loans is as important as capital market investors embracing SME finance.

Since SMEs normally do not tap securities markets for financing but rely on bank loans instead, banks might have a hard time allocating their equity capital to finance the decarbonisation of the SME sector. Banks must expand their balance sheet during the financing of the transformation of the corporate sector. From a regulatory viewpoint, the denominator in banks' equity capital ratio is rising, and when the capital ratio declines like this, it risks becoming too low and banks having to expand their equity capital base to hold their regulatory equity capital ratio above the threshold value demanded by financial regulation during the financing of the transformation. Since bank equity capital is an important buffer against unexpected credit defaults, the efficient use of the existing bank capital is crucial for financing the transformation. However, banks can free up their equity capital by the securitisation of their loan portfolios and the placement of asset-backed securities in capital markets. Through these measures, SME finance can be linked to capital market investors. Promoting securitisations for financing the transformation of the SME sector is, however, crucial to avoid financing gaps for SMEs. Enabling securitisation will not only help to finance the transformation, but it will also strengthen the European Capital Markets Union by bridging the gap between bank finance and capital market finance.

Banks' loan supply between climate risks and transformation risks

Banks begin to decouple from customers whose credit risks have increased due to climate-related risks or the risk that their business model will become obsolete due to decarbonisation. Moreover, banks have to monitor the transformation risks of their customers, which could result from the unsuccessful transformation of business models and a lack of transformation towards climate neutrality. Thus, banks need more information from their customers, which increases the administrative burdens for SMEs when applying for finance. For example, the additional administrative costs for the first reporting according to the European Sustainability Reporting Standard to comply with the Corporate Sustainability Reporting Directive are estimated for large companies at around €1.7 billion in initial costs and €1.9 billion annually in recurring costs. The costs of the verification of reports by an external auditor result in up to €4 billion in additional annual costs and will increase in the future.[4] Hence, SMEs might postpone necessary climate-relevant investments.

Banks and investment companies have already started to decarbonise their loan and asset portfolios by reallocating these portfolios away from carbon-intensive sectors. This could lead to financing problems for carbon-intensive SMEs that would like to invest in climate-friendly technologies but that might not be 'green' enough yet. For a successful structural change that promotes the decarbonisation of companies from hard-to-abate carbon-intensive sectors and that prevents SMEs in these sectors from having to leave the market,

3 Schneider et al., *Basel 'IV': What's Next for Banks?*, McKinsey & Company, Global Risk Practice (Munich, 2017).

4 EFRAG, *Draft European Sustainability Reporting Standards*, Centre for European Policy Studies and Milieu (Brussels, 2022).

the ability to match SMEs with appropriate funding has to be preserved during the transition. Therefore, the right framework conditions are needed for the financial sector and the real economy so that investments and innovations can be financed. Keeping corporate and government debt at sustainable levels is important during the decarbonisation process since a large volume of the needed investments will have to be financed by debt instruments.

Decarbonisation creates a dilemma for companies because the transformation of their business model can be a risky venture. At the same time, not transforming their business model is risky, too, since the future demand for their traditional product will vanish. This risk is especially prevalent for the makers of intermediate goods for combustion car production. Thus, not only climate risks affect the financial sector, but also the risks of the structural change in the corporate sector, which the financial sector supports. Corporate indebtedness could thus be a side effect of the transformation. The measurement and monitoring of these risks is as important as reducing financing gaps for the corporate sector.

Recommendations for financing the transformation better

The EU should focus on reforms for strengthening the incentives for investments in decarbonisation in the corporate sector, especially in SMEs, and for ensuring the smooth financing of these investments. We suggest the following reforms and measures.

Strengthening and auditing EU funds supporting the transformation

First, to finance the transformation and unlock private funds for that purpose, EU funds must be used to mobilise private capital through risk reduction or to set incentives to invest. This includes the use of revenues from the Carbon Border Adjustment Mechanism—for example, in the form of a transformation fund administered by the European Investment Bank (EIB). These funds must be used efficiently to set the right incentives to decarbonise and to fulfil the EU's objectives. Thus, central to the process is auditing EU funds and rethinking how they can be allocated to support innovations and investments in decarbonisation by better matching companies, banks and investors.

Second, the EIB plays a significant role in mobilising private capital. Strengthening the EIB to finance the transformation is therefore key. For example, the EIB can be an important anchor investor for infrastructure investment funds or initial public offerings connected to investments in climate neutrality.

Third, the EU should also implement a special investment fund targeted at financing carbon capture companies, carbon transportation and carbon-storage infrastructure since these investments might be too risky for private investors, especially at the development stage of the projects. Development grants and venture capital can be useful instruments in this context.

Strengthening incentives for the transformation

First, it is crucial to reform the EU energy tax and subsidy system to align with EU climate and energy objectives. The fossil fuel industry is still subsidised, with some of the subsidies being used for renaturation and others for investments in climate neutrality. Subsidies that do not set incentives for the transformation should be gradually reduced. Incentives could be strengthened further by a reformation of the EU Emissions Trading System and the EU Energy Taxation Directive so that tax rates fall in line with climate objectives and set the incentives to invest in climate-friendly alternatives. In addition, the consistency of the EU Emissions Trading System with other regulations must be ensured. Since many low-carbon technologies and carbon-removing technologies need to be developed, tax incentives for research and development (R&D) in low-carbon technologies can foster the development of these technologies and ensure that companies gain competitiveness through technological progress.

Second, since much of the machinery and equipment currently used must be replaced by low-carbon alternatives before depreciation, companies must be made aware of the accelerated depreciation of carbon-intensive equipment, and incentives should be set for them to start their investments in decarbonisation early. However, the EU taxonomy can have a negative effect on the basic materials industry and defence industry, which needs to be addressed. Exemptions for these hard-to-abate sectors should be possible since, at the same time, CO_2 can be taken from the atmosphere by carbon capture and storage technologies. These technologies should be promoted to reach climate neutrality while also preserving sectors which are both carbon intensive and of strategic importance to the EU.

Third, supervisory agencies must analyse whether the risk from transformation falls into the existing risk categories, such as credit default risks and liquidity risks, or whether new risk categories must be developed. These supervisory bodies must be integrated into frameworks for measuring climate risks and the transformational risks of companies and oversee the incorporation of these risk factors into banks' risk management systems. Moreover, supervisory agencies must monitor the financing of the transformation and the resulting risk factors at the macroprudential level—that is, not only from the viewpoint of individual banks but within the banking system as a whole. Macroprudential risks can emerge from concentrated exposure to carbon-intensive sectors or non-performing loans due to company indebtedness during the transformation. It is important to address these risks before banks get into trouble, since banks react to risks by reducing lending and this could be counterproductive to a smooth financing of the transformation of the corporate sector.

Supporting European SMEs

First, bureaucratic costs for SMEs due to increased non-financial information requirements need to be reduced. Different standards apply to companies for reporting non-financial information and also to banks for measuring environmental, social and governance (ESG) conformity in their loan portfolios. As a result, an SME that tries to compare lending conditions between banks must supply many different ESG reports to the individual banks, which increases the costs of comparing lending conditions. The standardisation of ESG key performance indicators for SMEs' reporting to banks and customers can reduce costs for SMEs and increase transparency and thereby competition in the lending sector. The development of data-sharing services or data ecosystems for SMEs for reporting standardised ESG key performance indicators could increase the efficiency of the reporting, since the SMEs would only have to provide the information once per year to the data ecosystem, where banks and customers could retrieve it.

Second, financial obstacles for SMEs which arise because of banks' limited regulatory equity capital must be eliminated during the transformation given SMEs' high dependence on bank loans. Bank equity capital for the transformation could be freed up by the securitisation of loan portfolios and the placement of these in capital markets. Smaller and medium-sized banks, however, lack the personnel and organisational resources for securitisation transactions. In addition, their loan portfolios do not achieve the lot sizes that attract capital market investors. However, securitisation platforms for smaller banks could enable these banks to use this mechanism. The standardisation of loans and processes could reduce the costs and burdens for smaller banks, and would allow the smaller banks to pool their loans to achieve lot sizes that are worthwhile for capital market investors. The auditing and reforming of bank regulations that hinder the financing of SMEs would be a good starting point, together with initiatives that promote securitisation platforms for smaller banks in times of transformation.

Third, local investment funds should be promoted, and backed by EU funds. SMEs need silent-participation equity capital for financing the transition, to hold their debt at a sustainable level while investing in their carbon-neutral transformation. The risk structure of these funds should be managed so that investors with a higher risk tolerance can invest in the development of new ideas and disruptive business models while risk-averse retail investors can invest in more incremental innovations made by existing SMEs with stable cash flows.

Conclusion

The smooth functioning of financing climate-friendly investments is crucial for successful decarbonisation. This success can be hindered by lending policies that are too restrictive as well as by lending conditions that are too easy, which can lead to the build-up of credit default risks on banks' balance sheets and subsequent problems. The EU should therefore find a framework that unlocks private lending and investment and at the same time ensures that lending and investment stay financially sustainable so that risks do not build up in the financial sector. To this end, the EU should find the right mixture of reforming both regulations that hinder the financing of companies and regulations that prevent the financial sector from allowing risks on the balance sheet of financial institutions during the financing of the transformation. While the EU should promote private financing of the investments that lead to private profits, it should offer financing for the infrastructure and ground-breaking technologies with high social returns needed for climate neutrality; these are typically too risky for private companies and investors since the returns are widely dispersed and benefit competitors as well as initial investors. While risk-sharing between states and companies can enable the development of technologies for decarbonisation, tax incentives for R&D are a technology-neutral and competition-neutral way of encouraging private companies to develop the technologies needed for decarbonisation.

	Programme 1	Programme 2	Programme 3
	Strengthening and auditing EU funds	**Strengthening incentives for the transformation**	**Supporting European SMEs**
Project 1	Improve the matching between companies, banks and investors by auditing EU funds and rethinking how they can be allocated for supporting innovations and investments in decarbonisation (e.g. guarantees for the securitisation of SME loans and investment funds). Use the EU's own resources (e.g. the Carbon Border Adjustment Mechanism) for the transformation by allocating these to the EIB.	Reform the EU energy tax and subsidy system, aligning it with EU climate and renewable energy objectives. Ensure a level playing field within the EU by gradually phasing out fossil fuel subsidies, including CO_2 content, and strengthening tax incentives for R&D in low-carbon technologies and the accelerated depreciation of carbon-intensive equipment. Ensure the consistency of the EU Emissions Trading System with other regulations.	Reduce bureaucratic costs for SMEs due to non-financial information requirements by standardising ESG key performance indicators that such companies must report to banks and customers (e.g. taxonomy-eligible turnover or taxonomy-aligned turnover). Develop data-sharing standards (a data ecosystem) for SMEs for the reporting of ESG data which can be accessed by banks and customers.
Project 2	Strengthen the EIB's ability to finance the transformation. Risks for investors can be reduced with the EIB as the anchor investor for infrastructure investment funds or initial public offerings.	Assess the impact of the EU taxonomy on the basic materials industry as an enabling activity for other industries and its impact on the defence industry to reform the taxonomy in case of conflicts with other policy goals, for example, defence and security.	Eliminate financing obstacles for innovative SMEs during their transformation and during the innovation life cycle by freeing up bank equity capital through promoting platforms for the securitisation of SME loans for smaller banks. Audit and reform bank regulations that hinder the financing of SMEs in times of transformation (e.g. capital requirements for unrated companies).
Project 3	Develop a special investment fund targeting the financing of carbon capture companies. Overcome market failures at the various stages of the innovation cycle by using instruments such as development grants, early- and later-stage venture capital.	Enable the monitoring of risks from climate change and transformation by developing frameworks for supervisory agencies on how to measure these risks for companies at the macroprudential level (e.g. concentrated exposure to carbon-intensive sectors, non-performing loans due to company indebtedness during the transition).	Promote local investment funds for SMEs backed by EU funds. SMEs need silent-participation equity capital for financing the transformation to hold their debt at a sustainable level while investing in their carbon-neutral transformation. Structure these funds so that investors with a higher risk tolerance can invest in the development of new ideas and business models while risk-averse retail investors can invest in the more incremental innovations of existing SMEs.

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Table of abbreviations

AFET	Committee on Foreign Affairs
AI	Artificial Intelligence
AP	Action Plan
AUKUS	Trilateral security partnership between Australia, the United Kingdom, and the United States
BUDG	Committee on Budgets
CARD	Coordinated Annual Review on Defence
CDP	Capability Development Plan
CEDE	Committe on Security and Defence
CER	Critical Entities Resilience
CFSP	Common Foreign and Security Policy
CJEU	Court of Justice of the European Union
CSDP	Common Security and Defence Policy
DARPA	Defense Advanced Research Projects Agency
DIANA	Defence Innovation Accelerator for the North Atlantic
DG	Directorate-General
DG DEFIS	Directorate-General for Defence Industry and Space
DG DEFCO	Directorate General for Defence Cooperation
DG ECHO	Directorate-General for European Civil Protection and Humanitarian Aid Operations
DG INTPA	Directorate-General for International Partnerships
DG NEAR	Directorate-General for European Neighbourhood and Enlargement Negotiations
ECHR	European Court of Human Rights
EDA	European Defence Agency
EDF	European Defence Fund
EDIP	European Defence Investment Programme
EDIS	European Defence Industrial Strategy
EDT	Emerging and Disruptive Technology
EDTB	European Defence Technological and Industrial Base
EEAS	European External Action Service
EIB	European Investment Bank
EP	European Parliament
EPF	European Peace Facility
ESDC	European Security and Defence College
EUCPM	EU Civil Protection Mechanism
EUMS	European Union Military Service
EXCO	Group for External Coordination
FAC	Foreign Affairs Council
FIG	France, Italy and Germany
GDP	Gross Domestic Product
GRI	Groupe des Relations Inter-institutionnelles
HILP	High-impact, low-probability event
HQ	Headquarters
HR	High-Representative
HR/VP	High Representative / Vice President
IFV	Infantry Fighting Vehicle
ING2	Special Committee on foreign interference in all democratic processes in the European Union, including disinformation, and the strengthening of integrity, transparency and accountability in the European Parliament
INGE	Special Committee on Foreign Interference in all Democratic Processes in the European Union, including Disinformation
IT	Information Technology
ITRE	Committee on Industry, Research and Energy
JURI	Committee on Legal Affairs
MBT	Main Battle Tank
MFF	Multi-Annual Financial Framework
MPCC	Military Planning and Conduct Capability
NATO	North Atlantic Treaty Organization
NDPP	NATO Defence Planning Process
NNWS	Non-Nuclear-Weapon State
NPT	Non-Proliferation Treaty
PESCO	Permanent Structured Cooperation
QUAD	Quadrilateral Security Dialogue between Australia, India, Japan and the United States
RDC	Rapid Deployment Capacity
SECDEFPOL	Security and Defence Directorate
SEDE	Sub-Committee on Security and Defence
STEM	Science, Technology, Engineering, and Mathematics
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union

The Defence Pyramid: Ten Building Blocks for a Viable European Defence Union

by Klaus Welle

When an idea like the defence community re-emerges regularly over the course of 70 years but is never realised, what does this tell us? The message is, first, that the idea is backed by a strong rationale that does not allow us simply to shelve it and move on; but also, that the preconditions for its implementation have been absent.

What is the strong rationale behind the European Defence Union?

Europe is a continent that is uniting in a slow but steady process that now involves the 27 member states of the EU and more than 440 million citizens. The Union has integrated many of its policies. Today it is unimaginable that one of its member states would be attacked by a third party without the others rallying to its support. An article in one of the EU's treaties explicitly obliges the member states to come to the others' defence. This is Article 42(7) of the Treaty on European Union, which is generally regarded as a stronger legal obligation than Article 5 of the North Atlantic Treaty, on which NATO was founded.

Why then has the Defence Union not been realised yet?

The original treaty for the European defence community was made impossible by an alliance of Gaullist and Communist members of the Assemblée Nationale in France. This opened the way for the establishment of NATO as the transatlantic security pillar, and it has successfully guaranteed its members' security for nearly 70 years. The Alliance is here to stay. Thus, any new arrangement has to prove that it both adds value and does not detract from a very successful partnership.

What is the new challenge forcing us to change?

Europe and the US are now confronted with challenges stemming from Russia and China. Since 2014 at the latest, Russia has engaged in aggressive policies aimed at destabilising security on the European continent. Its annexation of Crimea in 2014 and its subjugation of the Donbas were followed by the bombing of millions of Syrian citizens. The movement of Syrian refugees that followed destabilised politics in Western and Central Europe; and this, in turn, emboldened Russia's allies on the extreme right in several member states. The Kremlin sponsors the semi-official Wagner group, using it to stabilise dictatorial regimes in Africa and further weaken Europe's influence in the South. The EU's northern member states have been forced to update their threat perception, which has led Finland and Sweden to decide to join NATO.

Russia has moved from being a challenge mainly for the EU's eastern member states to posing a threat to the Union in its entirety. Russia is trying to change Europe's borders with violence. It wants Ukraine to disappear from the map as an independent country and is seeking to bring Belarus to submission. This would effectively re-establish its empire and its dominance over Central and Eastern Europe, and would create strong pressure on both the northern and southern parts of the continent.

We have to understand that Russia's war against Ukraine is not an isolated regional event but part of a strategy to dominate Europe as a whole. Russia is trying to re-establish on the European continent rules typical of nineteenth-century empires, including land grabbing and destroying weaker states. The EU is standing in the way.

Looking at the map, one sees that today the European continent is structured by two principles and two principles only. The first is the EU, which encompasses citizens and states in the west and the centre. Based on voluntary integration, the rule of law and democracy, it draws its neighbours closely into its orbit through contractual relations and voluntary agreements. The EU provides a home for the nation state. The second principle is Empire. It is represented by Russia in the east, which is trying to subjugate its neighbourhood by means of dependencies, pressure and violence.

And in eastern Eurasia?

Having abandoned the idea of China's 'peaceful rise', President Xi Jinping represents a new phase in the development of Communist China. Within the country, Hong Kong's special status is no longer respected; hundreds of thousands of Uyghurs have been put in 're-education' camps; and dissidents, business leaders and party activists have disappeared without a trace. Moreover, the traditional checks and balances within the Communist party have been abolished, including term limits and the representation of different factions within the leadership.

Outside China, the pressure on its neighbours is mounting. The nine-dash line is a very aggressive interpretation of Communist China's territorial claims in the South China Sea—an interpretation that leaves to its neighbours basically only their immediate coastal areas. The invasion of Taiwan by China or its blockade by sea are now considered likely options and are expected to take place in the short or medium term. They have started to become part of Beijing's military preparations. Moreover, the US military has started to war-game a direct confrontation with China in the scenario where Beijing would attack Taiwan.

In response, we are witnessing the build-up of newly institutionalised forms of security cooperation in Asia under American initiative and leadership. There is the quadrilateral security dialogue between the US, Japan, India and Australia (QUAD); the AUKUS cooperation between Australia, the UK and the US; and most recently, successful attempts at Camp David to get South Korea and Japan to overcome the negative sentiments of the past and enter into more structured cooperation. In addition, India shares with the West an interest in defending against China.

The context of the conflict in Asia between China and the US strongly resembles the situation before the First World War in Europe. An up-and-coming industrial power (then Germany, now China) threatens the status of the established sea power (then the UK, now the US) by building a major fleet. It is crucial that the current situation turns out differently from the former one. One sees, then, that security in Eurasia is threatened from both sides, the east and the west.

The EU complements NATO

The EU has played a decisive role in supporting and stabilising Ukraine. In a time when everything is being weaponised, it has successfully complemented the tools available to support Ukraine. It has made it easier for the member states to welcome millions of Ukrainian refugees, moved quickly to provide a connection to the European energy grid and allowed Ukraine to import food items without having to pay customs fees. Moreover, it has imposed against Russia a package of sanctions that are more severe than those levied against any other country. Importantly, the Union has brought hope to Ukrainians by offering them the prospect of membership in the EU.

The EU has also activated the European Peace Facility to acquire weapons for Ukraine and has initiated the joint procurement of armaments among member states. The Union has developed in practice into a strategic pillar for European security, a success that can be built upon for the future.

We are living and will continue to live in times of the weaponisation of everything. Russia has weaponised food by blocking Ukraine's grain exports, in this way threatening Africa with hunger and death. The Kremlin weaponised refugees by facilitating their access to the border between Belarus and Poland, the aim being to destabilise the latter. Energy was weaponised in the hope that Europeans' support for Ukraine would crumble when they were confronted by a cold winter and skyrocketing gas prices.

The EU has always needed NATO, but in a time when all things are being weaponised, NATO no longer possesses the complete toolkit needed to deal with security challenges. To provide security for the European continent today, NATO and the EU are nowadays necessarily complementary.

The security architecture of the future

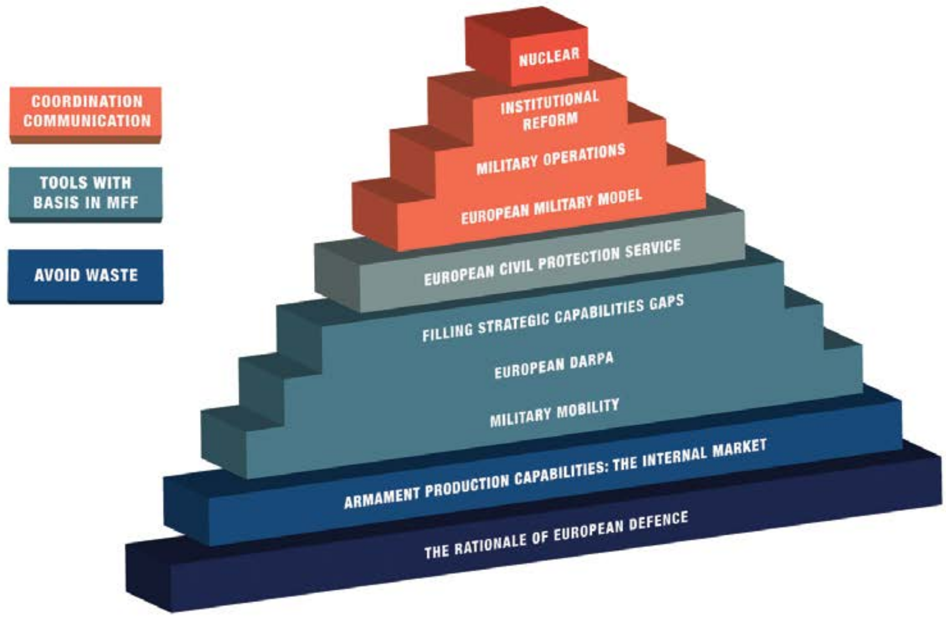
Since the Second World War, the US has decreased its defence spending considerably. It is no longer able to manage two major confrontations in different parts of the world at the same time. Its main focus will have to shift increasingly to Asia, where its status as the leading global power is being challenged by China.

Isolationist tendencies inside the US have dangerously increased and are being nurtured by the impression that Europeans are not contributing enough for their own defence. Donald Trump was the first US president in living memory to seriously consider whether the US should remain a member of NATO. Important underlying arguments were the perceived and real shortcomings of European investment in defence and the perception that Europe was free-riding on security.

Europeans will have to take more responsibility for their own territorial defence within both NATO and the EU. And as Washington has repeatedly requested, they will have to close the capability gaps that currently exist between themselves and the US. Europe and the US have to establish a partnership of equals. The EU can play a decisive role in this process. It has the political, legal and financial infrastructure that is a precondition to overcoming a number of structural weaknesses in European defence. This will help to build up, over time, a European Defence Union.

The defence pyramid

I would like to propose a process for building up a European Defence Union with complete capacity. Developing this Defence Union would be based on the concept of a defence pyramid and would address weaknesses systematically in a step-by-step process. The European Defence Union has to be built from a solid base and not from the roof down. Major changes in defence take a decade or more to become effective. Thus, building the Defence Union has to start now. Ten steps for building the defence pyramid are suggested here and will be outlined in detail in the chapters that follow. These steps differ from one another in nature.



First, make the case for why a major European effort in the area of defence is necessary: the rationale (Step 1). Can we make it clear that, as explained above, we live in a situation that has fundamentally changed, where the changes will last for decades to come?

Second, carry out a number of actions that are long overdue and that arguably only the EU can achieve: cut waste through Europe-wide military procurement (Step 2), ensure that all logistical activities, including transport, can be carried out effectively across borders (Step 3) and become competitive in military-related research through a European DARPA (Defense Advanced Research Projects Agency) (Step 4).

At a time when the average national debt level in the EU stands at 100% of GDP, increased defence efforts will need to exploit economies of scale. The key advantage that the US enjoys over the EU in the procurement of armaments is its common market for armament products. Because of this common market, the US relies on just over 30 systems, whereas in the EU with its exemptions there are more than 170. This leads to production being on a smaller scale in the EU, higher costs per unit and a diffusion of the means available for research and development. It is estimated that not using the current exemptions from the single market could result in overall savings of close to 30%.

Transport and logistics capabilities are critical for winning wars. If materials or personnel cannot be provided in the right place at the right time, they remain useless. This is especially true for any support needed by the Baltic countries in the face of aggression by Russia, which could very quickly cut them off from land support through the Suwałki Gap.

The EU traditionally finances transport infrastructure investments in its Multi-Annual Financial Framework. It needs to multiply its efforts in this area.

The US regularly complains that Europeans are not contributing sufficiently to the common defence. Moreover, Europe’s armaments industry does not appear to be keeping up on the technological front. Some fear that a combination of these two factors could even endanger future military cooperation among NATO partners.

Third, introduce a European Civil Protection Service (Step 6) with the aim of providing, for the first time, Europe-wide protection. At the request of then Commission President Jean-Claude Juncker, Michel Barnier convincingly demonstrated the usefulness and feasibility of such a Protection Service, which would provide practical solidarity in times of natural catastrophes and major accidents. It should be fully put into practice in the 2024–9 legislature.

Fourth, complete then the development of the European Defence Union, bringing it to full capability, by addressing the strategic capabilities gap (Step 5), developing a military model (7), initiating operational reform (8) and carrying out institutional reform (Step 9). The question of the EU's nuclear capability (Step 10) will also have to be addressed.

Europe in Arms: Armament Production Capacities for Disruptive Times

by Christian Mölling

Summary

The European Parliament faces a crucial task in shaping the future of Europe's defence. The European defence technological and industrial base must be strengthened to address both geopolitical and internal EU challenges. This requires a geostrategic, evidence-based approach, substantial financial resources, and a commitment to integrating new partners and contributing to the defence of Europe. The European Defence Industrial Strategy (EDIS) and the European Defence Investment Programme (EDIP) represent the EU's consolidated response to the evolving geopolitical dynamics. The framework needs to be adapted to strengthen the European defence technological and industrial base, balance national and EU efforts, and respond to the rapidly evolving geopolitical landscape.

Keywords Defence – Defence industry – European defence technological and industrial base – European Defence Industrial Strategy – European defence – EU – CSDP – NATO

Today's and tomorrow's wars set the standards

As Europe confronts the existential threat that has arisen from Russia's invasion of Ukraine and the potential for further aggression, urgent action is needed to prepare for and deter these threats. The next three to five years are critical for making decisions that will shape Europe's future for decades.[1]

The EU must redefine its contributions to European security and defence, focusing on strengthening the defence industrial base and balancing efforts between deterrence, defence and crisis management. This requires a fresh approach to ensure the European defence technological and industrial base (EDTIB) remains relevant and responds to the rapidly evolving geopolitical landscape. The latter is already changing as a result of several geopolitical factors that together have changed the dynamic, not only for member states and the EU, but globally, and thus have shaped the conditions for the EDTIB to deliver meaningful contributions. These factors are the following:

1. *Nations are already moving.* EU states have individually started to procure new armaments and change their policies, influencing the broader European landscape.2 It is estimated that EU member states spent around €81 billion on defence investments in 2023.3 These investments were initiated without any EU coordination.

1. *NATO has renewed its focus on deterrence and defence.* As a consequence of this renewed focus, NATO's defence and planning has fundamentally changed: from a broad capability-based approach to a very detailed threat-based one. The resulting requirements will shape European defence investment capability needs and industrial demand.[4]

[1] C. Mölling and T. Schütz, *Preventing the Next War (#EDINA III) – Germany and NATO Are in a Race Against Time*, German Council on Foreign Relations, Policy Brief no. 34 (Berlin, November 2023). The timelines suggested are getting shorter; this early report from 2023 suggests a range of six to nine years.

[2] C. Mölling, S. Hellmonds and T. Winter, *European Defense in A New Age (#EDINA): Geostrategic Changes and European Responses Shaping the Defense Ecosystem*, German Council on Foreign Relations, Report no. 6 (Berlin, 2023).

[3] NATO, *Defence Expenditure of NATO Countries (2014–2023)* (2023).

[4] C. Mölling, *The Capable: From 'Paper Tigers' to Rapid and Effective Presence on the Ground*, European Parliament Study (submitted June 2024).

1. *Industrial deadlines*. The urgent need to enhance defence capabilities within a short time frame is pressuring the EDTIB to deliver quickly and efficiently. Europeans have discovered that mass remains essential to fighting wars against peer competitors. This is also changing the defence industry's future business model: it needs to deliver high volumes of standard equipment quickly, rather than small doses of technologically cutting-edge equipment over the long term.

1. *Europe beyond the EU*. European countries outside the EU will play a key role in deciding the future of European security. Some European NATO allies (e.g. the UK, Norway and Turkey) are also important industrial players. Moreover, the EU aims to expand to the east in order to extend security and stability, making the Western Balkans, and especially Ukraine, part of the EDTIB. Ukraine will be the most important factor in European security in the decades to come.

1. *EU transformation*. The EU has engaged in its own further transformation, envisaging the integration of Ukraine and other countries into the EU. This intention to widen and change the EU is an unprecedented geopolitical move taken in the light of the looming threat of instability. It shows that the institutions understand that they have to transform to stay relevant.

1. *Changes to the global defence market*. The war has unleashed several parallel developments that have led to a race among industrial and governmental actors. We are seeing a reorganisation of the global market and production structures, creating new opportunities and risks for Europe. There has been an increase in defence spending globally, with this increased military demand creating more opportunities for new suppliers and for changes to customer–supplier relations. There has also been a shift from cheap to secure supply chains; Russia has partly withdrawn from the defence export market; and due to the availability of spare parts and components, a new balance has been struck between modernisation and new purchases.[5]

1. *US military support*. In the short or medium term, Europe will have to find solutions to the dwindling role of the US in NATO. This reduction will result in significant gaps, especially in high-value capabilities, which European allies will have to fill or otherwise mitigate the effects of.

1. *Support for Ukraine*. This support will have to be long term and may have to increase sharply once the main fighting ends. At that point Ukraine will need to take on an immediate deterrence posture to prevent Russia from merely viewing the end of the war as a break before the next invasion.

The EU's response: from an ad-hoc position to the European Defence Industrial Strategy and the European Defence Investment Programme[6]

So far the EU has responded only stepwise to the dynamics, especially in the areas of defence industrial policy. After some ad hoc initiatives, the EU now aims to consolidate its defence industrial approach through the European Defence Industrial Strategy (EDIS), from early 2024.[7] The strategy is being implemented through the European Defence Investment Programme (EDIP). The EDIS aims to reset the EU's approach to the EDTIB. As a result, the EU's policy approach sits somewhere between a liberal market paradigm and one driven by security policy.[8] The market-driven approach has created structures in the form of legislation and procedures

[5] C. Mölling and T. Schütz, *Preventing the Next War (#EDINA III)*, German Council on Foreign Relations, Policy Brief no. 34 (November 2023).

[6] This part is based on S. Hellmonds and C. Mölling, *Sovereign: Progress in Strengthening the EDTIB*, European Parliament Study (submitted June 2024).

[7] European Commission, *A New European Defence Industrial Strategy: Achieving EU Readiness Through a Responsive and Resilient European Defence Industry*, Communication, JOIN (5 March 2024) 10 final.

[8] C. Håkansson, *From Market Integration to Security Integration: Taking the Next Steps for European Defence–Industrial Cooperation*, UI Brief no. 5 (Stockholm, 2023).

that may interfere with the new security policy-driven approach. Despite this, this approach has not delivered more cooperation or a more powerful EDTIB. Rather, the key players, EU governments, have circumvented the legislation and widely ignored the financial incentives.[9]

The EDIS/EDIP now aim to provide a more substantial framework for future collaborative procurement.[10] They focus on four lines of action:

1. increasing the availability of financial resources through direct funding, VAT exemptions, potential lending and so on;
2. improving security of supply;
3. implementing the Structure for European Armament Programme, which facilitates EU member states' defence cooperation; and
4. introducing additional governance, through a defence industrial readiness board with a programming function and a European Defence Industry Group.

To make the EDIS a reality, the EDIP is key. This needs to be formally agreed among the European Commission, the member states and the European Parliament. This brings up the question of the added value of the EDIS and the EDIP: what can states and industries hope to receive if they buy into the new 'business case' of the European Commission?

In addition to the new geopolitical dynamics, three internal EU challenges shape the probability of success of the EDIS/EDIP:

1. *The political bias within the legal framework*. Most of the EDTIB's activities are controlled, regulated and financed by the nations individually, with the EU playing only a minor role. The EDIS shifts the EU towards the classical position of many EU governments, raising the question of who needs the EU institutions.

2. *The knowledge base regarding the EDTIB and evidence for its success*.[11] The EU institutions' approach to the EDTIB shows a limited empirical basis. In this crucial phase, the European Commission thus cannot demonstrate that it is relying on a meaningful picture of the state of the EDTIB. It therefore cannot prove that its past initiatives have been successful or that future initiatives will address the relevant drivers. Evaluations of the investment programmes and regulations have not taken place, or at least are not publicly available.[12]

3. *Available resources*. The economic leverage that the EDIS and other EU instruments provide will remain limited with the new strategy. Hence, the influence of the European Commission on the EDTIB will remain marginal. The leverage of the EDIS/EDIP may even shrink: European countries are expected to invest even more resources in 2024,[13] and therefore the economic leverage of the EU budgets will form a smaller percentage of the overall volume.

[9] D. Fiott, *Beyond Strategy? Industrial Strategy and the Future of European Defence*, Elcano Royal Institute ARI 57/2024 (Madrid); J. J. Andersson, *Building Weapons Together (or Not): How to Strengthen the European Defence Industry*, EUISS Brief 20 (Brussels, November 2023).

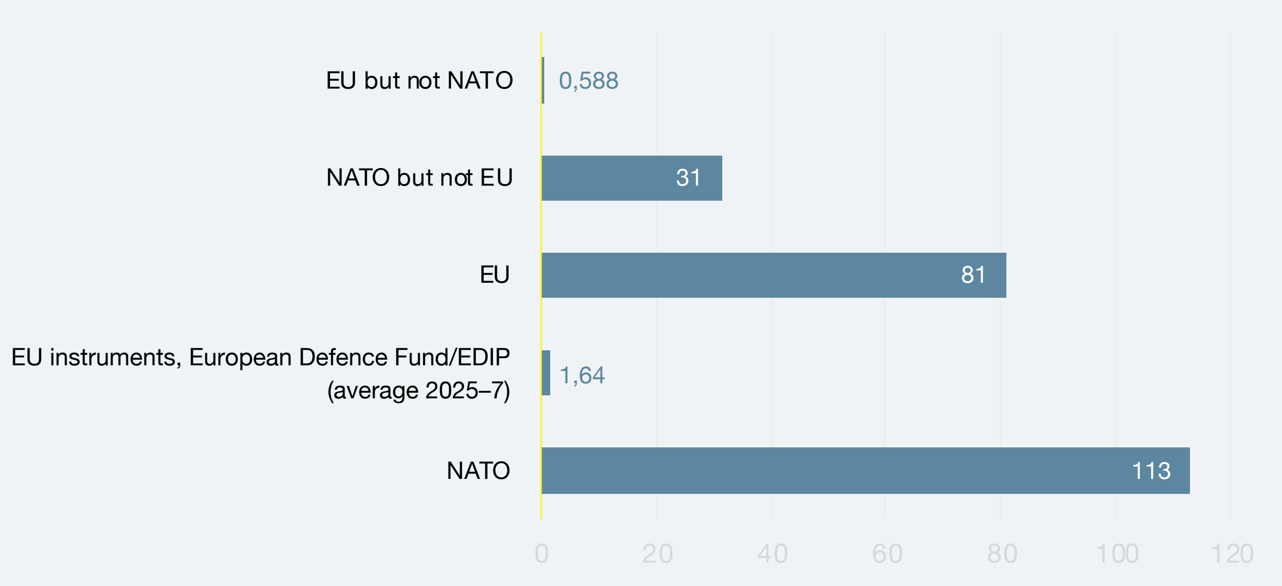
[10] D. Fiott, *In Whose Interests? Regulating Europe's Defence Industry and the Politics of Exemptions*, CSDS Policy Brief 3/2024 (2024).

[11] The argument is further elaborated in Hellmonds and Mölling, *Sovereign*.

[12] Fiott, *In Whose Interests?*; Hellmonds and Mölling, *Sovereign*. At the time of writing, the author had requested that the European Commission clarify which sources were used in the EDIS and their evaluation.

[13] NATO, *Defence Expenditure of NATO Countries (2014–2024)* (2024), 4.

Figure 1 Defence investment in billions of euros made by European countries in 2023 as part of . . .



Source: Own calculations based on NATO, Defence Expenditure of NATO Countries (2014–2023) (2023), 13.

Note: The expenditures of Austria, Cyprus and Sweden have been added individually. The figure for the European Defence Fund/ EDIP can only give a rough indication as it is only relevant from 2025. By that time, the other figures will have grown.

Recommendations: bringing defence into the equation of the geopolitical EU[14]

The next legislative period will be pivotal for the EDTIB, with several key actions required.

Resetting the conceptual framework and horizon for defence

A reset of the conceptual framework and horizon for defence would be a useful starting point. The future direction of the EU has to impress Washington and constrain the Kremlin, not please the Brussels Bubble. To operationalise this, the EU should

- *Above all, collect essential evidence*. Establishing a baseline assessment and continuously monitoring the EDTIB are essential for informed decision-making. The European Parliament should insist on empirical evidence for all past and future initiatives of the European Commission, withholding support and resources to ensure compliance if necessary. Independent of the EDIS proposal in this direction, the Commission should establish its own assessment and monitoring system for defence and the defence industries. Additionally, the European Parliament or an external body should establish a centre of excellence for this topic.
- *Develop a geopolitical approach*. The EU should use the EDIS to develop the EDTIB as a geopolitical tool, leveraging global defence technology and industrial changes to secure long-term advantages. This requires transcending narrow national perspectives and embracing a collective EU approach to the global defence technological and industrial base.

[14] These build on C. Mölling, 'Armament Production Capabilities: The Internal Market', in I. Ciolan and K. Welle, *The 7Ds for Sustainability*, Martens Centre (Brussels, March 2024); Hellmonds and Mölling, *Sovereign*.

- *Regulate and finance a defence decade*. The next 10 years should see more investment and less regulation. The challenge to defend Europe cannot be managed within the current framework of defence regulations and resources. Being entrepreneurial and getting ready for defence are steps in the same direction: both involve taking more economic risk by investing in suboptimal things that can be delivered before the deadline and improved later. Regulations have to be thought of as enablers of defence and security; thus, the EU needs to reflect on which regulations it could strengthen or make more flexible to unleash industrial and technological potential and also to encourage investment. Such moves have to be appropriate, scalable and time limited. Substantial financial resources are needed to make a meaningful impact. The EU must significantly increase the financial leverage of its instruments, moving from modest initiatives to ambitious projects with substantial funding.

Shaping the industrial base

The timelines and the urgency will also change the future business model for industry. The EDIS only partly addresses the new challenges and opportunities for the EDTIB. The EU should

- *Define contributions to the defence of Europe*. The EU should use NATO's defence planning and capability priorities. The defence of Europe against a peer competitor is now the top priority. All 23 EU states that are also members of NATO have not only agreed to this prioritisation, but also use the NATO taxonomy and capability priorities as their delivery benchmarks. From NATO's harmonised set of defence plans and capability priorities, EU ambitions can be extrapolated, that is, it can be agreed what EU states should contribute to the defence of Europe. Here, the EU and other Europeans should aim to have capabilities that either could work without US support or that would fill the gaps a US absence would create. From this perspective of (gradually) replacing US contributions at short notice, areas and incentives for cooperation should become clear. This would enable the EU to plug into member states' defence planning and make cooperation more relevant. This also is true vis-à-vis the US and Ukraine.

- *Integrate Ukraine into the defence of Europe*. Because Ukraine is already a security supplier for Europe, it should be quickly integrated into European defence networks, including the EDTIB. The experiences of the country also represent a unique wealth of knowledge and can act as a laboratory for defence and armaments development. Europe should immediately begin to work with Ukraine to plan and implement the country's long-term integration into Western defence mechanisms and the defence manufacturing landscape. Ukraine is already part of the Western defence system. Ukraine's announced future membership of the EU and NATO will further strengthen this connection. Given that the conflict with Russia is likely to continue for decades, Ukraine's location on the borders of Russia and Belarus means that the country will continue to be of outstanding geostrategic importance to Europe's security. On the industrial side, Ukraine should not be seen just as a purchaser, but also as a future supplier and part of the defence industry ecosystem.

- *Balance short-term industrial capacity and innovation*. The EU should leave the development of complex platforms to member states and focus on areas where success is possible. Quantity is the most important thing, for one simple reason: the production of innovative combat systems takes time—on average 10–15 years—that we do not have, with no guarantee that these innovations will be successful. But the demand is there in the short term; both militarily and in terms of industrial policy, those who can meet this need have an advantage. This means mass producing products that already work now and need to be available in sufficient quantities in five years' time. This is where the EU should adapt its funding to ensure that everything that is a priority and does not require new development can be produced by Europeans—right down to subsidising the capacity of individual large companies or supply chains. This would not eliminate innovation. It would instead take place in smaller, but faster steps or be shifted to countries that do not want to share their technologies.

Showing unique European added value

To better position the EU and Europe in this critical phase, the Commission should see itself as a service provider to the states—whose rationales it cannot fundamentally influence in these times. There are things that the EU is uniquely able to do, while keeping open the possibility of the long-term development of more European approaches:

- *Create an 'Amazon' for defence*. Offer an automated marketplace where national armed forces can buy defence commodities, including goods (and services) that are highly standardised, such as fuel, ammunition and so on. These items are much needed by all EU and European NATO states, including Ukraine. Flexibility in national, and also EU, minimum standards and technical requirements could be triggered by competitive pricing.

- *Enable and sustain critical infrastructure as a public good*. While military mobility as a project already exists, there is much more to be done to make critical infrastructures fit for purpose in terms of their digital capabilities, energy usage, health and so on. This is primarily a peace-time task, but also has to be considered in terms of the resilience of these infrastructures in times of crisis, including an armed conflict in Europe. To allow the Commission to engage in such dual-use build-up and the maintenance of dual-use infrastructures, the Commission, the Council and the Parliament should review the priorities of the common budget.

- *Establish an EU lend–lease programme*. The EU could, in principle, become the owner, operator and lender of defence-relevant dual-use goods. This would offer various ways to combine economies of scale, industrial production and equipment supplies for EU and partner countries. The Commission could buy the equipment needed in many countries for security and defence tasks, using a minimum EU standard. The volume the EU could offer to buy might also allow the Commission to disseminate technical standards as well as to offer lower prices through economies of scale.

	Programme 1	Programme 2	Programme 3
	Resetting the conceptual framework and horizon for defence	**Shaping the industrial base**	**Showing European added value**
Project 1	Collect essential evidence: establishing a baseline assessment and continuously monitoring the EDTIB are essential for informed decision-making.	Define contributions to the defence of Europe based on NATO requirements. The EU should focus on reducing capability gaps in Allied defences, particularly in those areas where a US withdrawal would create serious problems for Europe.	Establish Amazon for defence: offer an electronic marketplace for defence commodities such as fuel, oils and so on.
Project 2	Develop a geopolitical approach. The EU should use the EDIS to develop the EDTIB as a geopolitical tool, leveraging global defence technology and industrial changes to secure long-term advantages.	Integrate Ukraine into European defence, including into the EDTIB. Learn from Ukrainians' experience.	Enable and maintain critical infrastructure: this must be seen as a public good. Engage in making the defence infrastructure more sustainable and resilient by reviewing the priorities of the common budget.
Project 3	Regulate and finance a defence decade. The next 10 years should see more investment and less regulation. The challenge of defending Europe cannot be managed within the current framework of defence regulations and resources. Being entrepreneurial and getting ready for defence are steps in the same direction: both involve taking more economic risk by investing in suboptimal things that can be delivered before the deadline and improved later. Regulations have to be thought of as enablers of defence and security.	Balance innovation and short-term industrial capacity: focus on what is needed *now*. Leave the development of complex platforms to member states. Give priority to what is urgent. Focus on land warfare. Develop a European vehicle that meets minimum European standards, is based on existing systems for MBTs or IFVs, and has a fixed price for all buyers.	Establish an EU lend–lease programme. The EU should buy the equipment needed for logistics, and then either operate it or rent it out.

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Military Mobility: A Stepping Stone for European Defence and Deterrence

by Mihai Chihaia

Summary

The Russian war of aggression against Ukraine has marked the return of full-scale conflict in Europe and underlined the urgency to strengthen European defence capabilities. Against this background, military mobility is a top priority for the EU and NATO with there being an urgent need to tackle existing weaknesses and challenges.

This policy brief first provides an overview of the state of play of recent developments in the area of military mobility at the EU level. Second, it aims to put forward a series of recommendations for the EU and its member states to advance military mobility goals in three interconnected areas: enhancing political support and funding, multistakeholder engagement and strengthening cooperation with partners.

Keywords Defence – Military mobility – Transport infrastructure – EU – NATO

Introduction

The Russian invasion of Ukraine has marked the return of full-scale conflict to the European continent. In consequence, the core of security and defence in Europe has shifted back towards territorial defence.

In this new geopolitical context, military mobility is a top priority for the EU, NATO and their member states. Military mobility is a multidisciplinary area that combines all activities aimed at ensuring the swift movement of armed forces and military equipment. Military mobility is also a crucial feature of a credible deterrence posture: being able to move troops quickly will deter any potential adversary from taking military action.

This policy brief provides an overview of the current developments in the area of military mobility at the EU level and aims to put forward a series of recommendations to enhance the EU's efforts to advance military mobility.

Background

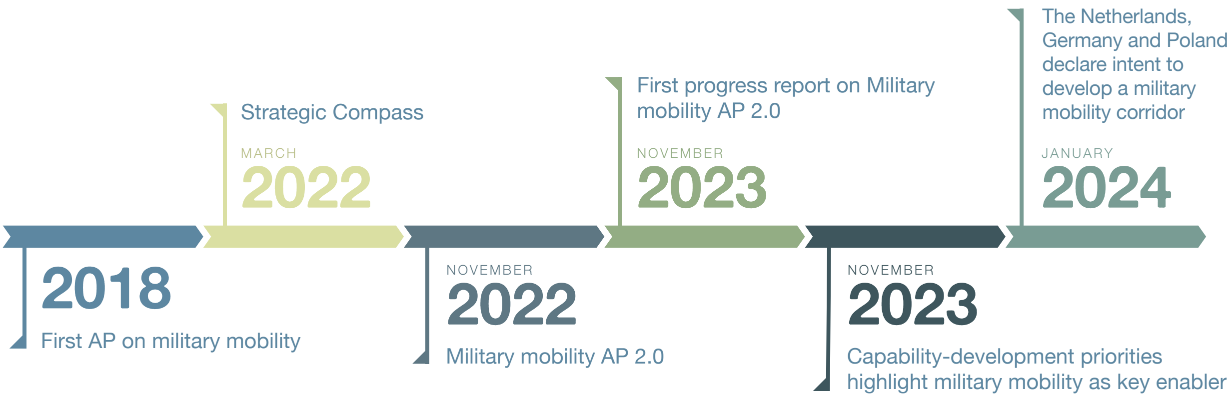
The importance of military mobility started to increase after the annexation of Crimea in 2014. In the context of the EU's development of initiatives and instruments in the defence sphere, several steps were also taken to advance military mobility: the publication of the 2018 EU Action Plan (AP) on military mobility, the undertaking of a military mobility pledge by the EU member states at the June 2018 Foreign Affairs Council[1] and, also in 2018, the launching of a Permanent Structured Cooperation (PESCO) project on military mobility, aiming to enhance cooperation among member states. Military mobility also received significant attention in the framework of cooperation, being included in the EU–NATO common set of proposals for implementing the 2016 EU–NATO Joint Declaration.

While the importance the EU has placed on military mobility has continuously grown over the past years, the alarm bells rang after Russia invaded Ukraine in February 2022. The Russian war of aggression against Ukraine underlined the urgent need to tackle existing weaknesses and challenges.

[1] Council of the European Union, *Council Conclusions on Security and Defence in the Context of the EU Global Strategy*, Luxembourg, 10246/18 (25 June 2018).

In many places across the EU territory the transport infrastructure is out of date and thus unsuitable for transporting military equipment. Moreover, the EU funding dedicated to enhancing military mobility (funding for dual-use transport infrastructure projects) and the national funding are very low compared to the overall needs. For instance, funding for military mobility at the EU level amounts to only €1.7 billion for 2021–7. Finally, the administrative procedures for crossing borders involve heavy bureaucratic processes that significantly slow down the movement of equipment and forces.

Figure 1 Timeline of most important developments in military mobility at the EU level



State of play and recent developments

In March 2022 the EU adopted the Strategic Compass, its strategy for security and defence. The document put a premium on enhancing military mobility and set priorities, such as the development of the EU AP 2.0 for military mobility,[2] which was delivered in November 2022. The plan places emphasis on four main areas: transport corridors and infrastructure, regulatory measures, resilience and preparedness, and partnerships. The first progress report on the implementation of the AP 2.0 was presented a year later, highlighting progress in the following areas: (a) the continuation of the calls for proposals for funding for dual-use infrastructure projects, (b) sharpened military criteria for the evaluation of dual-use infrastructure project proposals and (c) the organisation of the first annual expert workshop on military mobility.

In November 2023, the EU defence ministers approved the EU Capability Development Priorities,[3] a document that outlines the military capabilities EU member states should focus on developing together to be ready to tackle current and future security challenges. The document underscores both the importance of military mobility as an essential strategic enabler and the urgency of making progress in this area within and beyond the EU.

Co-funding transport infrastructure on the Trans-European Transport Network is an essential priority for the EU highlighted in the AP 2.0. Through the Connecting Europe Facility—a multi-year (2021–7)

² European Commission, *Action Plan on Military Mobility 2.0*, JOIN (2022) 48 final (10 November 2022)..
³ *European Defence Agency*, 'EU Defence Ministers Agree to Prioritise 22 Military Capabilities to Bolster European Armed Forces' (14 November 2023).

financial programme instrument—the EU allocated funding of around €1.7 billion for dual-use transport projects, which was dispersed through three calls for projects for member states:[4]

- In the first call 22 projects were awarded a total of €339 million.
- For the second, 35 projects were selected by the European Commission for a total of €616 million in EU co-funding.
- In the third call 112 proposals were submitted, and 38 military mobility projects received co-funding for a total of €807 million.[5]

The rise in the number of applications from member states shows, on one hand, increasing interest and, on the other, the need for EU funding for dual-use infrastructure projects. It also highlights the practical results of the EU's efforts to enhance military mobility. However, the funding has dried up, and more funds are required to sustain these efforts.

Engagement with partners to forge cooperation is paramount in enhancing military mobility on the European continent. Boosting dialogues with regional partners, including Ukraine and Moldova; stepping up cooperation with other partners such as the US, the UK and Norway; and advancing EU–NATO cooperation are among the main priorities for the EU.

The UK was invited to join the PESCO military mobility project in November 2022, and in March 2023 the Council agreed to invite Canada to join the PESCO Project Network Logistical Hubs. Connecting transport infrastructure with Ukraine and Moldova features high on the EU military mobility agenda.[6] Military mobility is also a flagship project for EU–NATO cooperation, making clear the complementary nature of the two organisations. Besides the existent structured dialogue on military mobility, the topic also features in the NATO–EU Task Force on the Resilience of Critical Infrastructure, established in March 2023. In June 2023 the Task Force presented an assessment report that maps out the current security challenges and presents recommendations to strengthen critical infrastructure resilience. Recommendations stress the importance of 'exchanging best practices on enhancing the resilience of critical infrastructure and identifying potential ways to strengthen it further, for example, by assessing the need, relevance and feasibility of specific requirements for certain transport infrastructure for the purpose of accommodating the weight, size or scale of military transport'.[7]

In order to expand engagement with stakeholders at the EU level, the first event on military mobility was held in June 2023, under the auspices of the Swedish Presidency of the Council. Several events on military mobility have also been held during the Belgian Presidency (January–June 2024) to create a multistakeholder platform for engagement with actors from the EU institutions, NATO, member states and the expert community from a variety of areas, such as defence, transport and technology.

Cooperation between groups of member states is equally important. On 30 January 2024 the Netherlands, Germany and Poland signed a declaration of intent to develop a military mobility corridor[8] that will address the weaknesses of the transport infrastructure and simplify cross-border administrative

4 European Commission, High Representative of the Union for Foreign Affairs and Security Policy, *Joint Report on the Implementation of the Action Plan on Military Mobility 2.0* From *November 2022 to October 2023*, JOIN (2023) 37 final (13 November 2023).

5 *European Commission*, 'Commission Supports Military Mobility Projects with €807 Million' (24 January 2024).

6 *European Neighbourhood Policy and Enlargement Negotiations (DG NEAR)*, 'Solidarity Lanes: Study on EU Rail Connections With Ukraine and Moldova Suggests Deploying European Track Gauge on Key Lines' (11 July 2023).

7 European Commission, *EU-NATO Task Force on the Resilience of Critical Infrastructure: Final Assessment Report* (29 June 2023), 9.

8 S. Siebold, 'Three NATO Allies Sign Deal to Speed Up Military Deployments to Eastern Flank', *Reuters*, 30 January 2024.

procedures. This is a significant development and represents a good practice that could be replicated by other EU member states in the future.

Prospects and policy recommendations

The following section of the policy brief proposes a series of concrete measures for the EU and its member states to advance military mobility goals in three interconnected areas: enhancing political support and funding, multistakeholder engagement and strengthening cooperation with partners.

Enhancing high-level political support and funding for military mobility

1. *Keep military mobility high on the EU political agenda*. This needs to be done in view of the European elections, the EU strategic agenda for 2024–9 and the priorities of the next European Commission. Security and defence is an important topic for the European elections, and enhanced military mobility should be clearly outlined as a core component of European defence and deterrence. The urgency of enhancing military mobility should be mentioned explicitly in the EU strategic agenda for 2024–9 as well as in the priorities of the next European Commission.

2. *Commit to a new and more ambitious military mobility pledge*. The new strategic environment requires the EU and its member states to double down on enhancing military mobility and revisit the pledge made in 2018. A new pledge agreed by all member states would elevate the political support to further enhance military mobility. It should be ambitious, aim for clear objectives and be implemented in a time frame of three to four years.

3. *Include significant funds for military mobility in the next EU Multiannual Financial Framework*. All member states should elevate their financial support for dual-use infrastructure projects to a level that significantly surpasses the funding previously directed through the Framework, which only came to €1.7 billion. Considering the previous success of the funding and the extent of essential needs in this area, the EU member states cannot afford to drag their feet on negotiations and reduce the funding initially proposed, as was the case in the negotiations on the previous Multiannual Financial Framework.

Creating multistakeholder engagement platforms

The area of military mobility encompasses a variety of related fields and actors, both civilian and military. It is essential to forge a collective approach that brings together and enables all relevant stakeholders to contribute to enhancing military mobility on the European continent.

1. *Establish an EU–NATO centre of excellence for military mobility*. The centre would provide a good environment for further research on military mobility, organising seminars and trainings, sharing best practices, inviting partners to exchange views, and stimulating cooperation among EU member states and NATO allies. This centre would operate with the 'blessing' of both the EU and NATO, and an EU member state must take the initiative to host it (along similar lines to the Centre of Excellence for Countering Hybrid Threats).

2. *Share best practices for enhancing military mobility through regional platforms such as Bucharest 9 and the Three Seas Initiative*. Regional initiatives and platforms could be very good environments for EU member states to share their progress, lessons learned and best practices for military mobility in smaller groups. These exchanges could forge further bilateral and regional cooperation to enhance military mobility. The outcomes of the discussions could then be shared with the EU institutions and other member states.

3. *Establish a dialogue platform to engage with the private sector*. This would facilitate an exploration of the sector's contributions and the role it can play in enhancing military mobility. Working with the private sector is paramount to developing the infrastructure needed to move military equipment and protecting this infrastructure from both traditional and hybrid threats.

Strengthening cooperation with partners

1. *Develop a lessons-learned process*. This should be aimed at helping both the EU and NATO benefit from what the war in Ukraine demonstrates in terms of military mobility. The lessons learned should be used during NATO exercises but also integrated into a long-term perspective for developing military mobility on the European continent.

2. *Set up exchanges on military mobility between senior leaders of the EU and NATO*. This would allow senior leadership to assess progress and explore ways of advancing cooperation. The EU–NATO structured dialogue on military mobility is a success story in advancing cooperation for both organisations. However, military mobility needs to also feature higher up in the exchanges between the EU and NATO. One way to do this is through setting up exchanges at the senior level to assess the progress made, the current challenges that need to be addressed as well as the next steps for EU–NATO cooperation on military mobility. On top of this, military mobility should also feature high on the agenda of future North Atlantic Council–EU Political and Security Committee meetings, enabling the member states to also share views.

3. *Prioritise military mobility in the security and defence dialogues with partners*. The US, the UK and Norway need to be part of the discussions and efforts to advance military mobility on the European continent. The topic should feature high on the agendas of the security and defence dialogues that are set up between them and the EU. Exploring ways for these countries to contribute to EU military mobility and harmonising their efforts with the EU's is essential.

Conclusion

Advancing military mobility has no silver bullet; rather, the EU and its member states need to make progress simultaneously across multiple policy areas, both civilian and military. In all of this, political will is essential. This should translate into political support for committing to provide the resources needed to develop military mobility at both national and EU levels. It is important to recognise that many aspects of military mobility have a civilian side. Supporting this side of the matter (e.g. developing the transport infrastructure) contributes significantly to enhancing military mobility.

	Programme 1	Programme 2	Programme 3
	Enhancing high-level political support and funding for military mobility	**Creating multistakeholder engagement platforms**	**Strengthening cooperation with partners**
Project 1	Keep military mobility high on the EU political agenda. This needs to be done because of the European elections, the EU strategic agenda for 2024–9 and the priorities of the next European Commission.	Establish an EU–NATO centre of excellence for military mobility.	Develop a lessons-learned process. This should be aimed at helping both the EU and NATO benefit from what the war in Ukraine demonstrates in terms of military mobility.
Project 2	Commit to a new and more ambitious military mobility pledge. The new strategic environment requires the EU and its member states to double down on enhancing military mobility and revisit the pledge made in 2018.	Share best practices for enhancing military mobility through regional platforms such as Bucharest 9 and the Three Seas Initiative. Regional initiatives and platforms could be very good environments for EU member states to share their progress, lessons learned and best practices for military mobility, in smaller groups.	Set up exchanges on military mobility between senior leaders of the EU and NATO. This would facilitate senior leadership to assess progress made and explore ways of advancing cooperation.
Project 3	Include significant funds for military mobility in the next EU Multiannual Financial Framework.	Establish a dialogue platform to engage with the private sector. This would facilitate an exploration of the sector's contributions and the role it can play in enhancing military mobility.	Prioritise military mobility in the security and defence dialogues with partners. The US, the UK and Norway need to be part of the discussions and efforts to advance military mobility on the European continent.

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The Case for a European DARPA

by Ionela Maria Ciolan

Summary

In a rapidly evolving technological landscape where national security is intertwined with economic security, being at the forefront of technological progress is becoming a crucial component of geopolitical power. In this respect Europe faces considerable difficulties as it lags behind the US and China. The work undertaken by the EU in the field of defence innovation is a fragmented puzzle. Brussels has typically funded innovation by investing predominantly in research and startups through various frameworks linked to the European Commission, together with the inconsistent efforts made by individual member states. If the EU wants to be a geopolitical actor with global influence in the medium to long term, it needs to adopt the American model and build a European DARPA.

Keywords Defence – Innovation – Emerging and disruptive technologies – EU – DARPA

Introduction

One of the key lessons of the past two years of war in Ukraine is the important role of defence innovation and technological advances on the battlefield. The use of satellites, drones, cyberspace, data and digitalisation on the battleground has proven to be a vital element in the fight against a larger and more powerful opponent. Ukraine's incorporation of emerging and disruptive technologies (EDTs) provides a glimpse into how upcoming wars will be fought and their critical role in future capabilities and warfare.[1] In the future, wars will have a strong technological defence component as military capabilities are transformed by disruptive innovations and technological progress.

These technological innovations will revolutionise the ability to wage war, and pose numerous threats to the security and defence of the EU. Moreover, the progress made in new materials and human enhancement will increase the effectiveness and survival rate of military personnel, while new disruptive innovations such as directed energy and hypersonic weapons will create new dynamics on the battlefield. In addition, developments in space technologies, artificial intelligence, nanomaterials, quantum technologies and additive manufacturing will transform the entire process of planning and conducting military missions and other external components (intelligence gathering, communications, and force and logistics capabilities).[2]

As such, in a fast-evolving technological landscape, where national security is intertwined with economic security, being at the forefront of technological progress is becoming a crucial component of geopolitical power. Being part of the technological race does not just mean technological and innovative superiority; it also has crucial implications for political order, economic competitiveness and national security.

[1] N. T. Friðbertsson, *Technological Innovation for Future Wars*, NATO Parliamentary Assembly, Report no. 025 STCTTS 22 E rev.1 fin (Brussels, 2022), 4.

[2] European Defence Agency, *Enhancing EU Military Capabilities Beyond 2040, Main Findings From the 2023 Long-Term Assessment of the Capability Development Plan* (Brussels, 2023), 12.

In this respect, Europe faces considerable difficulties as it lags behind the US and China in its quest for technological and industrial supremacy. Currently, the EU is straining to preserve its techno-industrial innovative edge.[3] The European Commission's 'de-risking' strategy is seen as insufficient to address the fierce global race for technological leadership and its myriad implications for European security. Beijing's ambitions to become a technological powerhouse, countered by Washington's efforts to circumvent them, are changing the global economic outlook and directly threatening European security.[4]

Moreover, the swift development of new and often disruptive technologies and their rapid weaponisation highlight the key role of innovation as a vital geostrategic element influencing the global distribution of power and the international security landscape. Maintaining the effectiveness, readiness and credibility of its members' combined armed forces is important to the EU for preserving its leading role in security and defence. The EU's ambition to become a credible global security actor is thus inextricably linked to the need to innovate in defence in Europe.

The EU's work on defence innovation

Defence innovation is that area of research and development targeting the advancement of EDTs. In Europe EDTs are defined by the European Defence Agency (EDA) as those technologies that 'significantly alter the rules or conduct of conflict within one or two generations', and thus require military organisations to upgrade their planning and long-term objectives. From all the EDTs identified by the EDA, six are particularly noteworthy for their strategic implications for the near future: artificial intelligence (AI), big data analytics, robotics and autonomous systems, hypersonic weapon systems and space, new advanced materials and quantum-based technologies.[5]

In recent years, European leaders have committed to growing the defence spending, highlighting investments in critical and emerging technologies for defence and security and boosting the coordination between civil, defence and space innovation, and research. The EU Strategic Compass for Security and Defence, adopted in March 2022, emphasises the importance of fostering defence innovation in emerging technologies. As such, the Compass proposed the creation of new policy tools such as the Hub for European Defence Innovation within the EDA and the European Commission's Roadmap on Critical Technologies for Security and Defence. It also recommends strengthening existing instruments, such as the European Defence Fund and the Action Plan on Synergies Between Civilian, Space and Defence Industries.[6] Nevertheless, the changes proposed by the Strategic Compass in defence innovation are more gradual than revolutionary, showcasing a low level of ambition and lack of consensus among European decision-makers in advancing with the European defence innovation sector.

This low level of ambition on defence or technological innovation is nothing new for the EU. Its member states have been reluctant to adopt dual-use technological innovations for defence/military purposes due to the perceived impression that defence is a national prerogative. Over the past two decades, European countries have collectively spent less on scientific research and development for defence than the US and China. Priority has been given to personnel, operational expenditure and the procurement of off-the-shelf equipment rather than investment in the creation of new defence platforms. In addition, due to European cultural and political mindsets, the private sector and European academic institutions have shown a lack of interest in collaborating with government initiatives to integrate EDTs into defence strategies.[7]

[3] K. Sahin and B. Tyson, *Europe's Capacity to Act in the Global Tech Race*, German Council on Foreign Relations, Report no.. 6 (Berlin, 2021), 2.

[4] T. Gehrke, 'The EU Isn't Even Running the Race for Techno-Industrial Leadership', *European Council on Foreign Relations*, 20 June 2023.

[5] European Defence Agency, 'Driven by Global Threats, Shaped by Civil High-Tech', *European Defence Matters* 22 (2021), 6–11.

[6] Council of the European Union, *A Strategic Compass for Security and Defence – For a European Union That Protects Its Citizens, Values and Interests and Contributes to International Peace and Security*, 7371/22 (21 March 2022).

[7] International Institute for Strategic Studies, 'Defence Innovation and the European Union's Strategic Compass', *Strategic Comments* 28/3 (2022).

On top of this, the regulatory architecture in the EU's security and defence policy is defined by a division of tasks between member states, specialised EU agencies and various EU actors. This fragmentation points to numerous conflicting perspectives and outcomes in addressing security, defence and civil matters, which are even more contentious regarding military applications of emerging technologies such as AI.

Hence, the EU's work on defence innovation is a fragmented puzzle. Brussels has always funded innovation by mainly investing in research and startup companies through various frameworks associated with the European Commission, together with the inconsistent efforts made by individual member states. Unlike the US, the EU is challenged when it comes to gathering coherent support for a comprehensive body such as the Defense Advanced Research Projects Agency (DARPA) which is focused on breakthrough advances in defence technologies.

Two of the key pieces of the fragmented puzzle are the EDA (where member states override the processes) and the European Commission's Directorate General for Defence Industry and Space. At the European Commission level, defence innovation is carried out through the European Defence Fund, which allocates 4%–8% of its annual budget to emerging defence technologies, and the EU Defence Innovation Scheme; this scheme supports innovation and entrepreneurship in critical defence technologies and proposes initiatives such as a dual-use incubator and a defence equity facility.[8]

On the other side, the EDA has an important role in defence innovation at the European level, more specifically in the development of EDTs. In coordination with the member states, the EDA's Strategic Research Agenda administers the evaluation of EDTs, promotes common projects through the EDT Action Plan and encourages innovation via the EDA Defence Innovation Prize. The agency is also overseeing the implementation of Permanent Structured Cooperation projects on EDTs, for example, the Integrated Unmanned Ground Systems 2 and TWISTER hypersonic missile defence projects.[9] In addition, the agency launched the Hub for European Defence Innovation in 2022 to act as the main platform for innovation-related joint activities and cooperation among the member states and other stakeholders, as indicated in the objectives of the Strategic Compass.

To blur the picture even further, other EU instruments, bodies and agencies are also working on defence innovation, research and technology development, and EDTs. For example, the European Commission is currently proposing to expand the interoperability between various European initiatives, such as the European Defence Fund and Horizon Europe, and to advocate for dual-use research and development to advance cutting-edge technologies at the intersection of defence, space and civil applications.

While the EU has so far lacked a formal competence in defence issues, the previous years have seen the birth of several projects from the European Commission, which is trying to promote more coherence in projects related to the civil, defence and space industries and to overcome their current isolation from one another. For example, the Commission's Action Plan on Synergies underscores the disruptive potential of technologies such as AI in various sectors.[10] This trend of bridging the various silos is more than welcome, but it should also be carried out in parallel with an ambitious, coherent strategy that utilises European potential and resources at their best.

[8] S. Clapp, *European Capability Development Planning*, European Parliamentary Research Service, PE 759.619 (Brussels, 2024).
[9] See *Permanent Structured Cooperation*, Projects, (May 2024).
[10] R. Csernatoni, *The EU's Defense Ambitions: Understanding the Emergence of a European Defense Technological and Industrial Complex*, Carnegie Europe, Working Paper (December 2021).

Financing defence innovation

A comparison of investment in defence innovation among the world's major powers shows that Europeans still have a long way to go to match others. According to the EDA, the EU member states spent only €3.5 billion on research and technology in 2022, which is only 1.4% of their total defence spending.[11] The amounts allocated to defence innovation at the EU level (at the EDA, Directorate General for Defence Industry and Space or other Directorate Generals) are in the hundreds of millions of euros, which also reflects a lack of cooperation on this issue at the European level between member states.

On the other hand, the US Department of Defense spent $34 billion on defence technology innovation in 2022, or 4% of its defence budget.[12] The US agency responsible for defence innovation, DARPA, alone had a budget of $3.8 billion in 2022,[13] more than all the funds spent by EU member states combined. As for China, a lack of transparency makes it difficult to find concrete reliable data for the country, but it is known that China has a defence budget of $229 billion. Moreover, China's military developments over the past few decades show that Beijing is determined to dominate the EDTs landscape, which includes AI, quantum technologies and hypersonic weapons systems, in order to become an innovation superpower.[14]

Thus, it is imperative for the EU to take part in the emerging technology race. On top of increasing the defence spending, policymakers should focus on increasing efficiency and coordination at the European level by limiting current disparities and building a coherent approach to defence investment planning and resource allocation across the EU.

To become an indispensable actor in future technologies and industries and to maintain the ability to influence the global community, the EU will have to promote a culture of risk tolerance and innovation. Hence, European stakeholders will have to redefine economic security through the interdependent links between the economy and defence. For this step, the European Commission and the member states will need to identify those critical technological advantages in research, production capacity and innovation that would give Europe an edge.

The American model of DARPA

The European defence innovation ecosystem is currently hampered by inertia and caution at both national and European levels. But there is an urgent need for a change of mindset and approach to move the EU forward in the technology race. To do so, European leaders must have the courage to adopt the methods of the American DARPA for vital 'disruptive' projects, which have produced real breakthroughs and numerous success stories in dual-use defence technologies in the US since DARPA was created in 1958 in response to the Soviet Union's building of the Sputnik satellite.

Over the past six decades, the Pentagon's DARPA has achieved an unprecedented degree of breakthrough innovation. DARPA's projects have been transformative for the field of technological innovation, and it is widely acknowledged to have the highest and most consistent track record for cutting-edge technologies in history. Its revolutionary inventions include global positioning satellites, the Internet, micro-electromechanical systems, drones or unmanned aerial vehicles, and RISC computing

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11 European Defence Agency, *Defence Data 2022, Key Findings and Analysis* (Brussels, 2023), 3.

12 E. Chewning et al., *How Will US Funding for Defense Technology Innovation Evolve?*, McKinsey & Company (New York, 2022).

13 Defense Advanced Research Projects Agency, *DARPA Agency Financial Report FY 2023* (Arlington, VA, 2023), 29.

14 US Department of Defense, *Military and Security Developments Involving the People's Republic of China 2023: Annual Report to Congress* (Arlington County, VA, 2023), 164–68.

and stealth technology. Although originally created for military purposes, DARPA's applications have had a significant impact on the civilian sector, helping to launch numerous multi-billion-dollar industries.[15]

DARPA is guided by five important organisational principles:[16]

1. *Independence*. The agency operates independently of the military, allowing it to pursue disruptive projects beyond traditional military considerations.
2. *Agile organisation*. It maintains a flat hierarchical structure and minimal bureaucratic processes, thus facilitating faster decision-making and project execution.
3. *Sponsorship*. It seeks high-level sponsors within the Department of Defense and other federal agencies to monitor and promote funded projects.
4. *Building communities of innovation*. DARPA brings together diverse communities of individuals with unique capabilities to break down silos and create collective strategies within innovation ecosystems.
5. *Diverse hiring*. DARPA hires project managers from a variety of backgrounds, with an emphasis on technological competence, leadership in managing complex projects and the ability to translate dreams into reality.

What makes DARPA a successful model also relates to four factors that are manifested in the agency's approach to projects. Trust and autonomy, a sense of mission, limited tenure and the urgency it creates, and risk-taking and tolerance for failure are key to the agency's organisational culture.[17] All of these elements are central to the way the agency pursues pioneering, disruptive ideas that can lead to game-changing technology products that can transform the defence sector. DARPA also plays an important role in integrating dual-use technologies and fostering synergies between military and civilian applications.

Prospects for building a European DARPA

The process of creating a European DARPA is twofold. On the one hand, European decision-makers will have to plan and structure all the practical aspects of creating a new European agency. At the same time, the European Commission and, especially, its member states will have to find the political will to reassess the viability of current European institutional frameworks and public policy paradigms for the speed and disruption demanded by the technological race.

Europe's institutional and political culture is dominated by a highly bureaucratic, over-regulated and 'play it safe' mentality. The creation of a European DARPA would require out-of-the-box thinking that takes into account the urgency with which the EU must overcome both cultural and policy-related differences and find space in its complicated internal architecture for the disruptive mechanisms needed to adopt this American model.

Moreover, certain characteristics need to be carefully considered. First, a European DARPA would have to be a high-risk, high-reward agency. It would need a culture that tolerates project failure while recognising the potential for breakthrough success. Second, a culture that tolerates risk is not enough; an EU DARPA

[15] R. E. Dugan and K. J. Gabriel, '"Special Forces" Innovation: How DARPA Attacks Problems', *Harvard Business Review*, October 2013.

[16] V. Mérindol and D. W. Versailles, 'Une « Darpa européenne » pour favoriser l'innovation de rupture, un modèle transposable à l'UE ?' ['A "European DARPA" to Promote Disruptive Innovation, a Model That Can Be Transposed to the EU?'], *The Conversation*, 28 April 2021.

[17] Congressional Research Service, *Defense Advanced Research Projects Agency: Overview and Issues for Congress*, R45088 (Washington, DC, 2021).

would also require a culture characterised by high ambition, minimal bureaucracy and a cohesive structure unified by thematic challenges.[18] In addition, the agency would need a distinct positioning within the European innovation landscape to avoid being overshadowed by existing European initiatives.

To differentiate the agency from other European programmes, its operational activity would revolve around disruptive innovation projects which are too pioneering to be financed by other EU initiatives. In contrast to conventional initiatives, a European DARPA would prioritise projects that address existing challenges with novel solutions but keep in mind a market applicability for those potential solutions and discoveries.

Furthermore, a European DARPA would give programme managers significant autonomy in project scope and direction, as in the successful example of the American agency. This approach would ensure that experts in the field are responsible for risk analysis, allowing for agility and innovation within the agency. While governance oversight remains essential, it should not stifle the creative freedom necessary for breakthrough advances in disruptive technologies.[19]

As part of the EU Strategic Agenda for 2024–2029, the EU needs to start laying the foundations for a European DARPA. Initially, European decision-makers should focus on developing the main three pillars: governance and legislation, funding, and cooperation and oversight.

Governance and legislation

In this regard, the EU will need to do the following:

- Create a dedicated legal framework to establish the European DARPA, ensuring its autonomy and independence from traditional bureaucratic structures within the EU. Clearly define the agency's mandate, scope and decision-making powers in order to promote agility in responding to emerging challenges.
- Establish a comprehensive strategic roadmap outlining the goals, milestones and expected impact of the European DARPA, yet maintain the flexibility and agility to adapt to changing technological environments or unforeseen challenges.
- Adopt a risk-tolerant approach: encourage high-risk, high-reward research initiatives to explore disruptive ideas that may not attract traditional funding sources, especially in deep tech.

Funding

In terms of funding, EU decision-markers must do the following:

- Allocate a substantial budget to the European DARPA to enable ambitious research projects and attract top-tier scientists, engineers and innovators. Consider a multi-year funding commitment to provide stability and continuity for long-term research initiatives.
- Invest in science, technology, engineering and mathematics education programmes to cultivate a skilled workforce capable of contributing to the European DARPA's research objectives. Implement initiatives to attract and retain top-tier talent within the European innovation ecosystem.

[18] W. Bonvillian and R. Van Atta, 'ARPA-E and DARPA: Applying the DARPA Model to Energy Innovation', *The Journal of Technology Transfer* 36/5 (2011).
[19] A. Waibel, *What Is DARPA? How to Design Successful Technology Disruption* (Karlsruhe and Pittsburgh, PA, 2019), 14–16.

- Establish a flexible funding architecture. Provide adaptable funding mechanisms that can support projects at different stages of development, from early exploration to pilot testing and commercialisation.

Cooperation and oversight

The EU should take the following actions:

- Encourage open innovation. Foster collaboration between universities, research institutions, industry partners and startups to accelerate the development and commercialisation of new technologies at the European level.
- Develop a partnership with NATO's Defence Innovation Accelerator for the North Atlantic to foster collaboration on EDTs for defence and security. This collaboration would allow the European DARPA to access NATO's expertise and resources, while providing NATO with access to the European DARPA innovation ecosystem.
- Institute a robust monitoring and evaluation framework to assess the impact and effectiveness of European DARPA–funded research projects. Regularly review and adjust strategies based on performance metrics and lessons learned.

Conclusion

If the EU wants to be a geopolitical actor with global influence in the medium to long term, it must prioritise a comprehensive strategy for technology and defence innovation. Developing the 'next best thing' in technology and defence will depend on making the European innovation ecosystem more flexible, agile and open to risk-taking. To truly compete in the global technology race, the EU needs unwavering political commitment, a long-term vision and a high level of ambition. Failure to cultivate its defence innovation ecosystem will diminish the EU's ability to make an impact on the world stage. It is therefore time for European decision-makers to have the courage to apply the American DARPA model to critical 'disruptive' projects in the European ecosystem.

	Programme 1	Programme 2	Programme 3
	Focusing on governance and legislation	**Providing funding**	**Improving cooperation and oversight**
Project 1	Create a legal framework dedicated to establishing a European DARPA and to ensuring its autonomy, and more specifically, its independence from traditional bureaucratic structures within the EU. Clearly define the agency's mandate, scope and decision-making powers to improve its agility to respond to emerging challenges.	Allocate substantial budget to the European DARPA to enable ambitious research projects and attract top-tier scientists, engineers, and innovators. Commit to multi-year funding to provide stability and continuity for long-term research initiatives.	Encourage open innovation: foster collaboration between universities, research institutions, industry partners, and startups to accelerate the development and commercialisation of new technologies at European level.
Project 2	Establish a comprehensive strategic roadmap, outlining the goals, milestones and expected impact of the European DARPA. But ensure that it remains flexible and agile, and thus able to adapt to changing technological environments or unforeseen challenges.	Invest in science, technology, engineering and mathematics education programmes to cultivate a skilled workforce capable of contributing to the European DARPA's research objectives. Implement initiatives to attract and retain top-tier talent within the European innovation ecosystem.	Develop a partnership with NATO's Defence Innovation Accelerator for the North Atlantic to foster collaboration on emerging and disruptive technologies for defence and security. This collaboration would allow the European DARPA to access NATO's expertise and resources, while providing NATO with access to the European DARPA's innovation ecosystem.
Project 3	Adopt a risk-tolerant approach: encourage high-risk, high-reward research initiatives aimed at exploring disruptive ideas that may not attract traditional funding sources, especially ideas related to deep tech.	Establish a flexible funding structure: provide adaptable funding mechanisms that can support projects at different stages of development, from early-stage exploration to pilot testing and commercialisation.	Institute a robust monitoring and evaluation framework to assess the impact and effectiveness of research projects funded by the European DARPA. Regularly review and adjust strategies based on performance metrics and lessons learned.

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Filling Strategic Capability Gaps

by Daniel Fiott

Summary

This policy brief looks at how the EU can better contribute to filling strategic capability gaps. It does so by acknowledging that the EU could play a greater role in filling those gaps that would most enhance European defence and deterrence. Working alongside NATO, the EU should help to jointly develop those capabilities that cannot be built on a national basis alone, such as air and missile defence, tanks, naval platforms, cyber defence and space systems. Given the war in Ukraine, providing these capabilities could contribute to Europe's defence and help to deter and deny Russia's revisionist aims—both now and over the longer term. This brief offers recommendations in three key areas: clearer priorities for military capabilities, the ramping up of investments, and joint capability development and procurement.

Keywords EU – Defence – Capabilities – Enablers – Investment

Introduction

'All hands on deck!' This has been the clarion call for European governments during the past two years as they have moved to support Ukraine against Russia's brutal invasion. The war has served to bring clarity to minds in the EU, especially in terms of defence capabilities and equipment. The need to support Ukraine has led to some difficult questions being asked about the health of Europe's defence manufacturing base. It has been challenging for the EU member states to ramp up production for 155 mm ammunition, and there are still severe capability shortfalls in areas such as air and missile defence. This is one of the reasons why the Union has produced its European Defence Industrial Strategy, to which the European Council gave its political support on 21 March 2024. Since the war started, the EU has delivered almost €30 billion[1] worth of ammunition and weapons to Ukraine, including almost 250,000 shells,[2] via both the European Peace Facility (EPF) and direct member state deliveries. However, Ukraine's needs currently outstrip European production, as the country is using up to forty thousand 155 mm shells each week.[3] Although the Union has pledged to step up its ammunition production capacity to 1.3 million shells by the end of 2024,[4] the war has exposed the limits of Europe's defence manufacturing prowess.

With a possible political shift in Washington on the horizon, EU member states need to show a renewed commitment to capability development. This means ensuring that the European defence industrial base can draw on sustainable levels of investment, labour, skills, and research and technology, and also on secure supply chains. However, filling strategic capability gaps also requires a greater focus on those projects that most enhance European defence and deterrence. Working with NATO is paramount in this regard, but the EU should look to invest in capability areas where it is unsustainable for individual member states to do so on a national basis alone (e.g. in air and missile defence, naval platforms, cyber defence and space systems). As underlined by the war in Ukraine, Europe cannot contribute to its defence and deterrence unless it develops strategic capabilities that will deter and deny Russia's revisionist aims—both now and over the longer term. This policy brief looks at how the EU can better contribute to filling gaps in strategic capability.

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1 *European Union External Action Service*, 'The War Against Ukraine and European Security' (23 January 2024).
2 *Euractiv*, 'EU Delivers Ukraine 224,000 Shells Under Ammo Plan', 12 August 2023.
3 L. Maślanka, *ASAP: EU Support for Ammunition Production in Member States*, Centre for Eastern Studies, Commentary 537 (2023).
4 *Euractiv*, 'Breton: EU Ammunition Capacity to Reach 1.3 Million Shells by Year End', 20 January 2024.

The EU approach to filling strategic capability gaps

Capability development goes to the heart of the EU's defence cooperation efforts. Back at the Saint Malo Summit in 1998, which is the bedrock on which EU security and defence has been built, the French and British governments called for the Union to 'have the capacity for autonomous action, backed up by credible military forces', and stated that 'Europe needs strengthened armed forces that can react rapidly to the new risks, and which are supported by a strong and competitive European defence industry and technology'.[5] Fast forward to the Versailles Declaration of 2022, and the EU27 agreed that the Union should take 'more responsibility for its own security and, in the field of defence, pursue a strategic course of action and increase its capacity to act autonomously' by resolutely investing 'more and better in defence capabilities and innovative technologies'.[6] In fact, the need for the EU to be a more capable defence actor is hardwired into the Treaty on European Union, which states, 'Member States shall undertake progressively to improve their military capabilities' (Article 42(3)).

Since 2008 the EU has entrusted the European Defence Agency (EDA) with identifying the military capability gaps facing the Union through its Capability Development Plan (CDP). In the first-ever CDP in 2008, which was based on its 2006 *Long-Term Vision* report, the Agency prioritised shortfalls such as mine counter-measure technologies, medical support, helicopters and counter–improvised explosive device capabilities, among others.[7] By 2013, and at the behest of the European Council, the CDP priorities had grown to include remotely piloted aircraft systems, air-to-air refuelling capacities, cyber-defence and satellite communications.[8] In 2023, and thus after Russia's war on Ukraine began, the CDP was revised to encompass 22 priorities, including air and missile defence, air transport, underwater and seabed warfare, ground combat capabilities, cyber-defence and more.[9] It is important to remember that the EU's CDP has four specific strands: (1) capability-gap shortfalls identified as part of EU missions and operations; (2) lessons learned from EU missions and operations; (3) scheduled European collaborative capability planning; and (4) long-term future technology and operational horizon scanning.[10]

However, despite the CDP's long-standing format, the EU has not been immune to the criticism that it still cannot effectively prioritise capabilities. In this sense, identifying military capability gaps is not the same as developing a coherent plan to provide the most essential capabilities: in other words, how does one prioritise among all of the priorities? This problem has not been lost on the EU, and the introduction of the Coordinated Annual Review on Defence in 2017 was specifically created to provide more clarity about the most relevant defence capabilities. Indeed, its report from 2022 stresses the need for the EU to invest rapidly and jointly in main battle tanks, unmanned maritime and aerial systems, air transport, earth observation and cyber-defence.[11] It should also be noted that since the introduction of the European Defence Fund (EDF) and Permanent Structured Cooperation (PESCO), the EU has been able to engage in a form of 'prioritisation by design'. This means, for instance, that the EU has used financial incentives from the EDF to invest in priority capability areas such as naval anti-air and missile defence and space early-warning systems, among others.[12]

With the war on Ukraine, there is today a renewed urgency to the EU's long-standing interest in filling strategic capability gaps. Not only has the Union, rather rapidly, agreed to new financing tools, such as the Act in Support of Ammunition Production to support its ammunition production efforts, but it has also agreed to a

5 *CVCE*, 'Joint Declaration on European Defence. Joint Declaration Issued at the British–French Summit (Saint-Malo, 4 December 1998)'.
6 European Council, *Versailles Declaration* (11 March 2022).
7 *EDA*, 'Background Note – Capability Development Plan' (8 July 2008).
8 European Council, *European Council 19–20 December 2013* (20 December 2013).
9 *EDA*, '2023 EU Capability Development Priorities', Factsheet (13 November 2023).
10 Ibid.
11 EDA, *2022 Coordinated Annual Review on Defence Report* (November 2022).
12 D. Fiott, 'Investing and Innovating? Spain and the European Defence Fund', *Real Instituto Elcano*, 28 August 2023.

financial top-up for defence in 2024 by adding an additional €1.5 billion through the Strategic Technologies for Europe Platform during the mid-term review of the Multi-Annual Financial Framework (MFF). This top-up will be used to kick-start the European Defence Investment Programme (EDIP), which will see the EU eventually move beyond financially supporting defence research and prototyping under the EDF, into joint military capability development. Although an initial endowment of €1.5 billion over the period 2024–7 will help the EDIP come to life, there are serious questions about its potential for funding under the next MFF (2028–34). However, the European Investment Bank (EIB)—the Union's primary investment bank—is also taking strides to increase its investments in dual-use projects under the Strategic European Security Initiative. Through this initiative, the Bank is investing up to €8 billion in infrastructure and research and technology.[13] The EIB has also recently pledged to alter its borrowing criteria for dual-use projects, which could unlock additional capital investment into small and medium-sized enterprises and strategic defence projects.[14]

What is Europe missing?

While the EU has certainly developed an array of frameworks and new financial tools to support defence capability development in Europe, perhaps the most vital issue at stake today is being able to rapidly produce military capabilities at scale. This is certainly not an easy task. For example, it took European nations a decade and a half to fully certify and make operational the A400M strategic aircraft,[15] despite a long-standing need to develop strategic and tactical airlift capabilities. Certain military capabilities take time to develop, so there is even more reason to invest in European defence capability development today. In fact, while Europeans may be struggling at present to fill the capability gaps that are directly needed to respond to Russian aggression, the truth is that most major military systems projects launched today will only actually be ready and operational in 10–20 years. In this respect, political will from governments and industry is required, not only to launch projects, but also throughout the full life cycle of a development project due to the inevitable delays and cost overruns that will emerge.

Indeed, even if it is not a natural impulse for governments to jointly launch military capability programmes with EU support, the framework does allow for a degree of financial and political sustainability. Having a bureaucratic structure in place, such as that provided by the EU, may be seen as cumbersome, but in reality it is beneficial as it enables project management and funding horizons beyond the electoral mandates of individual governments (which usually last for four to five years). Despite these benefits, there is as yet no agreed overarching capability development 'strategy' for the EU. True, many may point to the Strategic Compass agreed in 2022, or even to the recent European Defence Industrial Strategy, but these documents have their limits and are also perhaps too broad in scope. To be sure, the Compass does highlight the need for a better capability development process and for next-generation capabilities and technological innovation. However, it does not provide any greater clarity than can already be found in the EU CDP, as it also calls for investment in main battle tanks, patrol-class ships, remotely piloted aircraft systems, earth observation and cyber-defence.[16]

Identifying which military capabilities are required for the EU is a different task to specifying how many units of a particular weapon system are required, over what timescale and for what military task, and whether these capabilities can be sustainably utilised (i.e. logistically, in terms of supply chains, maintenance, repair, ammunition etc.). Some analysts, rather than bureaucrats, have tried to answer these questions through

[13] *EIB*, 'EU Finance Ministers Set in Motion EIB Group Action Plan to Further Step-up Support for Europe's Security and Defence Industry' (12 April 2024).
[14] *EIB*, 'Strategic European Security Initiative'.
[15] *Airbus*, 'A400M – Delivery to the Point of Need'.
[16] Council of the EU, *A Strategic Compass for Security and Defence* (21 March 2022).

the use of military scenarios. For example, even before Russia's invasion of Ukraine it was estimated in one scenario—in which Russia hypothetically attacked Poland and Lithuania—that Europeans would have to invest as much as €330 billion in 90 long-range missile batteries, over 3,500 main battle tanks, over 250 ground-attack aircraft and[16] naval destroyers, among other weapons systems and capabilities.[17] Such scenarios usefully highlight the extent of Europe's capability shortfalls.

There is also a pressing political dimension that should be added to any reflection on European capability development: namely, future US strategy. The prospect of a second Trump presidency may hasten the need for Europeans to rapidly develop their own capabilities. Political signals that a Trump administration may not necessarily honour NATO's Article 5 commitments, or that US forces and capabilities in Europe may be moved to the Indo-Pacific theatre, only serve to underline the need for Europeans to take on more of the defence burden. Regardless of who sits in the White House, however, the European ramping-up of defence production and large-scale investment in military capabilities is long overdue: the message from Washington will essentially remain the same, even if the method of delivery or political approach differs. In this sense, the EU can help NATO meet the need to enhance European conventional military capabilities. In fact, a greater contribution by Europe to conventional forces may be the only way to ensure the long-term political unity and defence of the Alliance.[18]

Looking to the future

Based on the extent of Europe's capability shortfalls, it will be necessary for member states to further utilise the EU for their capability development needs. The relatively good news is that the EU does not need to reinvent the wheel on institutional frameworks and initiatives. Indeed, the EU already has the EDF and PESCO as mechanisms to support capability development, and the introduction of new tools such as the EDIP should provide member states with all of the cooperative structures they require. The EU is already using these tools to develop further strategic enablers in key domains such as space, cyber-defence and military mobility. However, more can be done to ensure that the Union makes a credible and sustainable contribution to defence and deterrence in Europe. This can be achieved in the coming years in three main ways: (1) military capability prioritisation, (2) increased joint investment in capabilities by EU member states, and (3) higher levels of EU funding.

Be clear about Europe's military capability priorities

The EU and its member states must become more precise about their military capability priorities. Existing tools such as the EDF and PESCO need to be geared to developing capabilities that contribute to European defence, especially in those areas that would be further exposed should the US reduce its contribution to European defence. In this respect, it is absolutely vital that the EU and NATO engage in a structured and genuine process of streamlining capability development processes. There are already well-tested linkages between the Union's CDP and NATO's Defence Planning Process (NDPP), but effective capability prioritisation would hone in on the handful of capabilities that would truly improve European defence. These include air and missile defence, main battle tanks and naval vessels, as well as continued efforts to develop space- and cyber-defence capacities. Instead of listing all of Europe's defence capability gaps, the process should instead focus on a handful of military projects that could be developed in a collaborative manner at the EU level. Politically, this would also allow the EU to be clearer about its role in developing capabilities for European defence.

17 B. Barry et al., *Defending Europe: Scenario-Based Capability Requirements for NATO's European Members*, International Institute for Strategic Studies (2019), 38.

18 L. Simón, D. Fiott and O. Manea, *Two Fronts, One Goal: Euro-Atlantic Security in the Indo-Pacific Age*, The Marathon Initiative (August 2023).

Become serious about investments and joint capability collaboration

No serious attempt to fulfil strategic capabilities in Europe can realistically and sustainably occur without financial resources. It is a positive development that many EU and NATO members are gradually reaching NATO's defence investment pledge of 2% of GDP. While EU member states are only indirectly bound by the NATO pledge, they have committed to increasing defence spending as part of their binding commitments in PESCO (Commitment 1). What is more, PESCO-participating member states have committed to successive medium-term increases in defence investment expenditure to 20% of total defence spending, in line with the collective benchmark (see Commitment 2). They have also committed to increasing joint and collaborative strategic defence capability projects, to be supported by the EDF when appropriate (Commitment 3).[19] Of course, PESCO commitments mean little if there are no meaningful sanctions, and in lieu of such consequences one can only hope that the combination of a potential new Trump presidency and the continued threat from Russia is sufficient to ensure further defence investment.

However, national defence investment needs to be supported by more joint investment because this enables the ability to mass produce much-needed armaments at an appropriate scale and cost. Although national defence procurement decisions will persist, perhaps even more so with additional national defence investment, there are signs that Europeans are prepared to jointly produce capabilities (e.g. the Future Combat Aircraft System by France, Germany and Spain, and the Main Ground Combat System by France and Germany). The reality is that advanced weapons systems are subject to a form of cost escalation that will become increasingly difficult to manage on a purely national basis. The more sophisticated military systems and technologies become, the less realistic it becomes to produce those systems at scale nationally. Developing these systems and technologies on a purely national basis may also leave too small an export market to help manage programme costs. In this respect, there is a logic to avoiding investing huge amounts of public money into defence development programmes that can only be produced on a small scale and for one or two markets. Joint development and procurement, by contrast, provides an opportunity to spread investment risks, create mass production and ensure enough European states use similar systems to allow military interoperability.

Use the EU to invest in joint capabilities

To ensure the long-term health of the European defence industry and to support joint development and procurement, increased levels of EU investment are required over the coming years. When the EDIP is finally adopted it should come with a strong commitment in the next MFF (2028–34) to defence-industrial investment. Somewhere in the region of €100 billion for defence over a seven-year period would be a good place to start. Should this amount of investment be established in the next MFF, it would be possible to create a virtuous circle in EU defence investment. In practice, securing €100 billion in investment would send a powerful signal to the defence industry that the EU is ready to seriously support the sector beyond the €8 billion it directly invests via the EDF and the €1.5 billion it will initially invest under the EDIP until 2027. Should this be combined with more ambitious investments from the EIB into defence and dual-use technologies, more private investors may be attracted too. This would provide the capital required to ensure that Europe's defence industry has large and sustainable contracts for defence systems and equipment over the next decade, at least.

Of course, increased EU-level spending will not be enough to ensure efficient joint capability development. Member state procurement agencies involved in developing EU-sponsored capabilities will need to ensure

[19] *PESCO*, 'Binding Commitments: List of Ambitious and More Binding Common Commitments Undertaken by Participating Member States'.

proper coordination with industrial and government partners. Additionally, the EU should be making life easier for industrial partners and governments by evaluating existing EU defence-industrial legislation to ensure that there are no needless obstacles to cooperation. More broadly, the EU needs to continue its work on the security of the defence supply chain by ensuring that trade policy and partnerships are geared to securing critical raw materials. Additionally, it would make a lot of sense for the European Commission to work hand-in-hand with the EIB on the issue of skills shortages, as the Bank has extensive expertise and experience in developing strategies to plug knowledge gaps. This will be critical in the coming years, as no ramping up of defence production can occur without technicians, engineers and/or scientists.

Conclusion

Russia’s war on Ukraine has led to fundamental shifts in how EU member states view the health of Europe’s capability inventories and defence-industrial base. If the EU is to meet the challenge of defending Europe, supporting Ukraine and deterring Russia, then further investment in defence is vital. This policy brief has noted that the EU has already started to be much clearer about the types of military capabilities it should help develop. Still, more can be done to streamline the Union’s capability prioritisation, and this should include closer cooperation with NATO, whenever possible. However, a clearer focus on the capabilities needed for defence and deterrence needs to be complemented by large-scale defence investment. Only in this way can the EU help unlock defence production and contribute to ramping up defence manufacturing capacity. Finally, this policy brief has also shown how greater defence investment and production should be galvanised by increased joint procurement. This is a critical moment for European defence. Without the measures underlined in this policy brief, Europe will find it much harder to defend itself.

	Programme 1	Programme 2	Programme 3
	Making a meaningful contribution to defence and deterrence in Europe	**Increasing joint investment for EU defence capabilities**	**Ramping up defence production capacity in the EU**
Project 1	Focus the EDF, PESCO and the future EDIP on the production of air and missile defences, naval equipment, main battle tanks, and space and cyber capabilities.	Increase national defence spending to at least 2% of GDP. At least 20% of this should be invested in equipment, and ideally jointly, in accordance with PESCO's binding commitments.	Invest in new defence manufacturing sites and fill skills shortages in the defence labour market using the EIB and by leveraging private investment
Project 2	Build on current EU investments in existing strategic enablers such as space, cyber-defence and military mobility.	Agree swiftly to an EDIP that is backed by substantial financial means (approximately €100 billion) for the next MFF (2028–34).	Place large and sustainable pre-orders for ammunition and defence equipment to stimulate demand and ensure production for at least the next decade.
Project 3	Continue streamlining the EU's capability development processes (CDP and CARD), providing more effective linkages to NATO (NDPP).	Experiment with existing and new EU legislation to ensure that the Union's procurement and transfer regulations aid production.	Use EU trade tools to secure strategic supplies of critical raw materials and to invest in secure supply chains with strategic partners.

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European Civil Protection Service

by Paola Tessari

Summary

Crisis management is traditionally an internal matter, which rests within state competences. However, in recent years, natural and man-made disasters have been characterised by transboundary impacts. Consequently, the need for strong coordination beyond the national level has increased. Many initiatives have been launched at the EU level, the main one being the EU Civil Protection Mechanism, an essential and successful tool in the domain. At the same time, efficient and effective crisis management should remain vigilant, flexible, and open to expanding its toolkit and potential in advance of the emerging challenges and evolving scenarios. Among the possible additional measures, crisis anticipation should be enhanced, coupled with expanded situational awareness, building upon the contributions of expertise from diverse domains, and considering new and emerging scenarios. Additional mechanisms, outside of the EU Civil Protection Mechanism, could also be implemented to allow willing countries to provide additional capacity. A whole-of-society approach and civil defence measures could also increase the empowerment of all participants in society, increasing the resilience of systems and making citizens more responsible for the successful prevention of and response to certain threats.

Keywords Civil protection – Civil defence – Societal resilience – Crisis management

Introduction

Extreme events and unprecedented emergencies have demonstrated the need for a coordinated approach to crisis management which goes beyond the national dimension. Indeed, while crisis management is traditionally an internal matter, the competence for which rests with national governments,[1] states have increasingly faced overwhelming emergencies, challenging their ability to handle such situations effectively.[2] Thus, there is an emerging need for coordination so that prompt and effective support can be delivered to the affected country/countries. At the EU level, many initiatives have been launched to encourage collaboration, increase support and coordinate assistance among the member states. The EU Civil Protection Mechanism (EUCPM), a system that collects and coordinates the assets made available by the participating states, represents the core of the EU's involvement in civil protection. The mechanism has proved to be an essential and successful tool in the domain, but the increasing complexity of the scenarios, with emerging challenges disrupting societal functions and well-being in general, leaves room for potential improvements. This policy brief aims to provide an overview of the state of play of the mechanism and attempts to formulate additional measures and prospects for even more robust action.

Background

The legal basis for EU action in crisis management is found in Article 222 of the Treaty on the Functioning of the European Union, where the 'solidarity clause' is introduced, which mandates that member states

[1] C. Pursiainen and K. Eero, 'From European Critical Infrastructure Protection to the Resilience of European Critical Entities: What Does It Mean?', *Sustainable and Resilient Infrastructure* 8/51 (2023).

[2] A. Boin, M. Busuioc and M. Groenleer, 'Building European Union Capacity to Manage Transboundary Crises: Network or Lead-Agency Model?', *Regulation and Governance* 8/4 (2014).

intervene to support other states in the circumstances of a terrorist attack or a natural or man-made disaster. In addition, Article 196 of the same treaty attributes a supplementary competence to the Union, to encourage cooperation between member states to improve the effectiveness of systems for preventing and protecting against natural or man-made disasters.

To better support cooperation among countries in the event of major emergencies, the EUCPM was established in 2001, and includes all EU member states and a further 10 participating countries.[3] The mechanism is comprised of a pool of assets voluntarily made available by the participating states, with the EU co-financing the transportation and operational costs. In 2019 an additional reserve of assets was established, the so-called rescEU, which is 100% funded by the EU.[4] These assets comprise medical items, decontamination supplies, protective equipment and detectors.

State of play

The EUCPM has been activated 700 times since its launch in 2001.[5] Assistance through the EUCPM can be provided in multiple ways: through the delivery of equipment, the deployment of experts, or via consular assistance and repatriation.[6] The capacities are made available by states participating in the EU Civil Protection Pool and are dispatched by the Emergency Response Coordination Centre. Currently, the EU Civil Protection Pool includes more than 100 assets.[7] With the Russian invasion of Ukraine, the largest operation undertaken by the Mechanism was launched. Medical supplies, fuel and shelter equipment have been delivered to Ukraine, building up the reserves for treating patients exposed to hazardous materials such as chemical, biological, radiological and nuclear agents. The value of the in-kind assistance provided to and emergency operations carried out in Ukraine via the EUCPM so far amounts to €796 million.[8]

In addition, it is worth noting the recent policy measures taken with the aim of increasing the resilience of the whole society, which address both critical infrastructure and the citizenry. In this regard, the key instrument is the Critical Entities Resilience Directive (CER Directive), which entered into force on 16 January 2023.[9] The Directive replaces and expands the previous framework, extending its scope of application from 2 to 11 critical entities sectors, and improving response capacities and coordination between the various actors at the national and EU levels.

Other key measures have been adopted to counter hybrid threats such as the disinformation campaigns that interfere with EU citizens and society at large, including institutions and democratic processes. Lessons can be learned from Finland and Sweden, as reported in the INGE Committee[10] study *Best Practices in the Whole-of-Society Approach in Countering Hybrid Threats*.[11] The approaches described therein are characterised by the engagement of various groups, from the government to the private sector and civil-society organisations, with courses provided at the national and regional levels to teach civil preparedness and defence. Disinformation

[3] *European Commission*, 'European Civil Protection Mechanism'.
[4] *European Commission*, 'EU Funds Further Strategic Reserves for Medical, Chemical, Biological and Radio-Nuclear Emergencies Worth €690 Million' (20 December 2023).
[5] *European Commission*, 'European Civil Protection Mechanism'.
[6] Ibid.
[7] *European Commission*, 'Emergency Response Coordination Centre'.
[8] *European Union External Action Service*, 'Over 140,000 Tonnes of Life-Saving and Critical Supplies Sent to Ukraine via the EU Civil Protection Mechanism' (1 February 2024).
[9] European Parliament and Council Directive 2022/2557/EC on the resilience of critical entities and repealing Council Directive 2008/114/EC, OJ L 333 (14 December 2022), 164.
[10] Special Committee on Foreign Interference in all Democratic Processes in the European Union, including Disinformation.
[11] M. Wigell, H. Mikkola and T. Juntunen, *Best Practices in the Whole-of-Society Approach in Countering Hybrid Threats*, European Parliament, Directorate General for External Policies, PE 653.632 (May 2021).

and misinformation are specifically targeted, with courses and training for journalists and the media.[12] Special attention is paid to maintaining self-sufficient supplies and stockpiling, and training is given to citizens on how to cope in emergency situations, including in the absence of state assistance.[13]

Prospects

Recent events, such as the conflict in Ukraine and, before that, the Covid-19 pandemic, demonstrate the need for a renewed debate on society's preparedness for crises and for a system that is adequate to face current threats and future crises. Such emergencies have increasingly had a cross-border dimension, with severe consequences transcending national territories and requiring coordination among multiple actors.

With the aim of finding possible ways to enhance the emergency management protocols, a few lessons learned can be identified. At the local and supranational levels, it has become paramount to reinforce preparedness by anticipating crises as far as possible. Crisis anticipation should be coupled with expanded situational awareness and paying more attention to all kinds of events, including those considered less likely but that could have potentially extreme impacts, the 'high-impact, low-probability' (HILP) events. An example is the Russian invasion of Ukraine, which has brought the spotlight back onto the threat of nuclear weapons after more than 70 years of diminished risk. To this, the danger of the spread of hazardous materials, due to the presence of industrial facilities in the war zone, should be added.

In addition, attention should be paid to the fragile safety and security of such facilities in the current circumstances. Even before the conflict in Ukraine, experts were concerned about the smuggling and trafficking of hazardous, and specifically radiological and nuclear, materials in the Black Sea region. The dual-use character of chemical, biological, radiological and nuclear agents, with applications in the pharmaceutical, medical and agricultural domains, makes them widely produced and easily available. In addition, due to their very nature, such materials are usually difficult to detect and identify. For this reason, the need for enhanced threat-detection measures is becoming more pressing, especially in exceptional circumstances, such as those we have witnessed over the last two years in Ukraine. Rapid detection capacities would enable a fast response, allowing the collection of information that could be shared swiftly through early warning and alert systems, both with operators and the general population.

The prevention and management of such events would also benefit from the contributions of expertise from diverse domains: the knowledge of scientific and technical experts, as well as social science professionals, would enable an extended and comprehensive understanding of events, embracing all intertwined aspects. This would help to ensure realistic situational awareness, allowing for rapid and informed decision-making that addresses the extended operational requirements of such situations.

There is no doubt that the EU has significantly increased its crisis-management capacity thanks to the assets pooled by the participating states. Nevertheless, the crisis-management community needs to remain vigilant for extreme events, some of them emerging and evolving, which may necessitate more and more contributions from states. With this in mind, suggestions have already been made with regard to the establishment of additional mechanisms, outside of the EUCPM, to allow willing countries to provide additional capacity. Numerous experts have highlighted how the launch of closer cooperation mechanisms, such as Permanent Structured Cooperation, have the potential to foster closer operational collaboration beyond the existing procedures.[14]

12 Ibid.
13 Ibid.
14 S. Blavoukos and P. Politis-Lamprou, 'A European Civil Protection Union: Maturing out of Necessity', *Hellenic Foundation for European and Foreign Policy* 89 (2021).

Looking at the evolving threat landscape, it is essential to pay attention to the use of hybrid operations, which combine multiple techniques with the aim of exploiting a society's vulnerabilities. Among the techniques used, there has been an increase in the dissemination of fake news and disinformation. The impact of such methods is amplified due to the ease with which they can reach society via online channels, especially social media platforms. With this in mind, a reinvigorated civil protection system should also consider taking a whole-of-society approach towards resilience, in which all actors, private and public, are ready to act to ensure a state's security.[15] Informed citizens can be security actors, able to identify and spot a potential incident, react accordingly and inform the authorities. A knowledgeable citizen can adopt the correct behaviour and contribute individually and jointly with the community, helping to limit the consequences of and, in the long term, facilitate the recovery from an emergency.[16] To give people the skills needed to respond to disasters jointly and therefore to be more resilient, a few measures can be applied. A first step could be to work on awareness and communication, not only at the national level but also through supranational coordination via the EUCPM. As regards awareness raising, an information campaign could prove a useful tool to empower individuals and the wider public, both with the ability to act in the case of emergencies and knowledge of where to find reliable information. Empowering society and making citizens more responsible represent tools for the successful prevention of and response to certain threats.[17]

With regard to emergency communication, clear institutional communication strategies are imperative for fostering resilient systems and communities and promoting security, again not only locally but also at the supranational level. Such strategies are necessary at a time when hybrid warfare techniques have the potential to hit all elements of society with cascading effects. A recent example was given during the Covid-19 pandemic, when we witnessed the spread of sometimes contradictory or unclear information, and even disinformation, which risked jeopardising crisis-management efforts.

The resilience of the whole society can only be achieved by taking measures to ensure the safety of those sectors essential for the well-being and functioning of the community. This is where distinct measures for the safeguarding of critical infrastructure come into play: emergency plans for critical infrastructure should identify specific vulnerabilities and conduct risk assessments. The latter should adopt a comprehensive approach that considers how various systems and facilities are interconnected and interdependent. The EUCPM can play a role in harmonising national measures that ensure the resilience of critical entities, an area which is now regulated by the above-mentioned CER Directive. The skills and competences made available through the EUCPM make it a precious forum for knowledge exchange and for ensuring an approach that takes into consideration the interconnection of systems beyond the national dimension. The dialogues that arise through the mechanism could also improve the coordination and integration with the normative frameworks and measures applicable in the field of emergency management, thereby boosting the benefits of the actions of all relevant organisations. Overall, this could lower the risk of duplication, thus ensuring that the interoperability of existing resources from different states and actors is maximised.

Indeed, due to their complexity, certain events require an approach that is based on interdisciplinary insights and the knowledge of multiple stakeholders. Such knowledge might come from existing EU initiatives, among them the outcomes of EU-funded projects. Dedicated financing to follow up research outcomes to create sustainable solutions that serve the EU, even after projects have ended, would be useful, especially when technological solutions have been developed but cannot be easily launched into the market.

[15] H. Pillai, 'Protecting Europe's Critical Infrastructure From Russian Hybrid Threats', *Centre for European Reform* (April 2023).
[16] P. Tessari and K. Muti, *Strategic or Critical Infrastructures, a Way to Interfere in Europe – State of Play and Recommendations,* European Parliament, Directorate General for External Policies, PE 653.637 (July 2021).
[17] Ibid.

Conclusions

The EU plays a crucial role in protecting and assisting people and countries hit by major emergencies. While crisis management has traditionally happened outside of supranational regulation, numerous advances have been made in recent years as a result of the involvement of the EU in a broader coordinating role. Thus, EU action in this field has evolved and improved due to increasing evidence that crises demand coordinated action, with a supranational component working in conjunction with the traditional role of the state as the main provider of security. An EU-level approach does and will continue to play a key role in harmonising crisis-management capacities, facilitating coordination and supporting the coherent development of crisis-management schemes. Equally, efficient and effective crisis management should remain vigilant, flexible, and open to expanding its toolkit and potential, with the security and protection of society the priority above all other objectives.

	Programme 1	Programme 2	Programme 3
	Enhancing civil-defence preparedness	**Reinforcing the resilience of the whole society, with specific measures focusing on people and infrastructures**	**Avoiding duplication at the EU and international levels by building on existing initiatives and resources**
Project 1	Expand decision-makers' situational awareness, anticipation and coordination of HILP events.	Establish awareness campaigns at different levels to empower individuals and the wider public with the tools to act in emergencies and to know where to find reliable information.	Launch measures to build upon the outcomes of EU-funded projects and facilitate dedicated financing to ensure that these produce sustainable solutions that serve the Union.
Project 2	Enhance threat- and risk-detection measures, especially for those threats which are not immediately visible or easy to recognise, to feed into early warning and alert systems.	Establish communication strategies, with a clear identification of roles, to inform the public during emergencies. These strategies should have two aims: (1) to ensure the correctness of information, and (2) to identify an official spokesperson to avoid the dissemination of misinformation and disinformation.	Establish common standards to ensure the interoperability of procedures and equipment from different member states to prepare for events which may have cross-border effects.
Project 3	Enable member states to contribute additional resources, beyond those available via the EUCPM, by establishing additional pooling mechanisms.	Produce emergency plans for critical infrastructure, starting with risk assessments and the identification of vulnerabilities, including proper consideration of the interconnection and interdependency of different systems and facilities.	Improve coordination and integration with the normative frameworks and measures applicable in the field of emergency management to maximise the actions taken by all relevant organisations.

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Designing a European Military Model

by Michael Benhamou

Summary

Given the rise of military threats faced by Europeans, new European military concepts should be debated and agreed upon urgently. These concepts would then shape a European defence model that drives capabilities and institutional reforms in the right direction in terms of the distribution of tasks between European countries, establishing a hierarchy of internal and external threats, and more realistic defence planning with Europe's NATO allies.

Keywords Doctrines – Concepts – Planning – NATO – Europe

Introduction

Most European countries—and all of Europe's adversaries—possess a team or a department tasked with the demanding work of merging military means, field doctrines and threat assessments into one defence model. That model then enables broad understanding in the ranks, industrial or geographic prioritisation, and the distribution of tasks across all domains.

As wars multiply and the US means allocated to NATO and to Europe continue to decline, as they have been doing since the 1990s,[1] it is time for the EU to step up its conceptual output in order to shape Europe's new defence architecture to meet its own specific needs. NATO remains the cardinal security provider, but Europeans should break away from their post-1945 habits and seek a new long-term formula with the US that redefines how they want to fight together in a way that aligns with the partners' common values, perceptions and interests.

Worryingly, the EU is today rushing into crisis-driven capabilities silos and institutional conversations about the future without the conceptual basis that would provide a clear foundation for all players. Consequently, most policymakers and industry representatives fail to understand Europe's core defence plan. Today's decisions are typically based on hazy assumptions, feel-good narratives or national short-termism.

In this difficult transition, EU institutions have a responsibility to bring together all actors—EU27 countries, regional allies and partners—while respecting the primacy of nations in this high-stakes defence realm. Let us now address the matter of how the EU could proceed.

Defining the 'military model'

What is a 'military model'? Essentially, it is a long document in which European armies define their priorities and procedures. The thought process involved in the creation of a military model is necessary as armies develop defence policies over decades. In practice, developing a military model means tackling issues such as the distribution of tasks among European nations according to means and scenarios at the strategic level. It may also imply addressing issues of a more operational nature: for instance, reactions to warfare scenarios in our immediate neighbourhood (Russia and the Middle East) and to internal threats

[1] M. Allen, M. Flynn and C.-M. Machain, 'US Global Military Deployments (1950–2020)', *Conflict Management and Peace Science* 39/3 (2021).

(jihadism). Tactics also come into play: for instance, establishing targeting processes against all types of adversaries; agreeing chain of command structures among air, land and maritime components; or integrating new technologies such as artificial intelligence (AI) into decision-making processes.

The aim of creating such a model is to enable like-minded European nations to solve defence equations within the complex triangle of means, doctrines and threats. To come up with the ideal security responses, European delegates need to provide the most honest data possible: the budgets allocated at the national level, energy and climate forecasting, the quality of their troops, a dispassionate analysis of the enemy and so on. It is the accumulation of such preparatory work that generates the necessary confidence within a coalition to launch a military operation.

Yet such a model should not be too rigid either. 'No formula should shackle decision-making', US diplomat George Kennan used to say.[2] German thinker Clausewitz also doubted those military analysts who built geometric castles out of thin air back in the nineteenth century: 'war has a grammar but little logic', he often used to write.[3] Once again, what matters here is the confidence that comes from acknowledging and repairing gaps and vulnerabilities—and doing so collectively.

Finally, one should bear in mind that Europe's adversaries have conducted similar intense reviews over the past decades. The Islamic State, for instance, studied Bin Laden's and Al-Zawahiri's operations before making decisive tactical shifts: it ultimately assessed that hitting America was counterproductive, while Europe was a softer target, particularly when it came to border areas where police control was weaker.[4] As early as the 1990s, Russia initiated similar research by financing numerous assessments of the reasons behind the collapse of the USSR. Breaking away from Communist habits and from a certain 'Stalingrad heavy infantry nostalgia', the country switched to a more indirect, flexible and multifaceted concept of warfare.[5] Before its return to a conventional invasion with the assault on Ukraine in February 2022, this concept had led to numerous successes from the Kremlin's vantage point: private military companies taking over Africa's security, Donald Trump's election in 2016 and Bashar Assad being kept in power in Syria.

Ignore concepts if you will, but do so at your own peril. Military models may not appeal to politicians or to the public—who both want quick, visual solutions—but they are the starting point for laying the solid defence foundations that will bear fruit in the 2030s and 2040s.

EU defence concepts today

The EU is not entirely passive when it comes to military concepts. Returning to the triangle of means, threats and doctrines, one notices that (1) means or capabilities have been dealt with by the European Defence Agency (EDA) since its 2004 inception; (2) threats are now addressed in the 'Strategic Compass' document[6] produced by the European External Action Service (EEAS); and (3) military doctrines are addressed by the European Union Military Service (EUMS) within its 'concept and capabilities' unit.[7]

These organisations have the merit of demonstrating 'group dynamics' and of 'forging shared norms',[8] but they fail to provide any sense of direction. The EDA's latest *Capability Development Priorities*[9] provides

[2] G. Kennan, *Memoirs 1925–1950* (New York: Pantheon Publishing, 1983), 322.
[3] R. Aron, *Penser la guerre, Clausewitz*, vol. II (Paris: éditions Gallimard, 1976), 37.
[4] H. Micheron, *La colère et l'oubli – les démocraties face au djihadisme européen* (Paris: éditions Gallimard, 2023), 165.
[5] D. Minic, *Pensée et culture stratégiques russes* (Paris: éditions de la maison des sciences de l'homme, 2023), 64.
[6] EEAS, *A Strategic Compass for Security and Defence* (2022).
[7] EU *WhoisWho*, 'Deputy Head of the European Union Military Staff (EUMS.DEP)'
[8] J. Howorth, *Security and Defence Policy in the European Union* (Brussels: Palgrave MacMillan, 2014), 212.
[9] *EDA*, 'EU Capability Development Priorities' (2023).

a list of 22 priorities without suggesting any hierarchy for them or establishing any connection between them and ongoing conflicts or threat scenarios. The Strategic Compass also resembles a shopping list written by someone who has failed to provide any thematic or geographic focus—with the EEAS covering all levels of tension from domestic terrorism to maritime squabbles in the Pacific without offering any specificity on the means required for each scenario. As for military doctrines, the EUMS does not publish official documents on its own at the moment, relying on NATO's battle-proven manuals. Finally, the European Strategy and Policy Analysis System proposes the production of high-quality foresight analyses, but this inter-institutional EU group has employed few military staff so far and has therefore covered defence only marginally.

This quick EU tour displays the already closely packed field of agencies involved in security matters, yet none with the ability to match goals with budgets, procedures with legislation or postures with actual mass. This has three immediate consequences for Europe. The first is an overreliance on NATO standards, which are sometimes not adapted to the European context. The counter-offensive of 2023 led by Ukraine against Russia—one pushed for by US advisers—has shown the limits of US tactical concepts without air dominance.[10] The second is a dependency on US tactical support in defence planning—a support that the diversification of American society and trade no longer guarantees at the same level. For instance, the defence plans of many Eastern European countries are too rigid in the event of a Russian attack, because they all expect massive support from Washington. The third consequence is a lack of trust from elected representatives with regard to the ability of European institutions to produce military-related laws. Most politicians prefer to bypass EU courts and legislative procedures. One recent example of this trend can be seen with AI: 'there is no EU-wide legal and ethical framework for the military uses of AI. Consequently, Member States may adopt different approaches, leading to gaps in regulation and oversight'.[11]

Defence norms are therefore dictated by allies and partners—but also by adversaries. After 20 years of arid policy debates on hybrid warfare and conventional tactics, Russia is now leading defence thinking in Europe.

Such intellectual leadership is dangerous as military victories are initially the fruit of simple ideas. Since the beginning of the twenty-first century, we have witnessed the impact of poor force design and concepts: disbanding the Iraqi army in 2003, for instance, or asking untrained NATO soldiers to manage billions of dollars of farming or rule-of-law projects in Afghanistan from 2002 to 2014. We have also seen more cunning military management practices: using the opponent's social media to enable an election outcome favourable to one's own interests, creating autonomous and decentralised for-profit military units to reinforce friendly regimes with discretion, and maintaining a strong engineering and industrial culture to revive military production quickly, if necessary.

Unfortunately, Russia and China have been the countries producing these effective military concepts in the past decades, while NATO countries have often chosen the wrong path. Consequently, Europe is now approximately 20 years behind in military thinking.

Practical recommendations

We recommend the launch of a comprehensive European military conceptual effort as soon as possible. The EUMS should be expanded in order to start adapting the hundreds of NATO tactical manuals for European use and for all realistic scenarios: low to high intensity, classic warfare to post-conflict, permissive

[10] F.-S. Gady, 'Making Attrition Work: A Viable Theory of Victory for Ukraine', *Survival* 66/1 (2024); M. Benhamou, 'Next for Europe: Defining Its Own Battlefield Tactics, *European View* 22/2 (2023).

[11] R. Fanni, 'Why the EU Must Now Tackle the Risks Posed by Military AI', *Centre for European Policy Studies*, 8 June 2023.

to non-permissive; and also in terms of intelligence practices; logistics; the relationship between air, maritime and land components; and so on. Even though the EUMS is able to use NATO's material, this work will take time and require a lot of war-gaming.

We anticipate three main tasks:

1. *Designing a European concept for intelligence*. Establish a European Crisis Response Process. The fusion centres operating under it should be tasked with the detection of weak signals and determining planning principles prior to the launch of an operation. Put European targeting principles in place to address the dilemma of tactical opportunity versus civilian casualties, in close coordination with the European Parliament, the Court of Justice of the European Union and the European Court for Human Rights. Define European cyber and AI standards for military surveillance and influence, whether defensive or offensive. The future of human–machine teaming should be outlined here.

2. *Designing a European concept for operations*. Define coordination and capability balances between the air, land and maritime components in case of any non-permissive military scenarios—all based on Europe's current wars and threats. Establish European manoeuvring guidelines (defence versus offence, attrition, centre of gravity definition etc.) for air, maritime, land, space and special forces operations, always drawing from existing NATO standards. Establish civilian–military principles in line with Europe's philosophy—that is, field coordination of the military with aid and development projects.

3. *Designing a European concept for logistics*. Establish a European concept for the use of all sources of energy (oil, gas and renewables) and modes of transport (plane, train and truck) within the European military forces and for all scenarios. Define a European approach to medical support in low- to high-intensity scenarios involving numerous wounded and casualties—all based on actual European medical means. Set up European rear-zone principles for use during high-intensity battle—these should define staging areas, the mobility and location of headquarters (HQ) and units, ammunition rules, speed criteria and so on.

Conclusion

The twenty-first century began with a lot of conceptual and battlefield defeats for the US and Europe: Iraq, Afghanistan, Syria, the Sahel and Crimea. Ukraine's future is more uncertain than ever. Given these setbacks, the time has come for Europeans to reflect and react.

EU institutions are currently providing European capitals with a framework that would allow defence thinking to occur at the right level of discretion and trust. We believe such conceptual discussions to be urgent given that wars are won primarily by imposing your own principles on others. Guilt, denial or external dependencies can no longer be the driving forces for Europeans.

Designing a military model is not one of those activities that produces a quick, satisfying 'ribbon-cutting' result, but it is imperative to undertake this work if we wish to reach the decade of the 2030s with confidence and unity.

	Programme 1	Programme 2	Programme 3
	Designing a European concept for intelligence	**Designing a European concept for operations**	**Designing a European concept for logistics**
Project 1	Establish a European Crisis Response Process. The fusion centres operating under it should be tasked with the detection of weak signals and determining planning principles prior to the launch of an operation.	Define the coordination and capability trade-offs between air, land and maritime components for all scenarios—permissive to non-permissive. This assessment should be based on Europe's current wars and threats to the east and the south.	Establish a European concept for the use of all sources of energy (oil, gas and renewables) and modes of transport (plane, train and truck) by European military forces and for all scenarios.
Project 2	Put in place European targeting principles to address the dilemma of tactical opportunity versus civilian casualties. This should be done in close coordination with the European Parliament, the CJEU and the ECHR.	Establish European manoeuvring guidelines (defence versus offence, attrition, centre of gravity definition etc.) for air, maritime, land, space and special forces operations, always drawing on current NATO standards.	Define a European approach to medical support in low- to high-intensity scenarios involving numerous wounded and casualties—all based on actual European medical means.
Project 3	Define European cyber and AI standards for military surveillance and influence, whether defensive or offensive. The future of human–machine teaming should be outlined here.	Establish civilian–military principles in line with Europe's values—for example, field coordination of the military with aid (DG ECHO) and development projects (DG INTPA, DG NEAR).	Develop European rear-zone principles for use during high-intensity battle. These principles should pertain to staging areas, the movement and location of HQs and units, ammunition, speed criteria and so on.

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The Reform of EU Military Operations

by Alessandro Marrone

Summary

This policy brief outlines how EU military operations need to change to address the international security environment and support the security interests of the member states. It first summarises the limited deployments undertaken by the Union so far. It then examines the state of play in terms of operational theatres, where situations are worsening due to a number of factors. EU strategies such as the 2022 Strategic Compass, military structures and financing mechanisms are also considered. Finally, the brief presents a set of detailed policy recommendations grouped under three overarching headings: establishing a proper standing EU headquarters, providing sustainable forces and capabilities, and ensuring wider support for European military operations. Following through on these recommendations would enable EU militaries to operate in more high-intensity scenarios, which in turn would improve the combat readiness of European armed forces also with a view to Europe's collective defence.

Keywords EU – Balkans – Africa – Middle East – Eastern neighbourhood – Escalations – Headquarters – Equipment – Naval operations – NATO

Background

Since 2003 the Union has launched around 40 military or civilian operations, often of limited scope and long duration.[1] EU military deployments have so far focused mainly on crisis management, stabilisation, peacekeeping, disarmament, and training and capacity building in Africa, the Middle East and Europe. As of 2024 there are 10 military operations and 1 military–civilian operation ongoing, involving around 3,500 Europeans in uniform. These include three naval deployments—one each in the Mediterranean, the Red Sea and the Gulf of Aden—and the presence of land forces in the Sahel, the Horn of Africa and Mozambique, as well as in Bosnia and Herzegovina and Moldova.

These operations are one of the most visible pillars of the Common Security and Defence Policy (CSDP), but have remained limited in scope and relevance compared to the NATO, UN, and ad hoc coalition or bilateral military endeavours undertaken by EU members over the last two decades.

State of play

Instability and conflicts in the regions surrounding Europe are set to worsen due to increased geopolitical competition and the uncertainty of the US's global posture. The operational theatres in Africa, the Middle East, the Caucasus and the EU's eastern neighbourhood are already far less permissive environments than in the past. From Libya to Moldova and Yemen, both state and non-state actors are deploying capabilities that could challenge European militaries. In the naval domain, militias and transnational criminal organisations pose serious military threats in the Red Sea, the Gulf of Aden and the Gulf of Guinea, as epitomised by the recent Houthi attacks. The direct involvement of regional powers such as Iran also needs to be taken into account by EU operations, as local conflicts could well escalate into regional ones—particularly since Hamas's 2023 attack against Israel. Furthermore, the stability of host-nation

[1] European Defence Agency, *2022 Coordinated Annual Review on Defence Report* (November 2022).

governments cannot be taken for granted, as demonstrated by the series of coups in the Sahel in 2022 and 2023. This more hostile environment is likely to coexist with more permissive theatres, such as the Western Balkans, where security and defence capacity-building missions will be able to take place.

European interests are at stake in Europe's neighbourhood—these include stability, energy supplies, economic interdependence, the management of migratory flows, and critical infrastructure, such as underwater pipelines and Internet cables. Neither geography nor economics allows the EU to take a more isolationist position, as the US, to some extent, is able to due to being shielded by two oceans. And any ambition of the Union to become a security provider necessarily starts by addressing conflicts and instability in the regions surrounding the EU, including through crisis-management and stability operations.

Today, EU executive operations[2] are mostly led by the operational headquarters (HQ) provided by major member states.[3] EU training missions in the Central African Republic, Somalia and Mozambique are run by the Military Planning and Conduct Capability (MPCC) in Brussels. The MPCC is a permanent command and control structure at the strategic level, currently responsible for the operational planning and conduct of non-executive missions.[4] However, it suffers from systematic understaffing by member states[5] and, as of today, it is not capable of running command and control for large, complex CSDP missions.[6]

The 2022 Strategic Compass set out a few important goals that need to be achieved to enable the EU to 'act' militarily. First, it established the need for a Rapid Deployment Capacity (RDC) of 5,000 military personnel plus the related enablers, encompassing land, naval, air, space and cyber elements. The RDC builds on the EU Battlegroups, established in 2007 and as yet never used, by mobilising further force packages according to specific operational scenarios. The EU Battlegroups are multinational military units, usually composed of 1,500 personnel provided by the member states on a rotational basis every year. The RDC goes beyond the Battlegroups set-up, since it provides a more flexible framework that can generate a swift military response.[7] As such, its establishment has raised significant expectations.[8] The RDC was tested via a live military exercise in 2023 and should be fully operational by 2025.[9]

The Strategic Compass also set the goal for the MPCC to be able, by 2025, to run two small and one medium-sized executive operations simultaneously. Moreover, it established a Troop Rotation Cycle Register to facilitate force generation for CSDP operations.[10]

Since 2022 the EU and its members have focused mostly on the Russian war against Ukraine. The European Peace Facility (EPF) budget has been increased to 17 billion for the 2021–7 period, and this has already largely been allocated to reimburse member states for the military aid sent to Kyiv.[11] Nevertheless, the need to protect the sea lines of communication crucial for the EU's economy from Houthi attacks prompted the launch in February 2024 of Operation Aspides in the Red Sea. The operation involves four

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[2] A non-executive operation is an operation conducted to support a host nation in an advisory capacity; all others are executive operations.
[3] Except in the case of Bosnia and Herzegovina, where the EU has used NATO command structures under the Berlin Plus agreement.
[4] *EEAS*, 'The Military Planning and Conduct Capability (MPCC)' (November 2023).
[5] Y. Reykers and J. Adriaensen, 'The Politics of Understaffing International Organisations: The EU Military Planning and Conduct Capability (MPCC)', *European Security* 32/4 (2023).
[6] M. B. Arjona, *European Command and Control Capabilities in Executive CSDP Missions and Operations*, Finabel (6 December 2022), 1.
[7] F. Barbieux, *The EU's Rapid Deployment Capacity Initiative: Developments, Prospects, and Challenges – True Marker of a Strategic Shift or Spectre of the Past?*, Finabel (24 July 2023).
[8] C. Meyer, T. Van Osch and Y. Reykers, *The EU Rapid Deployment Capacity: This Time, It's for Real?*, European Parliament, Directorate General for External Policies, PE 702.568 (28 October 2022).
[9] *EEAS*, 'European Union Rapid Deployment Capacity' (October 2023).
[10] *EEAS, A Strategic Compass for Security and Defence* (2022).
[11] *EEAS*, 'The European Peace Facility' (March 2024).

warships, one aircraft and around one thousand units,[12] and has already shot down a number of drones launched from the Yemeni territory. The need for Aspides is indicative of a scenario in which Europeans may have to be more proactive to protect the global sea lines of communication.[13] In any case, its launch, distinct from but in coordination with the Anglo-American Operation Prosperity Guardian, demonstrates two key points: NATO is almost totally focused on collective defence and not willing to engage in crisis-management operations, and EU countries can act militarily through the Union's mechanisms to protect their shared interests. In this specific case, EU members had been negatively affected by the diversion of international shipping from the Red Sea to the Horn of Africa as this had caused an increase in costs for the import–export of goods and energy supplies, thus worsening inflation and damaging trade. The deployment of Aspides, together with Prosperity Guardian, has contributed to making the Red Sea route safe again, and this has rapidly and significantly reduced the negative impact in terms of both inflation and trade disruption. Similar circumstances may well occur again in the near future.

Prospects

Against this backdrop, reforms of EU operations should maintain the expertise developed so far while enabling forces to cope with greater threats on the ground, at sea and in the air. Namely, future military deployments should ensure higher levels of force and base protection, freedom of manoeuvre and air superiority; utilise more special forces capabilities and strategic enablers; and provide reinforcements and escalation management. EU operations should also be ready for rapid, large-scale evacuations if necessary. At sea, deployed European fleets must be fit for naval combat and escalation dominance. Such adaptations would ensure the EU's military operations are adequate for the current international security environment and appeal to those member states willing and able to act militarily. Moreover, this would have a positive side effect of making European armed forces readier for high-end combat contingencies, including those in Europe and under the NATO umbrella.

Moreover, the RDC could potentially be converted to rapidly deploy EU military capabilities on the Union's eastern border to contribute to collective deterrence against Russia in the event of further escalation from Moscow. However, this would require adjustments to the RDC itself. Since it is still in the early stages of formation, the RDC would benefit from a stronger EU defence posture in terms of HQ, forces and wider support. Progress should be made in three areas:

1. establishing a proper, standing EU military headquarters;
2. providing sustainable forces and capabilities; and
3. ensuring wider support for European military operations.

The following part of the brief expands on each of these three areas.

Establishing a proper, standing EU HQ

The MPCC will use the military exercise scheduled for September 2024 to achieve full operational capability, which is an important step in the right direction. Still, turning the MPCC into a proper HQ first requires the allocation of adequate resources in terms of (1) personnel, whose numbers need to be more than tripled; (2) the communication and information technology system, which also needs to have

[12] *EEAS*, 'Eunavfor Operation Aspides' (February 2024).
[13] J. J. Andersson, 'Into the Breach! EU Military CSDP Mission and Operations', *EUISS* (March 2024), 3.

the ability to exchange classified information with NATO; and (3) facilities. Moreover, the MPCC should enhance relations with the EU Satellite Centre in order to receive timely satellite intelligence. Altogether, these measures entail very little financial cost and would offer a high return on investment in terms of the EU's ability to act.

At the same time, the MPCC should run annual major training activities and live military exercises in all domains, including jointly with NATO and other partners, employing the RDC as much as possible in order to test, develop and refine its structure. Last but not least, the strategic and operational command of all current CSDP operations, both executive and non-executive, should gradually move from national HQs or from operating under the Berlin Plus agreement to the MPCC. This will be the most challenging step, but it is necessary to make the MPCC fit for and familiar with real, demanding operations. Altogether, these measures should put meat on the bones of the MPCC and make it a proper, standing EU HQ.

Providing sustainable forces and capabilities

A standing EU HQ will not alone suffice to deploy adequate military operations. Widening, deepening and better structuring the force-generation process for CSDP missions is necessary, which requires the implementation of the Troop Rotation Cycle Register as soon as possible. This should be done in synergy with the new NATO Force Model, which represents the main point of reference for European allies when it comes to Europe's collective defence.[14]

At the same time, the EU should implement the RDC in a timely manner. There are still some question marks and obstacles to be addressed in this regard.[15] Moreover, the Battlegroups do not align with the majority of the ongoing military operations. This is an issue as CSDP missions are going to face a less-permissive environment and more powerful opponents, meaning that the Battlegroups may have to be deployed. The Battlegroups therefore need to be fully integrated into a robust and sustainable RDC.

The RDC is rightly built using a modular approach to leverage member states' input and enable the force to be tailored to mission requirements. In this context, it should benefit from at least three ongoing Permanent Structured Cooperation (PESCO) projects: the European Medical Command, the Network of Logistic Hubs in Europe and Support to Operations, and the Crisis Response Operation Core. These projects need to move forward and deliver results that will definitively support the RDC. The same applies, to a varying extent, to other PESCO projects. Here there is a more fundamental issue, however: in 2017 most EU member states launched this initiative with a 'view to the most demanding missions';[16] seven years later, they have yet to live up to their commitments to deploy on these missions with robust, sustainable forces and capabilities.

Ensuring wider support for European military operations

Devoting most of the EPF budget to reimbursing member states' military donations to Ukraine has been a reasonable emergency measure, but it cannot represent the new normal for a tool meant to finance both operations' common costs and train-and-equip activities for EU partners. Crisis and instability in Africa, the Middle East and the Balkans have not gone away, rather there is a risk that they are worsening.

[14] Since the accessions of Finland and Sweden to NATO, more than 95% of EU citizens live in countries that are part of the Atlantic Alliance. On the Force Model's impact on European allies see, among others, E. Calcagno and A. Marrone, *NATO's Posture vis-a-vis Russia: Features and Challenges*, Istituto Affari Internazionali (2024).

[15] D. Zandee and A. Stoetman, *Realising the EU Rapid Deployment Capacity: Opportunities and Pitfalls*, Clingendael Institute, Policy Brief (2022), 2–3.

[16] European Council, *Notification on Permanent Structured Cooperation (PESCO) to the Council and to the High Representative of the Union for Foreign Affairs and Security Policy* (13 November 2017).

Moreover, local partners have placed trust in the Union's operational and financial commitments, and the EU's credibility as a security provider—as well as its influence—would be seriously undermined by any backtracking. Therefore, EPF funding should be restored to pre-Ukraine-war levels for both the current and the next multiannual financial framework in order to provide adequate support for EU military operations and exercises, as well as to finance defence capacity building and other relevant activities with partners.

Beyond financial support, EU military operations should benefit from other elements of the rather complex landscape of European defence initiatives. First, the needs and requirements of these deployments should influence in a more decisive way the EU Capability Development Plan (CDP). The CDP is regularly updated by member states within the European Defence Agency to make European armed forces more able to conduct these kinds of operations. Second, the upcoming PESCO review should increase the operational relevance of this framework. Similarly, the European Air Transport Command should improve its support of current and future EU military deployments.

A third complementary way to widen support for these operations would be to leverage the European missions undertaken by ad hoc groups of member states, such as the European Maritime Awareness in the Strait of Hormuz or the Coordinated Maritime Presence. This would mean ensuring coordination, information sharing and mutual logistical support between EU and other European operations acting in the same region.

Conclusion

Each of the aforementioned measures, that is, (1) to establish a proper, standing EU HQ, (2) to provide sustainable forces and capabilities, and (3) to ensure wider support for European military operations, is necessary and useful per se. However, their value would be multiplied if they were taken together to reform the way the EU approaches crisis-management and stability operations in the regions crucial to its security, stability and common interests.

	Programme 1	Programme 2	Programme 3
	Establishing a proper EU military HQ	**Providing sustainable forces and capabilities**	**Ensuring wider support for European military operations**
Project 1	Turn the EU MPCC into a proper military HQ by providing adequate resources, including personnel, communications and IT systems (for the exchange of classified information, etc.), facilities and so on.	Widen, deepen and improve the structure of the force-generation process for CSDP missions in synergy with the new NATO Force Model. To achieve this goal, implement the Troop Rotation Cycle Register agreed in the Strategic Compass.	Restore stable EPF funding to cover the vast majority of the operational costs for EU military operations and exercises, as well as to finance train-and-equip projects with partners in Africa, the Middle East and the eastern neighbourhood.
Project 2	Move the operational command of all current CSDP operations, executive and non-executive, from the national level to the EU MPCC HQ level.	Implement the RDC and the related enablers envisaged by the Strategic Compass.	Provide EU endorsement for actions by groups of member states (e.g. the Coordinated Maritime Presence), and ensure coordination, intelligence sharing and logistical support between EU and ad hoc European missions acting in the same region.
Project 3	Run annual major training activities and live military exercises in all domains, including jointly with NATO and partners. For these activities use both the EU HQ and the EU Battlegroups as much as possible.	Establish and deploy the European Medical Command, the Network of Logistic Hubs in Europe and Support to Operations, and the Crisis Response Operation Core—three existing PESCO projects.	Link EU military operations better with doctrine development, the Capability Development Plan, and PESCO and European Defence Fund projects, as well as with the European Air Transport Command.

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Addressing the EU's Collective Action Problem in Defence Through Institutional Reform

by Steven Blockmans

Summary

Europe has a collective-action problem in the area of defence. Without an integrated architecture, the risk is that European fragmentation in defence will continue. This policy brief reviews a number of ideas for reform within the EU's three main political institutions. It does so cognisant of the fact that the appetite for treaty change is low. The author argues that scaling up the Defence Council to a monthly ministerial meeting, assigning a European Commissioner and Directorate General for 'Defence Cooperation' (DefCo), and endowing the European Parliament with a fully fledged Committee on Security and Defence would restore the EU's institutional balance and help make strategy and defence planning more cohesive, achieving economies of scale and stimulating specialisation. Further proposals are made regarding the role of the High Representative, including in the European Council; the gradual participation of candidate country representatives; and inter-service coordination.

Keywords EU – Defence – Institutional reform

Introduction

History has shown that rogue leaders with bad intentions only understand the language of diplomacy if backed by force. If the EU wants a voice in addressing instability and the political problems that blight its neighbourhood, then it urgently needs to grant itself the means to be a strategic player.

While member state leaders have at set intervals reconfirmed their intention to accelerate capability generation, the reality is that the necessary dynamism is lacking. Most member states restrict defence contracting and do not invest sufficiently in innovation. In this way they are condemning themselves to buying from overseas in the long term, thereby also reducing the EU's ability to regulate its way towards the much-touted goal of strategic autonomy. So far, 'market' forces (including new wars on the EU's borders) have not led the EU to achieve the aims laid down in its 2022 Strategic Compass. Plainly stated, Europe has a collective-action problem in the area of defence.

Despite an emerging decline in popular support for Ukraine as the war barrels into its third year and other crises divert public attention, the EU is nevertheless expected to reach an inflection point for defence integration in 2024—the year of EU institutional renewal. In fact, public demand for a common defence policy has never been greater, with a whopping average of 87% of EU citizens in favour of this proposition.[1] If Eurosceptic and pro-EU parties agree on one thing, it is that the way to address citizens' concerns is primarily by developing an agenda that restores a keener sense of security. But without an integrated architecture, the risk is that European fragmentation in defence will continue.

[1] I. Hoffman and C. E. de Vries, 'The War and the Vote: Europeans Head to the Ballot Box as Ukrainians Fight for Freedom: How Will the War Shape the Vote?', *EU Opinions*, 14 February 2024.

Jean Monnet once wrote, 'Nothing is possible without men; nothing is lasting without institutions'.[2] Keen to show leadership ahead of the European Parliamentary elections, several politicians have given away their positions on this matter in terms of defence. Most eye-catching was European Commission President Ursula von der Leyen's proposal at the Munich Security Conference to create the post of commissioner for defence. Generally speaking, this would be a welcome innovation. Yet, the EU's current institutional set-up leaves much to be desired: a cumbersome decision-making process, the absence of a harmonised defence budget and resistance to treaty change collectively undermine the EU's capacity to address emerging geopolitical threats with agility and result in fragmented efforts among the member states.

While institutional (re)arrangements do not in and of themselves provide a silver bullet for the EU's deep-seated collective-action problem, which has political, economic and military dimensions, they may help with making strategies and defence planning more cohesive, achieving economies of scale and stimulating specialisation.

This policy brief reviews a number of existing and new ideas for reform within the EU's three main political institutions—the Council, the Commission and the Parliament—among which balance ought to be restored. It does so cognisant of the fact that the appetite for treaty change is low and that the double bind in which EU foreign and security policymaking usually finds itself, that is, between the absence of unity among member states and a lack of coherence in inter-institutional action, is likely to remain during the next EU policy and legislative cycle. Other institutional innovations, for instance, at the level of force deployment, are equally important but are covered elsewhere in this series.[3]

Towards a fully fledged Defence Council

State of play

As regards the Council, there is a disconnect between what member state leaders declare in the European Council and execution at the level of the defence ministries. Defence ministerials are irregular and follow-up by the High Representative (HR), supported by the European External Action Service (EEAS), insufficient.

Prospects

Ensuring that Foreign Affairs Council meetings composed of defence ministers occur on a monthly basis should help to accelerate member state negotiations on matters of life and death (capabilities, operations and industry). The HR, who chairs the Defence Council and also sits at the table of the European Council, should act as a bridge between the institutions. He or she should provide more cognitive input—and technical support to the European Council president—to define clearer EU defence policy priorities. The HR could suggest to the European Council that he or she be invited to submit initiatives to update the 2016 EU Global Strategy and 2022 Strategic Compass. This could lead the European Council to adopt these strategic documents as formal decisions, thereby opening up the possibility of using qualified majority voting in the Defence Council to implement measures. To this end, the EEAS should stimulate a more active use of the HR's power of initiative and lead the process through the Council machinery.[4] This would increase the number and strengthen the authority of HR/EEAS proposals.

[2] J. Monnet, *Memoirs* (London: Collins, 1978), 304.
[3] See Marrone, p. 69.
[4] P. Vimont, C. Hillion and S. Blockmans, *From Self-Doubt to Self-Assurance: The European External Action Service as an Indispensable Support for a Geopolitical EU*, Centre for European Policy Studies (Brussels, January 2021).

The HR, assisted by the EEAS, should capitalise on member states' political support for the following-up of (European) Council conclusions, for instance through the operationalisation of Defence Council decisions and reporting-back, with the EEAS taking a more active monitoring role to secure the member states' fulfilment of commitments (cf. the Permanent Structured Cooperation model or Community methods of monitoring). Acting under the authority of the HR, the EEAS should also actively use the inter-service coordination platforms (see below) to help mobilise Commission resources to initiate and/or implement Defence Council decisions. This element ought to feature prominently in the mission letters of the next Commission president to her/his HR and line commissioners, especially the one responsible for the defence portfolio.

Finally, the HR should also facilitate the participation of candidate countries in the Council and its working groups (including the ad hoc working party on the defence industry) in 'stages', whereby participatory rights are upgraded if and when higher levels of alignment are met.[5] EU law permits the granting of observer status to third countries in the Council as long as the principle of autonomy in decision-making is preserved. Standardising the occasional presence of candidate country representatives in the (European) Council constitutes a pragmatic step that would allow these future members to socialise with their peers and progressively contribute to complex decision-shaping processes on EU defence policy. Indeed, the EU stands to gain from the battle-tested expertise of Ukraine and below-threshold experiences of other candidates to bolster the resilience of their common European home.[6]

A European Commissioner and Directorate General for Defence Cooperation

State of play

With the introduction of the Directorate General (DG) for Defence Industry and Space, the Commission's role in defence has increased, but it is still constrained by the focus of the Treaty on the Functioning of the European Union (TFEU) on economic matters, leaving a gap in experience, expertise and, therefore, authority with the military. This problem with authority is a matter of widespread concern, notably among the defence ministries of the larger member states, which hold similar opinions regarding the European Defence Agency (EDA).

Prospects

One way of increasing the authority of the Commission in this field is to lift the DG from under the wings of the commissioner responsible for the internal market and to assign a separate college portfolio to it. This idea has gained currency in recent months, with small variations. Rather than introducing a 'commissioner for defence',[7] which sounds grand but erroneously suggests that the person would be commanding an EU army, or devaluing the post to that of an 'armaments commissioner',[8] which suggests too limited a scope of activities (however key to the next Commission), the president-designate should, after the June 2024 European Parliament elections, propose the inclusion of a 'Commissioner for Defence Cooperation' (DefCo) in the design of the college. The nomenclature would stress that the powers of the new commissioner would be derived from the internal market provisions on industrial cooperation, which are 'supporting' competences to those exercised by the member states, and thus would avoid ruffling feathers in the European capitals. At the same time, the title would indicate that the remit of the DG DefCo's activities would be broader than

[5] S. Subotic, *Enabling Gradual Access to EU Institutions With the Staged Accession Model*, Centre for European Policy Studies (June 2023).
[6] *European Commission*, 'The European Defence Industrial Strategy at a Glance'.
[7] A. Brzozowski, 'EU Defence Commissioner Proposal Gains Traction', *Euractiv*, 19 February 2024.
[8] G. Wolff, 'What We Need Is a European Armament Commissioner', *Politico*, 26 February 2024.

harmonising public procurement in the defence sector, and not specialised in the field of space—as the current name suggests. The task at hand would include working through the institutions to raise investment, increase innovation and ensure inclusive integration—that is, the five *I*s of EU defence—in all operational domains: maritime, land, air, space and cyberspace.[9]

Another way of increasing the authority of the Commission in the field of defence cooperation is by appointing the right people. Entrusting the assignment to a straight-shooting politician of international renown, with first-hand experience in the military and hailing from a member state that has met NATO's 2% of GDP spending target, would be a good first step. Continuing the recruitment drive to staff the DG with talented and experienced hands attracted from defence ministries, executive agencies and the private sector would be a second prerequisite.

The next HR, who will be simultaneously vice-president of the European Commission, will have a double-hatted position. This is enshrined in the Treaty on European Union (TEU) and cannot simply be revoked.[10] As long as the treaty-based 'specificity' (i.e. the intergovernmental mode of governance) of the Common Foreign and Security Policy (CFSP) remains, it will be incumbent on the HR to chair the Defence Council and engineer an integrated approach to boosting Europe's defence industry, capability development, and Common Security and Defence Policy (CSDP) operations. To bridge the divide between the treaties (the TEU for CFSP and the TFEU for all other policy areas), instruments and budgets that cross La rue de la Loi, and close collaboration between the HR and the new commissioner for DefCo will be required. While the TEU implicitly dictates a formal hierarchy between the two, the HR—qua vice-president—should in practice defer to the line commissioner for all supranational approaches to security and defence. This division of labour should be spelled out in the Commission president's mission letters to both appointees.

The intergovernmental nature of defence decision-making often sidelines the Commission and the European Parliament, hindering these institutions' ability to drive cohesive defence policies and boost democratic legitimacy. Rather than the controversial idea of imposing a US-style 'European security adviser',[11] whose authority and personality might override that of the Commission president should the individual be selected by consensus among the Council, Commission and Parliament, inter-service policy coherence should be bolstered through bureaucratic means. Following the introduction of the Groupe des Relations Inter-institutionnelles (GRI) and the Group for External Coordination (EXCO) in 2019, the 'Working Methods' document of the next Commission should task both collegial bodies (which bring together all cabinets and are served by the Secretariat-General) with preparing the relevant (in this case, defence-related) aspects of college meetings on a weekly basis. Each cabinet, including that of the new commissioner for DefCo, would have to designate a standing member for each group. To monitor legislative processes, the GRI would be tasked with making preparations for the Commission's participation in the Council and the European Parliament—and maintaining relations with national parliaments. Commission positions on non-legislative matters related to external relations would be left to EXCO. To ensure full political coordination with the Council, whose positions are shaped by the EEAS under the authority of the HR, EXCO should be co-chaired by the diplomatic adviser to the Commission president and the deputy head of cabinet of the HR. The EEAS should advise the co-chairs on CFSP and CSDP developments, including giving early warning of upcoming issues and events, and through the input of non-papers. Within the EEAS, the Managing Directorate for Security and Defence Policy would be the logical counterpart for DG DefCo.

9 D. Macchiarini Crosson and S. Blockmans, *The Five 'I's' of EU Defence: Inclusive Integration for Effective Investment, Innovation and Institutions*, Centre for European Policy Studies, Policy Brief (2022).
10 A. Pugnet, 'EPP Wants to Cancel EU Top Diplomat Job, Create Dedicated Defence Commissioner', *Euractiv,* 20 January 2024.
11 D. Fiott, 'Grand Designs: The EU's Future Political Structure in Times of Crisis and Geopolitical Transition', *Daniel Fiott*, 10 November 2023.

European Parliament: from SEDE to CEDE

State of play

In theory, the European Parliament fulfils a wide range of functions in the defence realm, commensurate with its formal right to information, and its supervisory, deliberative, advisory, law-shaping, law-making and budgetary competences. In practice, however, the Parliament's role in defence policy has not kept pace with the rapid transition witnessed in other EU institutions. In light of the significant increase in defence initiatives and taxpayers' money being channelled through the EU to cover military expenditures, questions have arisen regarding the compatibility of current practices with certain general principles of EU law, starting with the right to information.

The primary conduit for information runs between the EEAS, which communicates on behalf of the HR, and the Parliament's Sub-Committee on Security and Defence (SEDE). While the extent and quality of information provision may vary depending on the specific policy issue, the overall collaboration between SEDE and the EEAS is generally viewed as constructive.[12] Moreover, an inter-institutional agreement pertaining to the European Parliament's access to sensitive information within the realm of the CSDP, concluded in 2002, bestows upon the Parliament the right to consult some classified (CSDP-related) information. However, with '*restreint UE*' documents off-limits and a culture of over-classification, the utility of sensitive information for the Parliament's purposes (e.g. drawing up an own-initiative report or resolution) remains limited.

Even when the Parliament participates as a co-legislator in defence-related developments, such as the European Defence Fund or ammunition production initiatives, its competences remain constrained. While this outcome aligns with the expectations set by the intergovernmental governance regime applied to the CFSP/CSDP, it signifies a departure from the trajectory seen in other policy domains, where the European Parliament's functions have grown in tandem with the expansion of existing or conferral of new decision-making powers to the EU level.

Prospects

A more expansive reading of the formal reach of the competence of the European Parliament in CSDP would not only be logical but is also necessary to accommodate the gradual supranationalisation of defence policy.[13] This is particularly evident in the coordination of budget spending and the efforts to consolidate the defence industry market. Principles of EU law, especially those emphasising democratic accountability and maintaining institutional balance, furnish the Parliament with invaluable normative tools to clarify the contours and content of its various competences, and to exercise them more effectively.

As part of the new organisational plan to reduce the number of Parliamentary committees,[14] SEDE should therefore be upgraded to a fully fledged committee, on a par with the foreign affairs, budget, legal and other committees. It should combine all aspects of defence, including industry (currently under the Committee for Industry, Research and Energy) and foreign interference and disinformation (currently under two specialist committees). The Parliament should recruit and bolster the defence, regulatory and budgetary expertise needed for the upgraded Committee on Security and Defence (CEDE) to play a full part in the institutionally rebalanced European Defence Union. In the same vein, the chair of CEDE should be granted the permanent right to participate in meetings of the Defence Council.

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12 C. Moser and S. Blockmans, *The Extent of the European Parliament's Competence in Common Security and Defence Policy*, European Parliament, Directorate General for External Policies, PE 702.559 (June 2022).

13 Ibid.

14 E. Vasques, 'LEAK: European Parliament Gets Ready to Shake up Internal Committee Structure', *Euractiv*, 18 October 2023.

Conclusion

EU defence integration is expected to reach an inflection point in 2024: new and existing instruments will need to be further developed, financed, implemented, monitored and complied with. With the necessary institutional upgrades recommended in this policy brief, the incumbents of the next Commission, Parliament and Council, in collaboration with the EDA, should be able to keep the momentum going by applying the functional mode of integration, *à la méthode* Monnet. With the necessary political momentum and funds, there is arguably plenty of gas in the tank to boost Europe's defence industry, ramp up the production of much-needed capabilities, tackle procurement issues, harmonise technical and operational standards, and thus overcome the EU's collective-action problem in defence.

	Programme 1	Programme 2	Programme 3
	Ensuring Foreign Affairs Council meetings of defence ministers occur monthly	**Creating the position of a European Commissioner for Defence Cooperation**	**Turning SEDE into a full EP Committee (CEDE)**
Project 1	The high representative, assisted by the EEAS, should secure member states' support for the follow-up of conclusions and decisions by the Defence Council and the European Council (cf. the PESCO model and Community methods of monitoring).	After the June 2024 EP elections, the Commission president-designate should include a Commissioner for DefCo in the design of his or her college; this portfolio currently falls under that of the Commissioner for the internal market.	As part of the new organisational plan to reduce the number of EP committees, SEDE should be upgraded to a fully fledged committee, on a par with AFET, BUDG, JURI and so on. It should combine all aspects of defence, including industry (currently under ITRE) and foreign interference and disinformation (currently under INGE and ING2).
Project 2	The high representative and the EEAS should facilitate the participation of candidate countries in the Council and its working groups in stages, whereby participatory rights are expanded when higher levels of alignment are met.	The next high representative/vice-president of the European Commission should focus on CFSP and chair the Defence Council, in close cooperation with the new commissioner. Economic security and hard security will need to be better blended, though not in a single US-style European security adviser role.	Grant the chair of CEDE the permanent right to participate in Defence Council meetings.
Project 3	Transform the MPCC into a real operational headquarters, capable of commanding operations at the highest level of intensity by unifying disparate surveillance, tracking and monitoring capacities. Establish specialist command centres for cyber, space, maritime and so on.	Within the EEAS, SECDEFPOL is the logical counterpart for the DG DefCo and would coordinate inter-service consultations, including with the EDA.	Recruit and bolster the defence, regulatory and budgetary expertise needed for CEDE to play a full part in the institutionally rebalanced EP and the European Defence Union.

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Why Europe Needs a Nuclear Deterrent

by Adérito Vicente

Summary

This policy brief examines the argument that Europe needs to develop its own nuclear deterrent. The rationale for this reappraisal stems from evolving security dynamics, particularly Russia's war against Ukraine and its nuclear sabre-rattling, concerns regarding US commitment to European defence and China's rapid nuclear expansion, which presents an emerging two-peer challenge for Euro-Atlantic security and extended nuclear deterrence. This brief outlines four potential options for a European nuclear deterrent: a French-led deterrent, pan-European collaboration, a Eurodeterrent and a German indigenous deterrent (as a last resort). Each option presents challenges, including the need for political consensus, credibility and infrastructure development. To address these challenges and establish a European nuclear deterrent that enhances collective security, strategic autonomy and bargaining power, the brief recommends fostering strategic dialogue, conducting feasibility studies, and establishing clear doctrinal criteria and decision-making procedures. It urges EU policymakers to actively reconsider, promote and establish a European nuclear deterrent, emphasising its urgency and strategic importance.

Keywords European Union – Nuclear weapons – Deterrence – European defence – European security

Introduction

Nuclear weapons remain the unquestioned core of European collective defence. Most European countries currently rely on NATO's nuclear umbrella for collective defence, primarily under the leadership of the US.[1] A few, such as France, continue to address nuclear issues on a strictly national basis. While the current arrangement has historically provided security guarantees for most of Europe, the changing security landscape has prompted a re-evaluation of the role of nuclear weapons on the continent. This has led to academic and political discussions on the need for Europe to establish its own nuclear deterrent.[2]

Two important events are driving this imperative. The first is Russia's war against Ukraine, which has exposed Europe's security vulnerabilities and the potential for a nuclear threat over the Black Sea region.[3] The second is that the unpredictable nature of US politics, as witnessed in former President

[1] 'Nuclear umbrella' is a security arrangement under which the participating states consent or acquiesce to the potential use of nuclear weapons in their defence. The related concept of 'extended nuclear deterrence' may be understood as the intended effect of a nuclear umbrella. A 'nuclear umbrella state' is a state without nuclear weapons under the protection of the nuclear weapons of another state. In the case of NATO umbrella states, the US provides extended nuclear deterrence to all member states.

[2] For a comprehensive exploration of the academic discourse, see A. Mattelaer, *Rethinking Nuclear Deterrence: A European Perspective*, Centre for Security, Diplomacy and Strategy, 13/2022 (2022); M. Terhalle and K. Klompenhouwer, 'Facing Europe's Nuclear Necessities', *Politico*, 22 April 2023; T. Erästö, *More Investment in Nuclear Deterrence Will Not Make Europe Safer*, Stockholm International Peace Research Institute (5 December 2023); J. Lanxade et al., 'Europe Needs a Nuclear Deterrent of Its Own', *New Atlanticist*, 11 July 2023; M. Ruhle, *German Musings About a European Nuclear Deterrent*, National Institute for Public Policy, Report no. 571 (Fairfax, VA, 2024); M. Verstraete, 'Anticipating Europe's Nuclear Futures', *The Washington Quarterly* 47/1 (2024); and S. Cimbala and L. Korb, 'Even in the Face of Russian Aggression, a Nuclear "Eurodeterrent" Is Still a Bad Idea', *Bulletin of the Atomic Scientists*, 14 February 2024. Additionally, insights from the European political debate can be found, for example, in J. Fischer, 'The Great Revision', *Project Syndicate*, 31 March 2023; J. Fischer, 'Ich schäme mich für unser Land', interview by F. Reinbold and G. Löwisch, *Zeit Online,* 3 December 2023; T. Huhtanen, 'The War in Ukraine Is Forcing Europe to Develop Its Own Nuclear Deterrence', *Euractiv.com*, updated 14 October 2022; J. Vela and N. Camut, 'As Trump Looms, Top EU Politician Calls for European Nuclear Deterrent', *Politico*, 25 January 2024; and P. Wintour, 'UK Could Contribute to Nuclear Shield if Trump Wins, Suggests German Minister', *The Guardian*, updated 15 February 2024.

[3] L. Horovitz and M. Stolze, '*Nuclear Rhetoric and Escalation Management in Russia's War Against Ukraine: A Chronology*, Stiftung Wissenschat und Politik, Working Paper no. 2/2023 (August 2023).

Trump's rhetoric, is raising doubts about the US's enduring commitment to European security.[4] In this context, a rigorous political dialogue is essential to explore the potential need for a common European nuclear deterrent while prioritising the preservation of both the North Atlantic Alliance and the Non-Proliferation Treaty (NPT) regime.

As the debate surrounding a European nuclear deterrent re-emerges, this policy brief delves into the complexities of this critical issue. The primary focus is on unravelling a fundamental question: *Why does Europe need a nuclear deterrent?* To address this research question, the brief examines the historical context, the current security environment and the rationale for establishing a European deterrent. It then explores various potential options, ranging from French-led initiatives to a 'Eurodeterrent' proposal. Subsequently, the brief outlines policy recommendations, offering an in-depth analysis of the commonality, credibility and feasibility of a European nuclear deterrent, thereby providing policymakers with information to consider as they navigate this complex decision. The final section summarises the debate and suggests reasons why EU policymakers should reconsider, discuss, promote and establish a European nuclear deterrent.

Historical and political context

The idea of a European nuclear deterrent has a long and complex history. After the Second World War, the European integration movement gained momentum, leading to proposals like the European Defence Community, which aimed to establish a European army. However, challenges, including France's concerns over national sovereignty, led to the rejection of the proposal in 1954. During the Cold War, NATO and the Western European Union oversaw European defence, leaving the idea of an independent European nuclear deterrent unexplored.[5]

Following the failure of the proposed European Defence Community, discussions on European security resurfaced. Events such as the Suez Crisis in 1956 prompted debates on whether Europe should seek an independent nuclear deterrent or continue relying on NATO.[6] In the late 1950s, discussions among France, Italy and Germany about creating a European nuclear force—commonly referred to as the FIG protocol or agreement—stalled as France focused on a national nuclear programme, while the UK maintained its independent nuclear force and also cultivated a close nuclear relationship with the US.[7] Despite concerns, most European nations opted for security assurances under the US/NATO 'nuclear umbrella'.

The 1960s and 1970s saw the advent of the nuclear non-proliferation regime and détente, culminating in the NPT in 1968. The treaty acknowledged a potential future nuclear option, contingent on the formation of an EU with full sovereignty over defence and foreign policy.[8] The 'European clause' appears as the third item in the written declaration of ratification submitted by Germany to the NPT.[9]

The post–Cold War era witnessed a gradual but increasing interest in an EU perspective on nuclear

[4] A. Laya et al., 'Trump-Proofing Europe', *Foreign Affairs*, 2 February 2024.
[5] B. Heuser, *NATO, Britain, France and the FRG: Nuclear Strategies and Forces for Europe, 1949–2000* (Basingstoke: St Martin's Press, 1997).
[6] E. Kustnetsov, *The Multilateral Force Debates*, European University Institute (2004).
[7] M. Trachtenberg, 'France and NATO, 1949–1991', *Journal of Transatlantic Studies* 9/3 (2011); L. Nuti, 'The F–I–G Story Revisited', in L. Nuti and C. Buffet (eds.), 'Dividing the Atom. Essays on the History of Nuclear Proliferation in Europe', Special Issue, *Journal Storia delle Relazioni Internazionali* 13/1 (1998).
[8] A. Vicente, 'The EU's Foreign Policy in the Field of Nuclear Disarmament: How Does It Work and Why Does It Often Not Work?', D.Phil. thesis, European University Institute, 2022, 79.
[9] UN, *No. 10485. Treaty on the Non-Proliferation of Nuclear Weapons. Opened for Signature at London, Moscow and Washington on 1 July 1968. Ratifications and Accession. 2 May 1975. Federal Republic of Germany*, UN, Treaty Series, 729/10485 (1976), 414–17.

deterrence.[10] While the Lisbon Treaty established the Common Security and Defence Policy, it did not envisage a nuclear capacity. NATO, for those EU member states which are members, remains the primary instrument for collective defence and deterrence under Article 42(7) of the Treaty on European Union.[11]

The 2010s brought renewed focus on a European deterrent, triggered by the Russian annexation of Crimea in 2014 and Donald Trump's election in 2016. In Germany, discussions emerged among some prominent politicians, journalists and scholars on the need for a deterrent, either an indigenous national nuclear weapons programme or a Eurodeterrent, to address concerns about a potential US retrenchment of its security guarantees.[12] In February 2020 President Macron proposed a 'strategic dialogue' to explore the role of French nuclear weapons in European defence.[13]

Current status of nuclear deterrence in Europe

At the core of Europe's collective defence and security architecture lies NATO's extended nuclear deterrence strategy, which is heavily reliant on the pivotal role of the US and its security guarantees to European allies. This strategy aims to deter potential aggressors by threatening retaliation with US nuclear weapons in the event of an attack on any NATO member underArticle 5 of the Washington Treaty. The effectiveness of NATO's deterrence strategy hinges on the robust capabilities of the US strategic nuclear forces. These comprise approximately 1,770 deployed warheads, including 400 land-based intercontinental ballistic missiles, 970 submarine-launched ballistic missiles and 300 carried by strategic bombers.[14]

Moreover, the deployment of US non-strategic nuclear weapons in Europe further strengthens NATO's nuclear deterrence. Approximately 100 US B61 nuclear bombs are strategically stationed in non-nuclear-weapon states (NNWSs), including Belgium, Germany, Italy, The Netherlands, Türkiye and Greece, under NATO's nuclear sharing arrangements.[15] These weapons, remaining under US control, involve the contribution of personnel and infrastructure from participating states for potential delivery. These six 'nuclear sharing states' contribute 'dual-capable aircraft' to the nuclear mission, further enhancing the alliance's nuclear capabilities.[16]

Six additional NATO members, including Czechia, Denmark, Hungary and Poland, contribute to the alliance's nuclear posture through the 'SNOWCAT' mission, supporting aircraft operations related to nuclear missions.[17] All members, except France with its own arsenal, participate in the Nuclear Planning Group, shaping collective policy and decisions regarding NATO's nuclear strategy.

Notwithstanding a unified NATO strategy on nuclear deterrence, diverse perspectives and singularities persist among European states.[18] First, while the UK and France maintain independent nuclear arsenals

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10 B. Tertrais, *The European Dimension of Nuclear Deterrence: French and British Policies and Future Scenarios*, Finnish Institute of International Affairs, Working Paper no. 106 (2018), 4; U. Jasper and C. Portela, 'EU Defence Integration and Nuclear Weapons: A Common Deterrent for Europe?', *Security Dialogue* 41/2 (2010).

11 In terms of scope, while art. 5 of the Washington Treaty applies uniformly to all NATO members, affirming that an attack on one member constitutes an attack on all, art. 42(7) of the Treaty on European Union specifies that 'this shall not prejudice the specific character of the security and defence policy of certain Member States.' This provision is commonly interpreted as affording certain member states, such as neutral states Malta, Ireland and Austria, a special status that allows them to opt out of mutual defence assistance. Art. 5 of the Washington Treaty, however, does not contain such an opt-out clause.

12 U. Kühn, T. Volpe and B. Thompson, 'Tracking the German Nuclear Debate', *Carnegie Endowment for International Peace* (2018).

13 E. Macron, 'Speech of the President of the Republic on the Defense and Deterrence Strategy', Paris, 7 February 2020.

14 H. Kristensen et al., 'United States Nuclear Weapons, 2024', *Bulletin of the Atomic Scientists* 80/3 (2024), 182–3.

15 H. Kristensen et al., 'Nuclear Weapons Sharing, 2023', *Bulletin of the Atomic Scientists* 79/6 (2023), 395–6.

16 Ibid.

17 Ibid.

18 E. Maitre, 'Nuclear Deterrence in Europe: Points of Convergence, Singularities and Prospects for Cooperation', *Fondation pour la recherche stratégique*, 04/2021 (2021).

as recognised Nuclear-Weapon States under the NPT, their non-shared combined forces contribute indirectly to the overall security of the nuclear alliance. Following Brexit, France is the sole EU member with Nuclear-Weapon State status, and neither the UK nor France shares its weapons with allies. The second grouping encompasses most European NNWSs that rely on the US/NATO nuclear umbrella. Conversely, some EU member states, such as Austria, Ireland and Malta, all NNWS parties to the Treaty on the Prohibition of Nuclear Weapons, reject nuclear weapons and NATO's deterrence approach. Finally, the case of Cyprus presents a unique and complex situation.

Although not fully recognised by NATO due to Türkiye's objections concerning the unresolved reunification issue, Cyprus has signed but not ratified the Treaty on the Prohibition of Nuclear Weapons, leaving its security position potentially vulnerable within the EU bloc.

Russia poses a significant nuclear threat to Europe with its vast arsenal of 1,710 deployed nuclear strategic warheads (intercontinental and submarine-launched ballistic missiles, as well as nuclear-capable bombers) and an estimated 1,558 non-strategic ones.[19] Since the Intermediate-Range Nuclear Forces Treaty ended in 2019, Moscow has upgraded its non-strategic arsenal, solidifying its perceived nuclear superiority over Europe.[20] Recently, Russia developed a hypersonic glide missile with a 2,000 km range, challenging existing defences.[21] The recent deployment of tactical nuclear weapons to Belarus represents a novel development in the post–Cold War European nuclear order.

Rationale

Given the current status of nuclear deterrence in Europe and the political context, renewed interest has emerged in the possibility of a European nuclear deterrent. This interest can be attributed to four key factors. First, uncertainties regarding the future level of US commitment to NATO raise questions about the continued reliability of the US nuclear umbrella, prompted by apprehensions about the potential re-election of Donald Trump in November 2024. Second, recent events such as the war in Ukraine and nuclear signalling by Russian President Vladimir Putin have fuelled anxieties about Moscow's willingness to use nuclear weapons. Third, there are concerns about the asymmetric advantage of Russia's large inventory of 'tactical' nuclear weapons in contrast to NATO's limited deployment of nuclear assets on European territory.[22] This setting raises questions about the effectiveness of the US nuclear umbrella in Europe's deterrence strategy.[23] Fourth, China's rapid nuclear expansion, propelling it to be the world's third nuclear superpower, likewise raises fears about the strain placed on the US extended nuclear deterrence strategy for Europe, now tasked with deterring both China and Russia simultaneously.[24]

Thus, a European nuclear deterrent could bolster European security and regional stability by supplementing NATO and diversifying deterrence options, reducing reliance on the US. This could foster a more balanced 'partnership of equals' in which Europe actively contributes to its security.[25]

19 H. Kristensen et al., 'Russian Nuclear Weapons, 2024', *Bulletin of the Atomic Scientists* 80/2 (2024b), 118–19.
20 Ibid.
21 K. Sayler, *Hypersonic Weapons: Background and Issues for Congress*, Congressional Research Service, R45811 (Washington, DC, 2024).
22 Cimbala and Korb, 'Even in the Face of Russian Aggression'; J. Bolton, 'Both Parties Can Agree on America's Nuclear Peril', *Wall Street Journal*, 25 October 2023.
23 Ibid.
24 H. Kristensen et al., 'Chinese Nuclear Weapons, 2024', *Bulletin of the Atomic Scientists* 80/1 (2024a); Mattelaer, *Rethinking Nuclear Deterrence*; Terhalle and Klompenhouwer, 'Europe's Nuclear Necessities'. The emerging two-peer problem compels significant adaptations to both the hardware (physical components such as nuclear warheads and delivery platforms) and software (planning and consultation between the protector and its protégés) of extended nuclear deterrence. See Center for Global Security Research Study Group, 'China's Emergence as a Second Nuclear Peer: Implications for U.S. Nuclear Deterrence Strategy', *Lawrence Livermore National Laboratory* (Spring 2023), 8.
25 Action Committee for the United States of Europe, *Joint Declaration* (Bonn, 1 June 1964).

Furthermore, a European deterrent could grant greater control over security policy, allowing Europe to make independent decisions aligned with its interests while also enhancing its bargaining power in international negotiations. Additionally, the European clause, uncontested by the three NPT depositary states (the US, the UK and Russia), provides a legal framework within the non-proliferation and disarmament regime for a European nuclear deterrent.

While there are political, military and legal arguments for supporting a European nuclear deterrent, concerns about its credibility and feasibility persist, as does scepticism regarding political will and organisational challenges, such as the chain of command over a multinational nuclear force. Even if the challenges were addressed, the extended development time frame needed to establish a European nuclear deterrent, even under the most optimistic projection of a two-year breakout time, raises concerns about its effectiveness. The swiftly changing geopolitical landscape might make the deterrent obsolete by the time it becomes operational. Addressing these concerns requires analysing the diverse options for such a deterrent as a first step.

Options

As discussions on a European nuclear deterrent evolve, various options are being considered, each with its own approach. One possibility centres around a French-led strategy, given that France is the sole EU member possessing nuclear weapons, currently holding about 290 operational warheads deployed by naval and air forces.[26] This option envisages two roles for France: providing complementary insurance for European NATO members and offering reassurance to non-NATO EU members.[27] In this context, in an interview with the author on 8 November 2023, a senior official from an EU NATO member state said that 'France is open to discussing deterrence proposals with any European country.' Macron expressed this sentiment during a speech at L'École de Guerre in 2020, emphasising the 'European dimension' of the French nuclear forces.[28] This process could be conducted on a voluntary basis. In this arrangement, European partners could contribute financially to the French nuclear forces in exchange for their nuclear protection.

However, challenges abound, including feasibility, trust issues in identifying beneficiaries, and issues about credibility, particularly against Russia's larger arsenal. Concerns exist regarding whether expanding France's deterrent, currently considered minimal compared to Russia's, would result in a credible enough force, leaving the entire proposal a complex and highly debated issue.[29]

Another option could entail multiple EU and non-EU states jointly controlling a pan-European deterrent, potentially involving nuclear-armed nations like France and the UK, along with NNWSs. This collaborative approach would entail pooling resources and expertise for a more robust deterrent capability across Europe.[30]

While the UK's Trident system carries approximately 225 strategic nuclear warheads in submarines, enhancing both the qualitative and quantitative aspects of the French nuclear deterrent capabilities, concerns persist about the credibility of a France- and/or UK-based deterrent.[31] However, the UK's role post-Brexit and the issue of continued reliance on the US (a heavier reliance for the UK than for France)

[26] H. Kristensen, M. Korda and E. Johns, 'French Nuclear Weapons, 2023', *Bulletin of the Atomic Scientists* 79/4 (2023), 272.
[27] Tertrais, *European Dimension of Nuclear Deterrence*, 9.
[28] E. Macron, 'Speech of the President of the Republic on the Defense and Deterrence Strategy', Paris, 7 February 2020.
[29] B. Tertrais, *French Nuclear Deterrence Policy, Forces, and Future: A Handbook,* Fondation pour la recherche stratégique, Recherches & Documents, no. 4, (2020), 29.
[30] Vela and Camut, 'As Trump Looms'; Wintour, 'UK Could Contribute to Nuclear Shield'.
[31] H. Kristensen and M. Korda, 'United Kingdom Nuclear Weapons, 2021', *Bulletin of the Atomic Scientists* 77/3 (2021).

also raise concerns, namely about the inclusion of non-NATO European states. Furthermore, coordinating decision-making and transparency among diverse participants poses a significant challenge.

Conversely, a Eurodeterrent option refers to EU member states jointly developing and maintaining a credible nuclear capability to deter adversaries and safeguard security interests, supported by the legal viability of the European clause. This option encompasses two possibilities regarding NATO's existing nuclear umbrella. One variant aligns with NATO, potentially strengthening collective defence through contributions to existing capabilities or separate forces operating under NATO's strategy, exemplified by the Berlin Plus framework.[32] Alternatively, a non-aligned Eurodeterrent could be developed as an alternative outside of NATO. This approach would aim to establish strategic autonomy for European security by creating an independent nuclear arsenal.

Both modalities of Eurodeterrent could operate within a security framework allowing EU member states outside of NATO, such as Malta, Ireland and Austria, to opt out of this nuclear deterrent option. Conceptually, an option akin to the Schengen area or the eurozone, in which only select EU countries participate in these arrangements, could be considered. However, only the non-aligned Eurodeterrent model would extend protection to Cyprus. This is because Cyprus remains the sole EU member state that is neither fully recognised by the North Atlantic Alliance nor a member of NATO's Partnership for Peace, a programme of bilateral security cooperation between individual countries and NATO. Nonetheless, both modalities face challenges, including and primarily the necessity of establishing forceful decision-making structures within the EU.

As a fourth and last option, if both the US and France are considered unreliable security guarantors against Russian threats, and if the development of a Eurodeterrent proves unfeasible, Germany could theoretically pursue an indigenous nuclear deterrent.[33] Its intended purpose, whether for national defence or broader EU-wide security, would need to be considered when shaping decisions regarding size, deployment and doctrine. Despite being an NNWS, Germany possesses technical capabilities that could allow for the development of a limited nuclear arsenal within a relatively short time frame.[34] However, the advancement of a German nuclear deterrent faces significant technical, legal and political challenges.[35] Furthermore, renouncing the NPT as an NNWS could have adverse implications for the security of Germany and Europe. Additionally, it could undermine the global non-proliferation and disarmament regime. In light of these significant barriers and potential costs, a German nuclear deterrent remains largely unfeasible for the foreseeable future. Nonetheless, it could be considered as a last resort if the other three options prove unachievable.

Policy recommendations

Regardless of the chosen option, any European nuclear deterrent must be common, credible and feasible. To achieve these objectives, the following policy recommendations should be considered.

First, achieving commonality among European nations regarding a nuclear deterrent requires addressing political and strategic considerations. On the one hand, fostering political consensus necessitates overcoming the significant divisions within the EU regarding nuclear deterrence. On the other hand,

[32] Senior official from the European External Action Service, interview by the author, Brussels, 15 November 2023.
[33] Fischer, 'Great Revision'.
[34] B. Kunz and U. Kühn, 'German Musings About a Franco–German or German Bomb', in U. Kühn (ed.), *Germany and Nuclear Weapons in the 21st Century* (New York: Routledge, 2000), 123.
[35] Ibid.

strategic collaboration is crucial to ensure the deterrent aligns with the collective security interests of Europe. Therefore, we recommend the following actions:

> *Recommendation 1*. Initiate a systematic and open debate among EU member states on the concept and implications of a shared European nuclear deterrent while building a common understanding of the strategic role of nuclear deterrence in addressing contemporary geopolitical challenges and security vulnerabilities.
>
> *Recommendation 2*. Conduct, within a year, a comprehensive intergovernmental feasibility study on establishing a European nuclear deterrent.
>
> *Recommendation 3*. Foster political consensus and determine the most credible and feasible option for establishing a European nuclear deterrent among participating states by mid-2025, following a thorough consideration of the findings and recommendations outlined in the feasibility report.

Second, ensuring the credibility of a European nuclear deterrent is vital for deterring potential threats or attacks on the continent. This credibility can be bolstered through the establishment of a robust and capable arsenal, harmonised doctrine and structure, effective command-and-control mechanisms, and a clear and unambiguous deterrence message. Additionally, any European nuclear deterrent must seamlessly complement, rather than compete with, NATO's existing nuclear deterrence strategy. For this, we propose the following actions:

> *Recommendation 4*. Outline the specific threats to be deterred, the parameters of the deterrence posture and the conditions under which nuclear weapons hypothetically would be used; this step encompasses target selection and communication protocols.
>
> *Recommendation 5*. Establish clear criteria for the size and composition of the European nuclear arsenal, with specific milestones for the development of a nuclear command-and-control system, technological advancements, nuclear warheads and delivery systems.
>
> *Recommendation 6*. Align, if possible, the European nuclear deterrent doctrine with NATO's overall collective defence strategy to ensure it reinforces NATO's deterrence position. Include cooperation mechanisms for working with non-NATO European states.

Third, the creation of a feasible European nuclear weapons infrastructure is a pivotal step and requires at least the following policy recommendations:

> *Recommendation 7.* Draw upon existing European capabilities and establish a European-led nuclear deterrent that involves the transfer, acquisition or development of nuclear warheads and delivery systems.
>
> *Recommendation 8*. Allocate a specified percentage of the member states' defence budgets to the development and implementation of a credible European nuclear command-and-control, including warheads and delivery systems, with annual progress assessments.
>
> *Recommendation 9*. Develop a clear, swift and unambiguous decision-making procedure for the deployment of nuclear weapons, with a European final decision-maker possessing sole authority to order their use.

Conclusion

The re-emergence of the debate on and the rationale for a European nuclear deterrent is driven by Russia's nuclear sabre-rattling amid its war against Ukraine and China's strategic challenge to the Western-led liberal order with the abrupt expansion of its nuclear arsenal. Concurrently, concerns over US security commitments and the potential for a Trump re-election have brought fresh urgency to the issue.

Despite most member states relying heavily on the US and NATO for collective defence, the EU bloc still faces security vulnerabilities. For example, the absence of a cohesive EU approach to nuclear deterrence leaves many nations exposed, lacking a common nuclear deterrent and contributing unevenly to NATO's Extended Nuclear Deterrence strategy. One potential solution to tackle this issue could involve establishing a flexible European nuclear deterrent within an EU security framework. This setup would allow EU member states outside NATO, like Malta, Ireland and Austria, to opt out of participating in this joint nuclear deterrent initiative.

This policy brief has explored various options, including a French-led approach, a pan-European initiative, a Eurodeterrent complementary to NATO and an indigenous German nuclear deterrent. This complex issue requires a thorough analysis and a concerted effort to address the identified challenges among EU policymakers. Only through such a comprehensive approach can European leaders determine whether, and under what configuration, a joint nuclear deterrent aligns best with the continent's security interests and the existing security architecture.

The proposed policy recommendations underscore the importance of fostering dialogue among European leaders, conducting a feasibility study, securing political consensus, and establishing clear criteria for arsenal size and funding. They offer a structured framework for navigating the intricate decision-making process involved in establishing a European nuclear deterrent. While the path towards a European nuclear deterrent is fraught with challenges, these recommendations serve as an initial guide for policymakers.

	Programme 1	Programme 2	Programme 3
	Promoting political cohesion on the idea of a common European nuclear deterrent	**Establishing a credible European nuclear deterrent doctrine (strategy and policy)**	**Creating a feasible European nuclear weapons infrastructure**
Project 1	Initiate a systematic and open debate among EU member states on the concept and implications of a shared European nuclear deterrent, while building a common understanding of the strategic role of nuclear deterrence in addressing contemporary geopolitical challenges and security vulnerabilities.	Outline the specific threats to be deterred, the parameters of the deterrence posture and the conditions under which nuclear weapons hypothetically would be used; this step encompasses target selection and communication protocols.	Draw upon existing European capabilities and establish a European-led nuclear deterrent that involves the transfer, acquisition or development of nuclear warheads and delivery systems.
Project 2	Conduct, within a year, a comprehensive intergovernmental feasibility study on establishing a European nuclear deterrent.	Establish clear criteria for the size and composition of the European nuclear arsenal, with specific milestones for the development of a command-and-control system, technological advancements, nuclear warheads and the establishment of delivery systems.	Allocate a specified percentage of the member states' defence budgets to the development and implementation of a credible European nuclear command-and-control, including warheads and delivery system, with annual progress assessments.
Project 3	Foster political consensus and determine the most credible and feasible option for establishing a European nuclear deterrent among participating states by mid-2025, following a thorough consideration of the findings and recommendations outlined in the feasibility report.	Align, if possible, the European nuclear deterrent doctrine with NATO's overall collective defence strategy to ensure it reinforces NATO's deterrence position. Include cooperation mechanisms for working with non-NATO European states.	Develop a clear, swift and unambiguous decision-making procedure for the deployment of nuclear weapons, with a European final decision-maker possessing sole authority to order their use.

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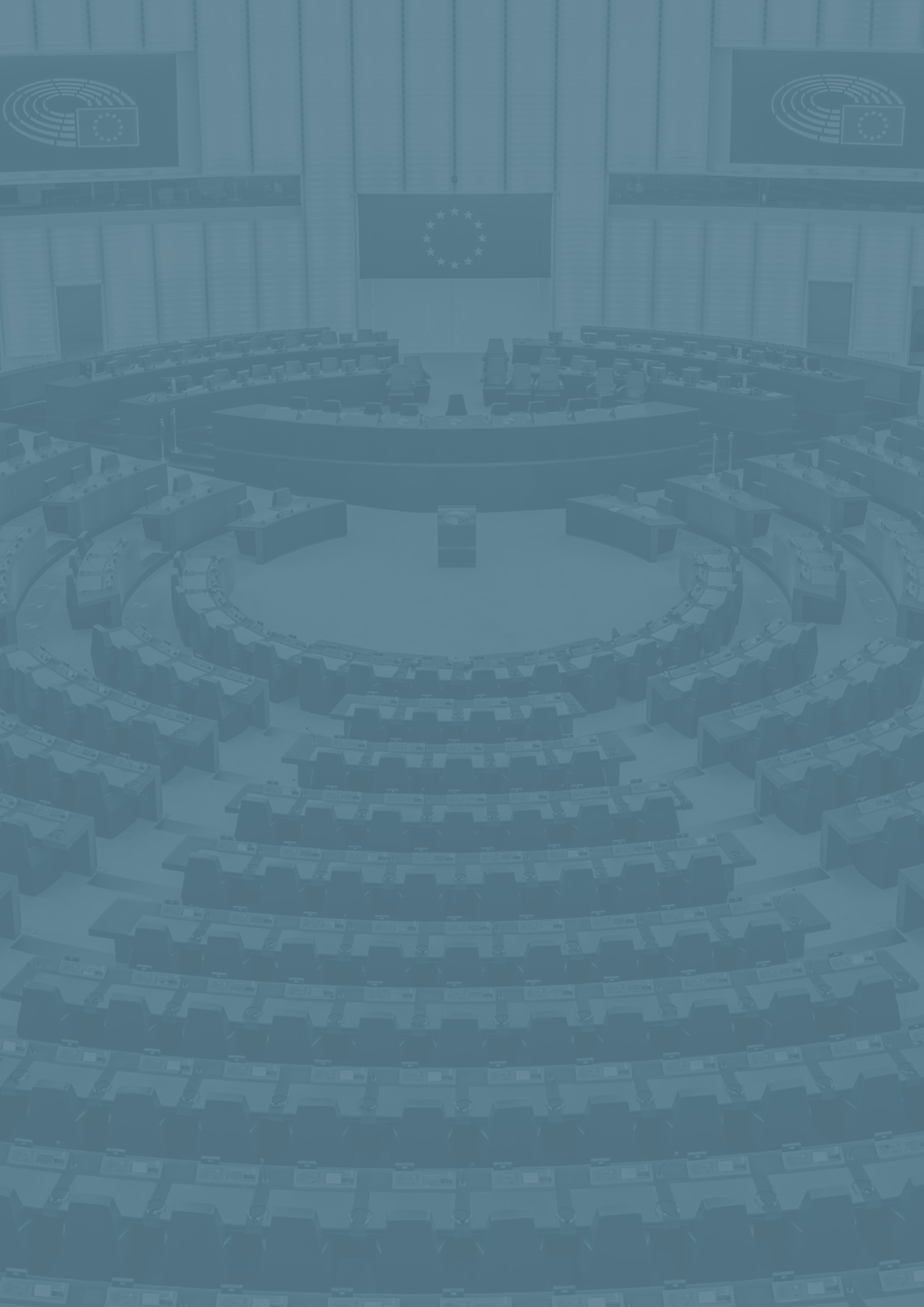

Democracy

Table of abbreviations

CoR	European Committee of the Regions
ECJ	European Court of Justice
EEAS	European External Action Service
EP	European Parliament
MEPs	Members of the European Parliament
QMV	Qualified Majority Voting
TEU	Treaty of European Union
TFEU	Treaty on the Functioning of the European Union

Introduction

by Klaus Welle and Federico Reho

Democracy is the beating heart and core of the EU's identity, along with peace. From its inception in the aftermath of the Second World War, European integration has been open only to democratic countries that respect the rule of law and fundamental freedoms. It has also played an essential role in democratising, stabilising and integrating new countries, from Greece, Spain and Portugal in the 1970s and 1980s to the post-Communist countries of Central and Eastern Europe in the 1990s and 2000s.

Since the first direct election of the European Parliament in 1979, the EU's democratic system has developed hugely too: by increasing transparency, empowering the European Parliament, making the European Commission more accountable and even involving citizens in innovative experiments such as the Conference on the Future of Europe. As a result, the EU now has clear dual democratic legitimacy as a union of states and citizens, each represented in one of the equal co-legislators: the Council and the European Parliament respectively. Moreover, the multilevel nature of EU democracy is recognised through the direct involvement of the national parliaments in various capacities, from the ratification of mixed trade agreements to the yellow and orange card procedures which protect subsidiarity.

As a side effect of the last 15 years of successive crises, EU affairs have also become more politicised. As a result, European issues have become essential to national democratic debates, and a European public sphere has finally begun to emerge. It is important that democratic accountability does not lag behind political and institutional developments, as has at times been the case over the last decades when new rules and bodies have been created outside the EU legal framework to react to crisis situations.

As the EU acquires new powers and competences to manage new challenges in the most diverse fields, it will be necessary to improve the quality of EU democracy, the legitimacy of its institutions, and their responsiveness to the needs and preferences of the EU member states and citizens. Moreover, democratic values and institutions face new challenges, such as disinformation, polarisation and a lack of trust in political elites—all in a world of systemic rivalry.

European Parliament: Nine Reforms for a Modern Democratic Legislature

by Anthony Teasdale

Summary

The increasing centrality of the European Parliament in the EU political system requires the institution not only to engage in a constant process of updating and improving its internal procedures and practices, but to present itself more confidently and clearly as a modern democratic legislature. In such a spirit, this paper recommends reforms in three areas. First, it advocates changes to increase the clarity and visibility of the Parliament and European elections to it through the codification of the *Spitzenkandidat* process, the introduction of transnational lists and the holding of an inauguration ceremony for the incoming Commission president. Second, it proposes to update the EU legislative process, by involving the Parliament in decisions on 'Emergency Europe', increasing the openness of trilogues and allowing the Parliament greater opportunities for legislative initiative. Third, it favours giving greater weight to the policy cycle and policy context in European Parliament committee work—notably in relation to *ex ante* and *ex post* evaluation; assessment of risk, capabilities and resilience; and strategic foresight—to help promote more coherent and forward-looking law-making within the Union.

Keywords *Spitzenkandidat* – Transnational lists – Legislative initiative

Introduction

The European Parliament (EP) is a unique political institution, it being the only directly elected transnational legislative body in the world. Chosen by the public every 5 years in direct elections held simultaneously in all 27 member states of the EU, and encompassing an electorate of some 360 million citizens, the Parliament is currently made up of 720 individual Members, who come from over 200 national political parties and sit together in (currently) 8 political groups of differing ideological persuasions.

The Parliament has seen its formal powers and its broader political role grow rapidly in recent decades. At the time of the first direct elections, now 45 years ago, in 1979, the Parliament's powers were essentially limited to recommending amendments to draft Union (then Community) legislative proposals tabled by the European Commission (under the 'consultation' procedure). Although it had the formal power (by supermajority) to dismiss the European Commission, the lead executive body of the Union, this 'nuclear option', as many called it, was never used, and the Parliament had difficulty in leveraging the possibility of dismissing the Commission into more effective day-to-day influence over policy.

However, through successive EU treaty changes—introduced mainly in the 22 years between the 1987 Single European Act and the 2009 Lisbon Treaty—the Parliament has progressively become a joint legislature with the Council of Ministers in most areas of European-level policy, with the notable exceptions of taxation and foreign policy, security and defence. The Parliament is now also the Union's co-equal 'joint budgetary authority' in most fields, as well as asserting itself much more actively as the central forum through which the Commission is held to political account. The president of the Commission and his or her 'college' of 26 other commissioners, although still nominated by the member state governments collectively, can now only enter office with the approval of the Parliament. As each of the five-yearly nomination processes since 2014 has confirmed, the choice of Commission president is being increasingly influenced by the political balance in the Parliament that emerges at each European election.

The increasing centrality of the Parliament within the EU political system and policy process brings with it responsibilities, as well as opportunities or rights. It requires the Parliament to engage in a constant process of internal updating and improvement of its procedures and practices, with a view to exercising its powers and broader influence in a mature and responsible manner that seeks to enhance the overall coherence and credibility of the system, rather than fragment or gridlock it, as could easily be the case. The Parliament has largely risen to this challenge in recent years, with a positive internal culture of wanting a strong Europe to address big issues and to realise its full potential as a source of collective public goods that could not be produced by individual member states simply acting on their own.

There has already been significant progress in improving the internal operation of the EP in recent years, at both political and administrative levels. The political reforms are mainly embodied in successive changes to the Rules of Procedure of the Parliament that have tried to create a more 'joined-up' institution, which might otherwise might be prone to centrifugal forces, in which the roles of its plenary, committees, political groups, president and permanent administration are dovetailed more effectively than before. They have been paralleled by administrative reforms that have aimed to focus resources more on policymaking and analytical support to give the Parliament the practical means to be a self-respecting institution capable of identifying and acting on its own priorities and choices, without being overly reliant on the (often) superior resources and firepower of its institutional partners.

Building on such changes, nine further reforms, grouped here into three broad categories, recommend themselves and are set out in detail below. They are captured in synoptic form in the table at the end of this paper.

Greater clarity and visibility for the EP and European elections

Action could and should be taken to increase the clarity and visibility of both the EP and the five-yearly direct elections to it, with a view to reflecting and underlining their importance as central vehicles for democratic expression and choice in Europe. Three specific reforms would help in this process, outlined below.

Clarify and codify the *Spitzenkandidat* or 'lead candidate' process, by which the outcome of EP elections influences the choice of Commission president

The *Spitzenkandidat* or 'lead candidate' process emerged in the slipstream of the 2009 Lisbon Treaty, which envisaged for the first time that the outcome of the EP elections should have a bearing on the choice of Commission president. Article 17(7) of the Treaty on European Union states (somewhat ambiguously) that, 'Taking into account the elections to the European Parliament and after having held the appropriate consultations, the European Council, acting by a qualified majority, shall propose to the European Parliament a candidate for President of the Commission'. That candidate for Commission president now also needs to be 'elected by the European Parliament by a majority of its component members', before being able to take office. The implication is that he or she will be proposed on the basis of a calculation by the European Council as to who will be best placed to command an absolute majority of votes in the Parliament.

In identifying which potential candidate to nominate, the most obvious first port of call would—as in many (but not all) national political contexts—be to look to the leader of each major political force, starting with the largest political party or group elected to the parliamentary body that has to confirm or reject the choice of head of the government. Since most political parties in most national parliamentary elections designate a defined individual (often, but not always, their party leader) to run as the aspirant head of government in the elections, that pattern has been increasingly replicated at EU level, with the various European political parties designating a lead candidate for this purpose during the European elections. This practice started in 2014 and was repeated in 2019 and 2024, although with varying degrees of consistency.

There is a strong argument for giving the lead candidate process a stronger and more coherent basis on which to develop in the years ahead. Assuming the likely absence of EU treaty reform in the foreseeable future, the easiest way to do this would be to encourage the European political parties to agree among themselves a set of common basic principles and modes of practice that should apply for the next contest in 2029 and thereafter. In theory, it would also be desirable to have a parallel understanding between the EU institutions about how the system should operate, to maximise the chances of agreement between the European Council and European Parliament on the process, but this might be more difficult to achieve in practice.

The principal European political parties—namely those which correspond to the various political groups in the EP—should be invited to decide among themselves:

- whether the willingness to run a lead candidate should be an automatic precondition and feature of registration as a European political party;
- whether the concept of lead candidates should apply only to the pursuit of the Commission presidency (as the European People's Party and Party of European Socialists have done so far) or also be extended to availability for other top jobs within the EU, such as president of the European Council or high representative for Common Foreign and Security Policy (as the Alliance of Liberals and Democrats for Europe and Greens have done);
- whether 'co-lead' candidates are admissible, and if so, on what basis; and
- whether lead candidates should be obliged to run at the head of the corresponding transnational lists for the EP elections (if and when such lists are introduced—see below).

This agreement could be underpinned by financial or other incentives: for example, any European political party that did not run a lead candidate could have its public funding either discontinued or cut significantly during a European election year.

Introduce transnational lists for European elections, in parallel to the existing 27 national electoral processes

Transnational lists are conventionally understood to mean lists comprising a relatively limited number of candidates—the figure of 27 or 28 such candidates on each list has most often been mentioned—who would run for election to the EP in one large, pan-EU constituency, in addition to all other candidates, who would continue be elected in the 27 individual member states. The purpose would be to promote a stronger sense that the European elections serve as a forum for a continent-wide political choice. The lead candidate of each European political party would head up each transnational list (see above). Each *Spitzenkandidat* would in effect be the head of a *Spitzenlist*. Other candidates on the lists could be drawn upon as natural potential choices as members of the college of commissioners.

The institution of transnational lists, which could be enacted by changes to the European Elections Act, should ideally be complemented by a number of other reforms designed to promote the authentically European character of the EP elections, notably the introduction of European party logos alongside national ones on ballot papers and the adoption of a single common day for voting across the EU.

Hold a formal inauguration ceremony for the incoming president and college of European commissioners outside the EP building every fifth year

The EU lacks striking public events that embody and project its character and coherence as a free-standing political system. The Union lacks a powerful ceremony (and associated imagery) that brings together its executive, legislature and judiciary at one critical moment that marks the formal passage of power or 'changing of the guard' in Brussels. The US achieves this through its four-yearly inauguration of the president on the west front of the Capitol Building in Washington, DC. The Union should do the same with a five-yearly ceremony to inaugurate the new president of the European Commission and his or her college of commissioners. This should be administered by the president of the European Court of Justice and be held on the Agora Simone Veil, located on the western side of the EP's Altiero Spinelli building in Brussels.

Updating the EU legislative process

Action could be taken to update the EU legislative process through reforms designed to make the EP's role in law-making more relevant, more open and more responsible. Three such changes are outlined below.

Involve the EP in decisions and spending on 'Emergency Europe'

The successive crises that have buffeted the EU in recent years—from the economic and financial crisis and eurozone debt crisis through to the coronavirus pandemic and the Russian invasion of Ukraine—have seen the adoption of new forms of intergovernmental cooperation and/or inventive, ad hoc Union 'instruments' and spending of an unorthodox kind. However important and useful, many of these initiatives either operate outside the treaties or, where they are within the treaties, inadvertently or deliberately marginalise the EP. So-called secondary budgets—such as the new European Peace Facility, funded from national contributions outside the regular EU budget—have no meaningful EP involvement at all. Elastic provisions in the treaties—such as Article 122 of the Treaty on the Functioning of the European Union (TFEU), the so-called solidarity or emergency clause—minimise accountability and reporting requirements, and also allow a complex and confusing intermingling of European and national jurisdiction. The growth of joint purchasing by the Commission (acting in effect as a service provider to the member states)—whether of vaccines, gas, ammunition or arms—involves a significant expansion of executive discretion, with a corresponding lack of parliamentary oversight, at either European or national level. The bottom line is that the advent of 'Emergency Europe' is generating a new and very particular form of 'democratic deficit' within the Union.

Although the Parliament has recently attempted to force the European Commission (at least in those areas where it is the responsible authority) to keep it more closely informed about such initiatives, introducing new provisions in its Rules of Procedure to that effect, the EP needs to insist that it be given serious and meaningful standing in decision-making on 'Emergency Europe' initiatives which create policy obligations for the future and risk promoting the development of a parallel EU outside normal disciplines and oversight. In the absence of treaty reform, the Parliament should negotiate with the Commission—notably in the context of the forthcoming updating of the framework agreement between the two institutions—for its more formal and systematic consultation on the passage of crisis legislation under the Article 122 TFEU 'emergency clause' or any other article where it is effectively powerless at the moment. In parallel, the Parliament should develop new scrutiny structures and mechanisms, including subgroups or subcommittees, to oversee specific 'emergency' instruments or spending. It should also make it clear that its assent to any future Multiannual Financial Framework for the years 2028–34 is contingent, in particular, on the 'budgetisation' of these emergency instruments—so that they form part of the normal EU annual budget—and that the Parliament would express 'no confidence' in the sitting budget commissioner if he or she failed to propose such budgetisation in the next Framework.

Increase the openness of trilogues in EU law-making

The standard practice by which the key compromises on the content of EU law are brokered in closed-door ‘trilogue’ meetings between the Council of Ministers and the EP, with the European Commission present as a facilitator (if not honest broker), has long occasioned criticism from many observers and analysts of EU decision-making. Although highly efficient in securing agreement—often under artificial deadlines imposed by the various institutional players, reducing the duration of law-making on average by about half—the practice ironically imports into the operation of the ‘ordinary legislative procedure’ (co-decision) many of the highly secretive features for which the Parliament once routinely lambasted the Council when the latter enjoyed a monopoly of legislative power. These meetings are adored by rotating Council presidencies—because they increase their power vis-à-vis individual member states—and are highly attractive to EP committee chairs and rapporteurs—because they reduce the potential leverage of Members of the European Parliament (MEPs) outside of the individual committee concerned, in effect diluting the roles of political group meetings and the plenary. However, trilogues limit public access to the detail of law-making, fuel general scepticism of the EU system as a complex and impenetrable ‘black box’ for technocrats and the cognoscenti, and blur the question of which institution has been most influential in shaping the outcome of the legislative process.

The Parliament has made some limited progress in constraining the ability of individual committees to pre-empt the position of the plenary in legislation, by forcing the formal communication to the plenary of each committee’s intended negotiating objectives. However, this process is largely pro forma and such positions are rarely debated in advance by MEPs as a whole. There is thus still a serious need to open up the trilogue process, which is central to determining EU law, as one would reasonably expect in any democratic legislature. One way of moving in this direction would be to give full details, on a public website, in real-time—that is as (not after) the relevant meetings are being held—of all agendas, papers, non-papers and amendments being discussed at all stages of the co-decision procedure. If the Council refused to cooperate in such openness, the Parliament, as a matter of principle, should simply revert to the multi-stage, first-, second- and third-reading ‘conciliation’ arrangements which routinely used to apply, but which have now largely fallen into disuse. Once the legislative process is concluded, EP successes in shaping final outcomes should be published quickly and in detail on the Parliament’s website.

Give the Parliament greater opportunities to engage in legislative initiative

Although a very important feature of the EU system is the ‘exclusive right of legislative initiative’ that is entrusted to the European Commission, there is a strong argument that the EP, which is directly elected by European citizens, should have a more organised and structured way in which to table proposals for EU law that would at least be seriously considered by the other institutions in a routine way. In 2019, the Commission undertook to come forward with a generally positive response should the Parliament adopt, by an absolute majority of its Members, a ‘legislative initiative report’ that envisaged legislative action of some kind. Both the EP and Commission have been careful and cooperative in the way they have applied this principle, which is in effect a self-limitation by the Commission on how it exercises its right of initiative. It would be sensible now to go one stage further, giving the Parliament an even greater opportunity to exercise a measure of legislative initiative within the EU system. This could be based on the automatic tabling by the Commission of any formal EP proposal for a draft legislative text, accompanied by a formal costing and *ex ante* impact assessment, wherever that text has been adopted by a supermajority of MEPs (potentially 70%) in a roll-call vote in both committee and plenary.

Highlighting the EU policy cycle and policy context in EP committee work

The current EU law-making process, both in the EP and the Council of Ministers, has a marked tendency to place too much emphasis on the introduction and passage of amendments to draft proposals from the European Commission, and to pay too little attention to the broader context in which that law or those amendments are being tabled. Conversely, important questions relating to the broader EU policy cycle are often downgraded, if not ignored. In both arms of the EU legislature, more reflection is needed on the rationale and justification for specific proposals, on the extent to which European action is needed (subsidiarity) or desirable (added value), and on the likely and actual impact of such legislation in practice.

Especially in the light of the successive, largely unexpected, crises which have impacted the EU in recent years, high value should also be placed on the detailed analysis of global trends and strategic foresight, to help identify and frame the big potential challenges of the future. This approach needs to be matched by closer attention to the various risks to, and the capabilities and resilience of, the Union system as a whole. Within the EP, greater weight should be given to addressing such issues, to help promote more coherent, resilient and forward-looking law-making within the EU system. Key to this would be the following initiatives.

Mainstream discussion in the EP of *ex ante* impact assessment, *ex post* evaluation and European added value

Building on innovative work undertaken within its secretariat over the last decade, the EP needs to intensify and mainstream discussion of *ex ante* impact assessment, *ex post* evaluation and European added value in the routine work of its committees. Consideration and passage of all significant legislation should start with meaningful scrutiny sessions devoted to these policy cycle issues. There should be an obligation on committees to hold such sessions set down in the EP Rules of Procedure. In addition, the current, ambiguous threshold for triggering EP impact assessment work on amendments to draft legislation, as well to prepare substitute impact assessments and supplementary impact assessments (to those supplied by the Commission)—namely, the existence of broad consensus among the larger political groups in the relevant committee—should be replaced by a formal, simple provision, written into the Rules of Procedure, that an absolute majority of members of that committee is required. The existing pattern, whereby European Implementation Assessments and European Added Value Assessments are prepared automatically by the EP administration whenever a committee launches either an implementation report or a legislative initiative report, should be further codified and strengthened, with such arrangements being written into the Rules of Procedure. Given the importance of the issues involved, significantly greater administrative resources should be devoted to such work over time.

Mainstream discussion in the EP of the risks to, and the capabilities and resilience of, the Union as a system

Building on innovative work undertaken within its secretariat since the coronavirus pandemic, the Parliament needs to intensify and mainstream discussion of the risks to, and the capabilities and resilience of, the Union as a system in the routine work of parliamentary committees. This could include an annual EP report, to be submitted to the plenary, on potential ‘future shocks’ to the Union, and the action needed to mitigate them, building on the internal reports regularly produced within the administration on such issues. Given the importance of the issues involved, ‘risk, resilience and preparedness sessions’, involving internal and outside experts, should be programmed into the work of parliamentary committees. Significantly greater administrative resources should be devoted to such work over time, backed potentially by the designation of an EP vice-president for EU risk, resilience and preparedness.

Mainstream discussion in the EP of global trends and strategic foresight

Building on impressive work undertaken at both political and administrative levels since it instigated the inter-institutional European Strategy and Policy Analysis System (ESPAS) in 2010, the Parliament needs to intensify and mainstream discussion of global trends and strategic foresight in the routine work of parliamentary committees. This could include the drafting of an EP report, to be submitted to the plenary, on the Commission's annual strategic foresight report, as well as giving serious consideration to the creation of an EP Committee for the Future, as was discussed among the political groups before the 2024 European elections. Given the importance of the issues involved, 'strategic foresight' sessions, involving internal and outside experts, should be programmed into the work of parliamentary committees. Significantly greater administrative resources should be devoted to such work over time. The EP vice-president already designated for the ESPAS process should take an active lead in promoting a 'foresight culture' within the Parliament as a whole.

	Programme 1	Programme 2	Programme 3
	Increasing the clarity and visibility of the EP and European elections as central vehicles for democratic expression and choice within the EU system	**Updating the EU legislative process by involving the EP in 'Emergency Europe' spending, increasing the openness of trilogues and giving greater opportunities for EP initiative**	**Giving greater weight in EP committee work to the policy cycle and policy context, to promote more coherent, resilient and forward-looking law-making within the EU system**
Project 1	Clarify and codify the *Spitzenkandidat* or 'lead candidate' process, by which the outcome of EP elections influences the choice of Commission president. Agree certain common basic principles and practices among the European political parties and potentially between the EU institutions before the 2029 contest.	Democratise 'Emergency Europe' through the systematic 'budgetisation' of new crisis-related EU spending—backed by new scrutiny structures/ mechanisms within the EP, and formal EP involvement in use of the Article 122 TFEU 'emergency clause'.	Mainstream discussion of *ex ante* impact assessment, *ex post* evaluation and European added value in the routine work of parliamentary committees. Consideration of all significant legislation should start with meaningful scrutiny sessions on these policy cycle issues.
Project 2	Introduce transnational lists for European elections, in parallel to the existing 27 national electoral processes, to promote a stronger sense of continent-wide political choice. Plus, add European party logos alongside national ones on ballot papers, and hold a single day of voting.	Further open up the trilogue process for negotiating EU law, by *inter alia* giving full details of all meetings and amendments at all stages of the co-decision procedure. EP successes in shaping final outcomes should be published quickly and in detail.	Mainstream discussion of the risks to, and the capabilities and resilience of, the Union as a system in the routine work of parliamentary committees. This could include an annual EP report on 'future shocks', building on innovative work within the EP administration on these issues.
Project 3	Hold a formal inauguration ceremony for the incoming president and college of European commissioners outside the EP building in November every fifth year, on the Agora Simone Veil, with the oath administered by the president of the Court of Justice of the European Union.	Give the EP greater opportunity to exercise a measure of legislative initiative within the EU system, with automatic consideration by the Council of any formal EP proposals put forward by an absolute or supermajority.	Mainstream discussion of global trends and strategic foresight in the routine work of parliamentary committees. This could include an EP report on the Commission's annual strategic foresight report and the potential creation of an EP Committee for the Future.

Adapting the Council to a Geopolitical Union

by Nicolai von Ondarza

Summary

The Council of the EU is a crucial institution in EU decision-making and European democracy, serving as the main arena for negotiating compromises among member states. This paper discusses potential reforms to enhance the Council's effectiveness in three key areas: making it enlargement-ready, while increasing its capacity to act; strengthening its democratic legitimacy; and improving its role in EU defence ambitions. These reforms are proposed in the context of potential EU enlargement, the need for greater transparency and a growing focus on defence issues. The paper suggests several reforms, including extending qualified majority voting, creating a 'quintet' presidency system, establishing a special body to coordinate reform and enlargement processes, improving transparency in legislative functions, creating a dedicated Defence Council, and turning the Council into a hub for security and defence cooperation. Importantly, these reforms could be implemented without treaty changes, but to do so will require significant political will from the member states.

Keywords Council of the EU – Democratic legitimacy – Defence

Introduction

The Council of the EU is in many ways the engine room of EU decision-making and a crucial pillar of European democracy. It is the main arena for negotiating compromises amongst the different national governments, and is thus where negotiations advance from the technical to the political stage. Through direct representation of all the member state governments, it brings together the political diversity of the Union while also providing a crucial link to national democracy alongside the European Parliament. Looking ahead to the broader challenges facing the EU in the next institutional cycle, reforms in three crucial aspects of the Council are necessary: making its decision-making procedures enlargement-ready, whilst increasing its capacity to act; strengthening its democratic legitimacy; and turning it into a hub for the EU's defence ambitions. In all of these areas reforms could be implemented without treaty change, but this will require significant political will.

State of play: an emerging debate on EU governance reform

In the post-Lisbon EU, the Council is part of a multilayered governance system that connects the national governments to the Union. At the top sits the European Council, an institution in its own right, that brings together the national heads of state and government as well as its own permanent president and the president of the European Commission. But while—at least legally—the European Council focuses on giving political guidelines and steering the EU, the many detailed negotiations, and importantly the legislative, budgetary and operational work, are done within the Council of the EU, often together with the European Parliament. For this, the Council meets in 10 different formations of ministers—for instance, the foreign ministers in the Foreign Affairs Council—underpinned by deliberations within the Committee of Permanent Representatives and many Council Working Groups. Although much of the media attention is focused on the European Council, where issues become '*Chefsache*', the main day-to-day negotiations of the EU take place within the various layers of the Council system. The rules and social norms governing the Council are therefore central to the power balances among both the EU member states and the EU institutions.[1]

1 U. Puetter, 'The Council of the European Union: Co-legislator, Coordinator and Executive Power', in D. Hodson et al. (eds.), *The Institutions of the European Union* (Oxford: Oxford University Press, 2021).

Debates about reforms of the Council have therefore also always been about the power relations within the EU. For instance, during the negotiations for first the Constitutional Treaty and later the Lisbon Treaty, one of the most controversial aspects was the switch of the voting system in the Council from political weighted votes to the current system of qualified majority (QMV), which favours the larger member states. Equally controversial have been any moves from unanimity—guaranteeing each national government an individual veto—to QMV, which increases the EU's capacity to act but makes it possible for national governments to be outvoted. Precisely because the decisions impact the power balance in the EU so significantly, reforms of the Council and its procedures are considered constitutional decisions and are usually part of wider institutional changes within the EU.

In the new institutional cycle, calls for reform of the Council come from three different directions. The first, and likely most important, is the new dynamic in the EU enlargement process in the wake of the Russian war of aggression against Ukraine. With enlargement now a 'geostrategic investment in peace, security, stability and prosperity',[2] the European Council has opened up accession negotiations with Ukraine and Moldova, granted Georgia candidate status and is working on revitalising accession negotiations with the six countries of the Western Balkans, all with the aim of closing geostrategic grey zones in competition with Russia (as well as China). Although it is unlikely that these accession processes will be completed within the current institutional cycle (2024–9), the vision of an EU of 30+ member states has returned—and with it serious questions about the Union's governance.[3] By its nature, the Council, as the body that brings together all national governments, will be particularly affected by any enlargement.[4]

Recognising this challenge, in its December 2023 conclusions, in connection with the opening of accession negotiations with Ukraine and Moldova, the European Council stated that it would be necessary to pursue the debates on accession and internal EU reform in parallel.[5] The member states agree that these reforms should address 'key questions related to its priorities and policies as well as its capacity to act',[6] but are far from unified regarding what shape these reforms should take. In June 2024 the Belgian Presidency presented an update on the state of negotiations, breaking down the internal EU preparations into four baskets: EU values, policies, budget and governance. According to this update, the predominant preference among EU member states was to make use of the flexibility of the Lisbon Treaty to the full extent, with only limited support for a wide extension of QMV in the Council and almost none for treaty change.[7]

These initiatives are not limited to making the Council more enlargement-ready in the long term, but also aim to improve its capacity to act in the medium term. Driven by the more confrontational geostrategic environment, in 2023, 11 member states formed the 'Group of Friends of QMV in Common Foreign and Security Policy', pushing for an extension of QMV in foreign policy. The group specifically stressed its aim of making use of the 'passerelle' clauses (rather than treaty change), its focus on the Common Foreign and Security Policy, and its emphasis on not pre-deciding the wider debate on QMV. A similar push has been made by Germany and Slovenia for introducing QMV into the enlargement process, specifically into the technical decisions such as on the opening of new chapters, while retaining unanimity for the final decision.[8]

2 European Council, 'The Granada Declaration', 6 October 2023.
3 N. von Ondarza, 'Getting Ready', *Verfassungsblog*, 22 December 2022.
4 O. Costa and D. Schwarzer et al., *Sailing on High Seas: Reforming and Enlarging the EU for the 21st Century*, Report of the Franco-German Expert Group on Institutional Reform (19 September 2023).
5 European Council, *European Council Meeting (14 and 15 December 2023) – Conclusions*, EUCO 20/23 (15 December 2023).
6 Ibid., 4.
7 Belgian Council Presidency, *Future of Europe – Presidency Progress Report*, 10411/24 (10 June 2024).
8 N. von Ondarza, 'The State of Consensus in the EU. What Is the Way Forward in the Debate About Expanding Qualified Majority Decisions?', *SWP Comment* 16/2024 (19 April 2024).

From a very different direction, there is an ongoing discussion on transparency and democratic legitimacy in the Council. Under the ordinary legislative procedure, the Council is the co-legislator together with the European Parliament. Although the Lisbon Treaty stipulates that the negotiations in the Council on legislative files are to be made public, often only the final, formal proceedings are, whereas the crucial negotiations at a lower level, remain largely opaque. During the last couple of years, citizens participating in the Conference on the Future of Europe,[9] as well as the EU Ombudsman and the European Court of Justice in its 2023 De Capitani ruling,[10] have called for more transparency in the Council.

A push for adaptations to the Council also comes from a third direction, the growing focus on defence. In its Strategic Agenda for 2024–9, the European Council has designated defence and the defence industry as one of the four core priorities for the EU. Likewise, Commission President von der Leyen made defence a core pillar of her re-election bid, both as the European People's Party lead candidate for the June 2024 European elections and for getting a majority in the newly elected European Parliament. She has also designated a commissioner for defence and space, who has been given the tasks of developing a single market for defence and producing a European defence industrial strategy, amongst others.[11] The European Parliament is planning to turn its Sub-Committee on Defence into a full Defence Committee. However, the Council still has no formation for defence ministers, who only come together informally, usually twice a year, as part of the 'jumbo' Foreign Affairs Council, together with their foreign affairs counterparts. Together with the new high representative, there will be a need in the new institutional cycle to streamline and focus EU defence discussions in the Council.

Prospects: squaring the diplomatic circle

In terms of the prospects for reforms in these areas, the most important prerogative is political will. All these reforms have two things in common—they are all possible without treaty change, but most of them still require unanimity from the member states to be implemented. Below we will look at the issues in detail.

The first challenge relates to getting the EU institutions ready for enlargement whilst strengthening the Union's capacity to act. The most discussed element here is the extension of QMV in the Council using the passerelle clauses, both in the short to medium term for (some) EU foreign policy decisions, and in the longer term as part of a wider change to QMV under the next accession process in order to make the Council enlargement-ready.

The discussions between member states that have taken place in the past two years have highlighted two challenges. First, where unanimity is currently needed, member states are divided roughly into three groups: those calling explicitly for more QMV (such as the group mentioned above); many, in particular smaller member states, which are not opposed in principle to QMV, but fear that they could be overruled in areas of vital national interest; and a small minority, including the current Hungarian government, which is fundamentally opposed to QMV. The second issue to note is that without time pressure those in the second group are unlikely to embrace a change to QMV as, so far, the Council has regularly pushed decisions on using the passerelle clauses further into the future. To address this challenge, it might be necessary to attach the discussion on governance, including QMV, to the accession process, giving it a clearer timeline in order to create the momentum necessary for a wider discussion. Part of this discussion should then be about the mechanisms needed to protect vital national interests when QMV applies, such as a sovereignty safety net, which would allow member states to transfer certain questions to the European Council for negotiation by the heads of state and government.

9 Conference on the Future of Europe, *Report on the Final Outcome* (May 2022).
10 European Court of Justice, Case T-163/21, *De Capitani v Council* [25 January 2023], ECLI:EU:T:2023:15.
11 U. von der Leyen, *Mission Letter. Andrius Kubilius – Commissioner-Designate for Defence and Space* (17 September 2024).

The second major proposal to increase the Council's capacity to act and make it enlargement-ready is a small but relevant reform of the Council Presidency. Even if the Presidency currently comes around to each member state only once every 13.5 years—and potentially even less frequently in an enlarged EU—it remains an important mechanism through which member states can engage their administrations in EU affairs and take ownership of the work of the Council. However, the legislative cycle often takes longer than six months, leading to disjointed priorities.[12] With a change to the Council's rules of procedure (by simple majority) the current 'trio Presidency' could be turned into a 'quintet', with each quintet lasting for 2.5 years, that is, half of each legislative cycle. This could allow for long-term planning of the legislative agenda whilst retaining the principle of a rotating Presidency.

The third proposal in this area addresses the need for coordination in the reform and enlargement processes. The European Council and the General Affairs Council have now agreed that these should be conducted in parallel. Both will be long-term processes, with considerable political stamina and guidelines needed, especially with regard to questions that transcend the four baskets (EU values, policies, budget and governance). To achieve this, the Council should create a special body under its own auspices to bring together these reforms and the enlargement process. This could be modelled after the A50 Council which helped to foster unity in the EU during the Brexit process, including through close coordination with the Commission and the Parliament. This could be established at any time by the Council Presidency; the upcoming Polish Presidency in the first half of 2025, which wants to focus on driving the enlargement process forward, would be the perfect starting point.

The second major challenge is strengthening democracy in and the transparency of the Council. The Council, with its direct representation of the nationally elected governments, is already a core pillar of EU democracy. This should be improved upon by transforming the working methods of the Council into those of a second chamber whenever it acts in a legislative capacity together with the European Parliament. This should include enhancing the transparency of Council votes and negotiated amendments to increase its democratic accountability. The negotiations themselves should retain the necessary confidentiality. This should address the concerns raised by the Conference on the Future of Europe and the European Court of Justice in its De Capitani judgment, whilst improving public access to EU policymaking. This could be achieved either by a simple Council decision or by revising the Council's rules of procedure, and as the Council's role in EU legislation would be unchanged, there would be no need for a treaty change.

A third proposal to better connect citizens to the work of the EU and the Council is the use of citizens' assemblies. The Conference on the Future of Europe was a unique exercise in trans-European participatory democracy, but it was overshadowed by inter-institutional rivalries and complexities. As a follow-up, the Commission has established single-issue-focused citizens' panels to advise on specific questions, such as EU legislation with regard to the metaverse. In the future, the Presidencies of a quintet could each host one citizens' assembly on a priority of their choice as part of chairing the Council. This could be done by the Presidencies themselves, thus improving their visibility, and ensure citizens' involvement and—with expectations managed correctly—input into the EU's decision-making.

The third major challenge, given the geostrategic context, is for the Council to become a strategic driver for security and defence policy. The necessary next step should be the more direct involvement of national defence ministers. During the early days of the European Security and Defence Policy, as the focus was primarily on external crisis management, the EU made a conscious decision not to create a Council of Defence but to leave this policy area largely under the supervision of the foreign ministers in the Foreign Affairs Council. Given the geopolitical challenges facing the EU and the prioritisation of defence industrial cooperation, this is no longer

12 R. Coman and V. Sierens (eds.), *EU Council Presidencies in Times of Crisis* (Cham: Palgrave MacMillan, 2024).

appropriate. This is especially true now that the Commission has created the post of a commissioner for defence with a major focus on defence industrial cooperation. It is therefore high time for a Council formation for defence ministers, which would enable defence ministers to oversee this development and, along with their ministries, be involved much more regularly and directly in EU defence cooperation. Such a Defence Council could be created at any time by a decision of the European Council with a qualified majority.[13]

With the creation of a Defence Council, there will be a clear need to streamline EU external relations. In the previous institutional cycle, relations between the Commission president, the high representative and the president of the European Council were strained at best, and sometimes openly competitive. Add in a commissioner for defence and the rotating presidency of a new Defence Council, and the need for streamlining increases even further. This could partly be achieved by reducing the overstretch of the high representative, for instance, by shifting the leadership of the European Defence Agency to the new defence commissioner.

At the same time, the Council could act as a hub to link the EU's new initiatives in security and defence with those of its close European allies. These fall into two broad categories. On the one hand, they include important non-EU NATO allies such as the UK, Norway and Turkey. In particular, the UK, with its new Labour government, aims to negotiate an ambitious EU–UK Security Pact. Although the shape of this is as yet unclear, the EU should consider whether and on which occasions it should invite the UK and potentially other non-EU NATO allies to the regular consultations in the Council. On the other hand, with enlargement now firmly a geostrategic investment of the EU, but with full accession at best years, if not at least a decade, away, the EU should also invite candidate countries to take part in selected foreign affairs or defence ministerials. If those invited fully align with EU foreign policy, especially sanctions, this could be a powerful symbol and would be a concrete instrument with which to engage candidate countries before they become full members as part of the regular enlargement process.

Conclusion

The Council of the EU is core to EU policy- and law-making and, with its many layers, functions as the linchpin of the Brussels compromise machine. Given the challenges facing the Union geopolitically, economically and internally, it is in need of a calibrated update in three central areas: making its procedures enlargement-ready and increasing its capacity to act, strengthening democratic legitimacy by turning it into a true second chamber when law-making with the European Parliament, and becoming a hub for the EU's reinforced foreign, security and defence policy efforts.

The analysis has shown that in all three areas, processes are already underway to work on these issues, but that a reinforced push is required. Importantly, in all three areas all the proposed reforms are possible without treaty changes, although crucial ones—such as the extension of QMV with a sovereignty safety net to protect vital national interests—will require unanimity and therefore likely a larger package deal. Other proposals, such as the creation of a Defence Council or the expansion of transparency, could be adopted by qualified majority themselves, although it would be best to strive for consensus on such matters wherever possible. If followed through, these changes would contribute significantly to strengthening the EU's capacity to act, its democracy and its defence efforts.

[13] Art. 236 Treaty on the Functioning of the European Union.

	Programme 1	Programme 2	Programme 3
	Getting the Council enlargement-ready and increasing its capacity to act	**Strengthening the democratic actions of the EU via the Council**	**Turning the Council into a strategic driver for European security and defence**
Project 1	Use the passerelle clauses for a wide extension of QMV in the Council—albeit balanced with a ‘sovereignty safety net’ for sovereignty-sensitive policy areas.	Turn the Council into a second chamber for legislative votes.	Create a separate ‘Council for Defence’, whose work would be prepared by the Political and Security Committee, and align it with the new role of defence commissioner.
Project 2	Reform the Council Presidency to have a ‘quintet’ of five Presidencies for each half of the legislative cycle, with a pronounced joint agenda for major legislative files.	Ensure the full transparency of all votes and amendments when acting as a legislative second chamber, while maintaining the necessary room for informal negotiations.	Streamline EU external relations and rework the relationship between the high representative, the European External Action Service, the European Defence Agency, the Foreign Affairs Council, and the new Defence Affairs Council and defence commissioner.
Project 3	Steer the process of enlargement and reform as a core task of the next institutional cycle through the use of a special committee modelled on the A50 Council and Council Working Group.	Improve the link between the Council’s work and citizens by hosting a citizens’ assembly once during each Presidency on one of its core projects.	Use the Foreign Affairs Council and the new Defence Affairs Council as a hub for European security. To this, invite non-EU European partners (in particular the UK, Ukraine and Norway) to involve them in foreign, security and defence decisions, without voting rights.

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Reforming the Commission

by Richard Corbett

Summary

The Commission is the day-to-day executive of the EU. It has significant powers which warrant democratic accountability. From the beginning it was made accountable to the European Parliament (EP), which was given the ultimate right to dismiss it. More recently the EP was also given a key role in its appointment. These procedures are, however, sometimes unwieldly, and there is scope for making them more workable and more visible, as well as for introducing additional forms of accountability. Better accountability would be the counterpart to strengthening the Commission's capacity to act, which is currently hampered by a number of weaknesses.

This paper suggests several reforms, including adjustments to the majorities required in the EP to approve the Commission president and to dismiss the Commission, giving the right to dismiss the Commission also to the European Council, adjusting the size and/or internal structure of the Commission, giving greater scope to the Commission president as regards the choice of other commissioners and bringing the European External Action Service fully into the Commission.

Keywords Commission – Democracy – Accountability – Capacity

Introduction

The Commission matters. The bulk of the EU's civil servants (*fonctionnaires*) work under its authority. It has the right of initiative on new policies and new legislation. It can itself take key decisions by virtue of the treaties or through delegated legislation. It executes the budget. It represents the EU externally in its fields of competence (while the External Action Service (EEAS), headed by a Commission vice-president, represents the EU in foreign and security policy questions).

The college of Commissioners is a political executive, not a technocracy, as illustrated both by the fact that member states generally nominate prominent politicians to serve on it, and by the collective nature of its accountability to the European Parliament (EP, which can only dismiss it by a vote of no-confidence in the Commission as a whole).

The nature and mechanisms of Commission accountability have evolved considerably over time. So has the Commission's structure, as its field of responsibility and its size have both increased. Both need to evolve further if we want to improve the Commission's capacity to deliver and at the same time reassure the public that it is accountable and subject to democratic scrutiny and control.

The evolving state of play

The Commission has always been subject to scrutiny through parliamentary debates, reporting requirements and its obligation to respond to parliamentary questions. This scrutiny has been strengthened over time, through the introduction of the budgetary discharge procedure and question time, and through the Framework Agreements between the Commission and the EP, which set out agreed procedures on the flow of information to the Parliament, legislative planning, responses to EP requests, access to documents, scrutiny of international negotiations and so on.

But when it comes to the ultimate sanction, the right to dismiss the Commission, the EP's authority to act is subject to a high hurdle, requiring the adoption of a vote of censure by a two-thirds majority in the Parliament. This has never happened (the closest it has come was when the Santer Commission resigned ahead of a vote of censure that seemed likely to be adopted).

Parliament initially also had no role in the appointment of the Commission, which was appointed by national governments for a four-year term (and its president for a two-year term). Once the EP became directly elected, as of 1979, it pressed for involvement in the Commission's appointment. It unilaterally held a debate and a vote on the incoming Thorn Commission in 1981. The member states recognised and accepted this practice in their Stuttgart 'Solemn Declaration on European Union' in 1983, in which they also agreed to consult the EP Bureau on the choice of Commission presidents. In 1985 the incoming Delors Commission waited for the outcome of a confidence vote by the EP before taking the oath of office. This was an important symbolic gesture that recognised the significance of the EP's vote on the college, and implied that, had the vote been negative, they would not have gone ahead.

These practices were followed by changes to the treaties. In the 1992 Treaty of Maastricht, the member states changed the Commission's term of office to five years to coincide with that of the EP, provided for the EP to be consulted on the choice of president, and gave the EP the right to vote to approve or reject the Commission as a whole. Five years later, in the Treaty of Amsterdam, the consultative vote on the president of the Commission became a binding vote, and gave the president the right to choose the other commissioners jointly with the national governments. In the 2003 Treaty of Nice, the Commission president was given the power to appoint vice-presidents and to dismiss individual commissioners (for instance, in response to parliamentary criticisms). Finally, the Lisbon Treaty required the European Council to take into account the results of the elections to the Parliament when deciding who to propose to the EP as president of the Commission. The EP's vote on Commission president was described in the treaty as an 'election'—not merely a matter of giving a seal of approval to a decision taken elsewhere, but the key point of the process.

Despite these changes, there remains scope for improvement. The Commission is a long way from being accountable to the legislature in the way that most executives in Europe are, and when it is, this is not always very visible to the public.

It is also a weak executive which, in many circumstances, lacks the necessary capacity to deliver. There is no point holding the executive to account if it is unable to act. The growing size of the Commission has made it unwieldly, and the division of competences between it and the semi-separate EEAS is awkward.

Possible improvements and changes

The first set of three proposed improvements concerns the mechanisms by which the Commission is ultimately accountable.

1. The election of the Commission president currently requires the positive votes of more than half the entire membership of the Parliament—absences or abstentions therefore count against. There are inevitably some absences—even if just 2% of the Members of the European Parliament (MEPs) are sick or have travel delays, then that is 14 MEPs who are automatically counted as being against the candidate, potentially tipping the balance. It also effectively removes the right to abstain—an important political right—as abstentions have the same effect as voting against. The required majority should instead be a simple majority, as is the norm in most national contexts.

2. The required majority should also be changed when it comes to the dismissal of a Commission by the Parliament. The current two-thirds majority requirement is excessive. It could create a situation where some 60% of the Parliament votes for censure, but the Commission remains in office, creating political difficulties and perceptions of a lack of democracy. Here, a majority of members would be the appropriate threshold, still higher than a simple majority to ensure that the right is not used flippantly, but within the margin of feasibility and in conformity with normal democratic standards.

3. In a Union of citizens and states, there should also be a way for the European Council to dismiss the Commission. This should require a qualified majority rather than unanimity. The introduction of this right would be an important symbol, even if rarely used in practice.

A second set of improvements would make accountability more visible to citizens.

1. The practice whereby political parties announce their candidate for Commission president ahead of European elections, on the assumption that the candidate from the winning party (or the one able to build a majority coalition) should normally become president, should be continued. A widespread and well-understood practice at the national level in most European countries is that parties announce, ahead of legislative elections, who their preferred candidate is to be prime minister. That does not mean that the new prime minister is always one of the parties' candidates—sometimes there is a deadlock, and a compromise has to be found—but it is the starting point and usually one of them is chosen. It is what citizens are familiar with and increasingly expect at EU level too.

2. Visibility could also be increased by a simple symbolic ceremony: taking the oath of office on the steps of the Parliament.

3. Accountability is not just about appointments and dismissals. The ongoing answerability of the Commission to the Parliament needs to be more visible. One way to achieve this would be for the Commission to announce the main decisions taken at each of its weekly meetings to the Parliament instead of at a press conference, followed by half an hour of questions from MEPs. This would involve a short one-hour plenary sitting of the Parliament every Wednesday at the start of the afternoon. To avoid upsetting the balance between Brussels and Strasbourg, these 'micro-sessions' could replace the two-day 'mini-sessions' that are typically held four or five times a year in Brussels.

A third set of improvements would strengthen the Commission's capacity to act effectively.

1. It is increasingly odd that the EEAS is not part of the Commission, despite being headed by a high representative who is a Commission vice-president, and needing to work closely with Commission Directorate-Generals such as Trade, International Partnerships, and Defence Industry and Space. It is confusing for international partners and for the public. The EEAS could be brought fully into the Commission without losing some of its special characteristics (such as secondments from national foreign ministries).

2. With the successive enlargements of the EU, the Commission has been transformed from a compact executive into a mini-assembly. The Lisbon Treaty therefore envisaged reducing its size, but this has not been implemented. With the next enlargement, it should be. Failing that, the clear internal hierarchy that has evolved in recent Commissions should be further strengthened. In any case, member states should be obliged to offer the Commission president a choice of two candidate commissioners.

3. The president of the Commission should also be appointed president of the European Council, combining the two roles, as is possible under the existing treaties. The public does not understand the difference between the 'two EU presidents in Brussels' and third countries get confused about who they should

deal with. At G7 summits, others are irritated by the EU having two representatives (in addition to three of its member states being present, meaning five of the eight around the table are EU members). The Commission president's natural role in the European Council is to pitch ideas to, and find compromises among, the member states, just as the high representative/Commission vice-president already does when chairing the Foreign Affairs Council.

Conclusion

Some of these changes are easier to achieve than others. The first set (improving the accountability mechanisms) would require treaty changes, but the second set (improving the visibility of accountability) would be very simple to implement. If the EU's institutional system is to be effective and democratic as it grows to more than 30 member states, it is vital that the Commission both has the capacity to act effectively and is visibly accountable to the elected representatives.

	Programme 1	Programme 2	Programme 3
	Improving the mechanisms of accountability	**Improving the visibility of accountability**	**Improving the Commission's capacity to act**
Project 1	Change the threshold for the EP to elect the president of the Commission to a simple majority, not a majority of members.	Retain and promote the practice whereby political parties announce their candidate for Commission president ahead of European elections.	Fully integrate the EEAS, already headed by a Commission vice-president, into the Commission as a key part the EU's executive branch, even if some characteristics regarding the recruitment of its staff are maintained.
Project 2	Reduce the threshold for the EP to dismiss the Commission from a two-thirds majority to an absolute majority of MEPs.	Hold a formal inauguration ceremony for the incoming European Commission on the steps of the EP building (on the Agora Simone Veil), with the oath administered by the president of the Court of Justice of the European Union.	Make the Commission a more effective team. For this, it should be reduced in size, as provided for in the Lisbon Treaty (or alternatively, further strengthen the clear internal hierarchy that has evolved in recent Commissions), and member states should be obliged to offer the Commission president the choice of two candidate commissioners.
Project 3	Give the European Council the right, by a qualified majority, to dismiss the Commission.	Introduce a format whereby straight after its weekly meetings, the Commission, normally through the president, reports its key decisions to the EP, with questions taken from MEPs. For this purpose, the EP should replace its periodic mini-sessions in Brussels with weekly micro-sessions.	Appoint the president of the Commission as president of the European Council, combining the two roles and avoiding the misunderstandings that arise among the public and third countries about the current two presidents.

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Stronger European Political Parties

by Wouter Wolfs

Summary

European political parties are essential for democracy at the EU level. In the treaties it is stipulated that they contribute to forming the political awareness of and to expressing the will of citizens of the Union. However, the various rules that Europarties are confronted with at the European as well as the national level create significant barriers to their development and activities, and as such, prevent them from maximising their democratic potential. This paper offers nine different actions structured into three programmes that would give rise to stronger European political parties, greater engagement from EU citizens and a stronger EU dimension for the European elections.

Keywords European political parties – EU democracy – Citizen involvement – European elections

Introduction

The regulatory framework for European political parties is rather complex, as they are governed by a wide range of legislative and implementing acts, at both the EU level and the national level. The most important are Regulation no. 1141/2014 on the statute and funding of European political parties, and Council Decision 2018/994 amending the Act concerning the election of the members of the European Parliament by direct universal suffrage.[1] This electoral framework is too rigid in a number of aspects and hampers the organisational development of European political parties. In the three programmes outlined below, initiatives are put forward that would transform the Europarties into stronger extra-parliamentary party organisations, engage citizens more closely in their activities and decision-making, and give the parties a larger role in the European elections.

A stable regulatory environment

The first programme aims to create a stable regulatory environment that would allow the Europarties to develop into strong extra-parliamentary organisations and would contribute to the development of a level playing field among political forces.

Complete the ratification of the revised EU Electoral Law

The negotiations to revise the EU Electoral Law reached a stalemate during the previous legislative term of the European Parliament.[2] The European Parliament has made a number of proposals to improve the European dimension of the EU ballot, which could also strengthen the organisational aspects of European political parties. These include a common electoral campaign period across the entire EU, the obligation for all political parties and other entities participating in European elections to observe 'democratic procedures and transparency', and the creation of a Union-wide constituency (with a uniform electoral system), with the

[1] European Parliament and Council Regulation (EU, Euratom) no. 1141/2014 on the statute and funding of European political parties and European political foundations, OJ L317 (22 October 2014), 1; Council Decision 2018/994 amending the Act concerning the election of the members of the European Parliament by direct universal suffrage, annexed to Council Decision 76/787/ECSC, EEC, Euratom of 20 September 1976, OJ L178 (13 July 2018), 1.

[2] Council of the European Union, 'Proposal for a Council Regulation on the election of the members of the European Parliament by direct universal suffrage, repealing Council Decision 76/787/ECSC, EEC, Euratom and the Act concerning the election of the members of the European Parliament by direct universal suffrage annexed to that Decision' (20 May 2022).

option for associations of citizens to submit candidates for this new constituency.[3] The adoption of these changes would bring the EU Electoral Law into the twenty-first century and would substantially expand the role of the Europarties during and beyond the European elections (see also Programme 3, Project 1).

Simplify the registration procedure for new European political parties

European political parties (and European political foundations) can obtain a specific legal status under EU law. Yet, the conditions that currently have to be met to obtain this status are rather stringent: a Europarty (1) needs to have its registered seat in one of the member states, (2) must participate—or intend to participate—in the European elections, (3) must not pursue a profit, (4) must observe the founding values of the EU, and (5) must be represented by its member parties in the European Parliament, the national parliaments or the regional parliaments in at least a quarter of the member states (or have received at least 3% of the votes cast in a quarter of the member states during the most recent European elections).[4] This last condition is especially demanding: in practice, this means that Europarties—through their member parties—need to have obtained seats in national or regional elections (or at least 3% of the vote in the European elections) merely to obtain legal recognition. The condition also solidifies Europarties as de facto umbrella organisations of national member parties and is oblivious to the possibility of organisational alternatives. An important reason for these demanding conditions is that acquiring legal status provides the parties with almost immediate access to EU subsidies. The only additional condition for public funding is the requirement to have one affiliated Member of the European Parliament, which is a criterion that all registered Europarties easily fulfil. While such a high threshold could be defended for access to European subsidies, lower conditions to obtain official status would provide new European movements with the legitimacy of legal recognition. In other words, minimal thresholds for the official establishment of new parties would foster openness and a level playing field in the European party system, and consequently strengthen participation and political pluralism in the EU.[5]

Reform of the party finance rules

The rules on the legal status and funding of European political parties are currently too rigid and present challenges to the parties' activities and to the ways in which they are organised. A higher level of funding—and a more equal distribution of (some of) the subsidies—would provide more organisational stability: if some of the public funding was not tied to the obligation to match the subsidies with a party's own resources, this would create a basis for organisational stability. In addition, more flexibility would be welcome on the expenditure side. Currently Europarties are prohibited from directly or indirectly supporting national political parties or candidates. While a ban on direct financial support can be defended (because this entails the risk of Europarties becoming nothing more than vehicles for the distribution of EU funding to national parties), there should be more flexibility with regard to providing indirect support to national member parties, as this would allow for a stronger collaboration between the two levels.

[3] European Parliament, Legislative resolution on the proposal for a Council Regulation on the election of the members of the European Parliament by direct universal suffrage, repealing Council Decision (76/787/ECSC, EEC, Euratom) and the Act concerning the election of the members of the European Parliament by direct universal suffrage annexed to that Decision (2020/2220(INL)—2022/0902(APP)), OJ C465 (3 May 2022), 171.

[4] Art. 3 of Regulation 1141/2014. For the European political foundations, slightly different conditions apply.

[5] For a more detailed discussion, see L. Norman and W. Wolfs, 'Is the Governance of Europe's Transnational Party System Contributing to EU Democracy?', *Journal of Common Market Studies* 60/2 (2022).

Bridging the gap with the people of Europe

European political parties can play a more active role in connecting European citizens (from both within and outside the EU) to the entire EU political system. The second programme sets out three proposals to strengthen the linkage function that Europarties fulfil in European democracy.

Democratic bridge-builders

European democracy is party democracy. This is also acknowledged in the EU treaties, in which it is stipulated that European political parties 'contribute to forming European political awareness and to expressing the will of citizens of the Union'.[6] This aspiration has also been the main justification for providing Europarties with direct financial support from the EU budget.[7] Yet, apart from this declaratory provision in the treaties, there have been hardly any attempts to further develop and operationalise this democratic role that the Europarties are expected to play. This stands in stark contrast with some national practices, where the constitutional position and democratic function of political parties is the object of legislation and extensive discussion among legal and political theorists. Consequently, a more refined and detailed argumentation in the rules of what the core democratic functions of Europarties are—and how these differ from the role and purpose of European Parliament groups and national parties—could provide a clearer definition of them as the main democratic linkage organisations at EU level.

Democracy-building abroad

European political parties are not only beneficial for democracy within the EU but also outside the Union, particularly in the candidate countries. They are an important tool to link the political elites in those countries with the political leaders and establishment in the EU, and as such fulfil an important democracy-building role.[8] The incorporation of political parties from the candidate countries into the organisation and functioning of the Europarties contributes to capacity-building and eases the possible later transition of the political class of the new member states into the political life of the Union. Currently, European political parties are not allowed to accept membership contributions from parties outside the EU, relegating the latter to the status of second-class membership. It is argued that the opposite approach should be taken, providing Europarties with more opportunities and instruments with which to engage non-EU parties in their day-to-day functioning (by collecting membership fees, for example). This is especially important for parties in the EU's neighbouring countries.

Democracy-building at home

European political parties have an important linkage function between citizens and the EU political system. From this perspective, more could be done to involve citizens—as individual members—in the internal decision-making of the Europarties, for example, in the development of the manifesto or the selection of the party's lead candidate for Commission president or Europarty leadership.[9] The regulatory framework could provide incentives to the Europarties for establishing stronger citizen involvement. One way would be to distribute (some of) the public funding among the parties based on the number of individual members they have—the party finance system in the Netherlands could act as an interesting model in this respect. Another way would be to introduce sufficient *citizen* support—in the form of signatures—as an alternative to *parliamentary* support in a quarter of EU member states as a condition to gain official status as a European political party under EU law. Inspiration could be drawn in this respect from the conditions that have to be met to register a European Citizens' Initiative.

6 Art. 10 Treaty on European Union.
7 W. Wolfs, *European Political Parties and Party Finance Reform: Funding Democracy?* (London: Palgrave Macmillan, 2022).
8 See, for example, K. M. Johansson and T. Raunio, 'Political Parties in the European Union', *Oxford Research Encyclopedia of Politics* (2019).
9 I. Hertner, 'United in Diversity? Europarties and Their Individual Members' Rights', *Journal of European Integration* 41/4 (2019).

Raising the electoral stakes

Free and fair elections are one of the core features of a democracy, with political parties acting as the main 'linkage' between the citizens and the political system. Parties present their manifestos to the voters and compete for the power of public office and a mandate to turn their political positions into policy actions. However, the way in which the European elections are currently organised does not allow the Europarties to reach their full potential. This third programme aims to raise the electoral stakes by giving them the means to operate as genuine campaign organisations.

Simplicity

A significant impediment to European political parties being able to conduct truly transnational EU-wide campaigns is the plethora of different electoral rules in the member states. While the EU Electoral Law provides a general framework for the European elections, the elections are predominantly regulated at national level. Consequently, Europarties are confronted with 27 different regulatory frameworks with substantial differences regarding, for example, fixed electoral periods, ceilings for campaign expenditure, bans on certain campaign tools (such as billboards, campaign rallies, television or radio commercials), and donations or other sources of campaign income.[10] Consequently, more simplicity in the electoral regulatory environment is required. While a total transfer of the management of the European elections to the EU level seems unfeasible (at least in the short term), a harmonisation of national electoral and campaign finance rules would provide more simplicity, and facilitate the cross-border campaign efforts of the European political parties.

Visibility

Currently, European political parties suffer from a lack of visibility during the European elections: since they are not—in a formal sense—standing for election, their names are often absent from the debates and they are barely recognised by voters. Therefore, measures should be introduced to raise Europarties' visibility in the run-up to the European elections. This could be done by displaying their names and logos on the electoral ballots (next to those of their national member parties), and on the campaign materials of the national parties. This also makes the affiliation between national and European parties—and their corresponding groups in the European Parliament—clearer, and as such helps to strengthen the European dimension of the electoral debates and communication. It also forces the national parties to defend their respective Europarty's *Spitzenkandidat* and common manifesto, and to take responsibility for their collaboration with other national parties and for policy initiatives of their European Parliament group.

Capacity

A successful electoral campaign requires substantial financial resources, especially if it concerns an EU-wide campaign over 27 different countries. The total campaign expenditure during the 2019 elections for all the European political parties combined was just over €12 million, and it is not expected that this number will be substantially higher for the 2024 elections. This is far less than the national parties spend in several member states, and not sufficient for a campaign on a continental scale. An important reason for this sum being relatively small is that campaign expenses are taken from the operational grants to the Europarties. Consequently, spending too much on electoral expenses could jeopardise the day-to-day functioning of the party organisation. Therefore, in addition to their regular operational grant, in election years a separate campaign grant should be provided to European political parties for spending solely on electoral expenses. This grant should not be tied to a specific co-financing obligation (as is the case for the operational grant). This would allow the Europarties to develop extensive campaigns without threatening the rest of their activities.

10 See, for example, Authority for European Political Parties and European Political Foundations, *Provisions of National Law Affecting European Political Parties and European Political Foundations* (Brussels, 2023).

Conclusion

While the European political parties are entrusted with an important democratic mission in the EU treaties, the current regulatory environment substantially curtails their ability to live up to their full democratic potential. This paper has highlighted nine specific proposals grouped into three programmes (see the table below) that could help the Europarties to consolidate their position as extra-parliamentary party organisations, strengthen their links with European citizens and play a more prominent role in the run-up to European elections.

	Programme 1	Programme 2	Programme 3
	Creating a stable regulatory environment with European political parties as strong extra-parliamentary organisations	**Bridging the gap between the people of Europe and European political parties as the representatives of European citizens**	**Raising the electoral stakes by allowing European political parties to act as campaign organisations**
Project 1	Complete the ratification of the latest proposal amending the EU Electoral Law.	Define and empower European political parties as the core democratic linkage organisations in the EU's democracy.	Harmonise national electoral and campaign finance laws (e.g. common closing of the polls, electoral periods, spending thresholds).
Project 2	Simplify administrative procedures for the registration of European political parties to enable stronger pluralism, contestation and participation.	Allow European political parties to engage non-EU national parties in their internal organisation.	Introduce measures to increase the visibility of European political parties in electoral campaigns (compulsory display of Europarty names and logos on electoral ballots and national party campaign material).
Project 3	Reform party financing and spending rules (more funding, and more leeway to finance weaker members and run campaigns outside of European Parliament elections, on non-EU issues and at all levels).	Provide a (financial) incentive to Europarties to enlarge and engage their individual membership bases.	Introduce a separate campaign grant to provide European political parties with the resources required to conduct electoral campaigns.

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Resilient National Institutions, the EU Treaties and Good Governance

by Adriaan Schout

Summary

One explanation for the failing upward convergence among EU member states is that the EU lacks a shared administrative model. Because of this, member states have converged in some policy areas while continuing to struggle in others. Creating resilient national institutions cannot be achieved through top-down legislation; it also requires bottom-up (subsidiarity-based) involvement. Hence, in line with the EU's motto, 'Unity in diversity', upward convergence requires accepting differences as the starting point for initiating processes that stimulate national ownership of common values and objectives. Successful EU policy areas highlight the importance of cooperation in establishing good governance values and convergence. The treaty should therefore prominently acknowledge 'unity in diversity', while the European administrative procedures law should emphasise good governance principles as the basis for continued cooperation. Member states may not become identical, or even move in the same direction, but what matters is that our national institutions and actions are trusted. Moving towards a focus on bottom-up convergence processes will require a new role for the Commission.

Keywords EU values – Good governance – Limited treaty change – Administrative procedures law

Introduction

A strong EU demands strong member states. Weak legal, democratic and economic institutions at the national level result in lower growth for the EU as a whole, dysfunction in the internal market and, worst of all, the erosion of trust. Resilient national institutions are essential to enable the EU to address the changes in our economic and geopolitical environment. The struggles with the EU's fundamental values (as laid out in Article 2 of the Treaty on European Union) are the most visible in this regard, as we have seen countries backsliding, along with the criteria for fiscal stability and economic convergence, as public debt has remained, on average, far above the maximum of 60% of GDP set by the EU. The lack of ownership on the part of member states regarding the EU's common objectives and the related difficulties in enforcement are also evident in other areas, such as nature preservation. The EU has attempted to stimulate upward convergence through various additional policies, budgetary incentives and informal benchmarking, but with little effect. A new approach is required even though the EU seems to have run out of ideas.

It is a tall order to expect a clear diagnosis and path forward to address the persistent problems in delivering upward convergence. This contribution begins with a simple question: why do some EU policy areas that initially suffered from severe crises now stand among the global leaders in terms of competitiveness and standard-setting? It is time for a profound examination of the causes of our successes and failures. As argued below, we need to reconsider the relationship between the member states and the Union as defined in the treaties. Two suggestions are especially important. First, we should include respect for differences between the member states in the treaties. Second, we should specify and elaborate in the treaties what is currently listed in Article 41 of the EU Charter of Fundamental Rights regarding good administration being a fundamental right. Article 41 limits the applicability of good administration to the institutions and bodies of the EU, but this good governance principle could also be extended to the member states. In this way, both the EU and the member states would benefit from a cohesive body of law on administrative procedures to which they are all bound.[1]

[1] For a discussion, see D.-U. Galetta et al., *The General Principles of EU Administrative Procedural Law*, European Parliament, Directorate-General for Internal Policies, PE 519.224 (Luxembourg).

Politicians and officials often prefer to discuss policies (the 'what') rather than governance (the 'how') and may lean towards centralised EU solutions over subsidiarity-based options. In contrast, private-sector management typically requires a thorough examination of structures and a preference for decentralisation when strategies fail.

Centralisation, self-government and ownership

The first step in this analysis is to question whether it is realistic to impose high expectations. The desire in the EU to agree on outcomes, for example, net-zero emissions by 2050 or earlier, tends to overstate what is known about these outcomes, while leaving little room for the unavoidable changes that may arise in technology, geopolitical trends or democratic preferences in the meantime. Without delving into specifics, EU objectives tend to be very ambitious, leaving scant accommodation for the significant national differences that inevitably exist. A clear example is the criterion imposed on eurozone members of having a maximum state debt of 60% of GDP; this threshold may be high for a country with weak institutions but low for a country that retains the trust of capital markets even when it has state debt of 90% of GDP. Other ambitious and problematic examples include the objectives of the complex and uncertain Green Deal targets or ensuring respect for the EU's fundamental values.

These EU ambitions are far from being matched by the institutional capabilities necessary at the national level to manage the required reforms, or those at the EU level needed to enforce the agreements. Moreover, member states differ markedly in their preferences and cultures, as highlighted by national debates on issues such as abortion, gay rights, support for nuclear energy and commitment to nature preservation. The starting points and political dynamics vary from one member state to another. Nevertheless, the EU has abandoned its earlier successful approach of setting minimum standards (such as mutual recognition) and has gradually replaced it with that of creating maximum harmonisation.[2] With higher and more granular requirements, EU legislation has become overly complex and fragmented, as discussed in the recent Draghi Report.[3]

Full harmonisation among the EU states has become increasingly difficult with the widening and deepening of the agenda—member state ownership of EU policies and ambitions can no longer be assumed and the limitations of top-down legal enforcement have become clear. The recent elections in the Netherlands in 2023, along with the European elections in 2024 and similar democratic trends in France and Germany, among others, have highlighted the political apprehension surrounding what is perceived as EU legislation that is imposed from above and hard to change. With its ambitious centralised goals and limited administrative capacities, the EU risks overestimating the degree to which societies can be designed at will.

This leads to two inferences. The first is that adaptation processes that begin from actual situations in member states are more important than prescribing static end results. The second is that fostering ownership of EU policies and objectives is crucial, which means that differences between countries and their national dynamics, cultural specificities and values must be respected as the starting points for change. This is central to the relationship between the member states and the federal level, and raises questions about the suitability of the current treaties and whether the EU is effectively working towards a common good governance system (comparable to the Administrative Procedures Act in the US).

2 S. Weatherill, 'The Several Internal Markets', *Yearbook of European Law* 36 (2017).

3 M. Draghi, *The Future of European Competitiveness*, European Commission (Brussels, 2024).

Reform one: clarify the ‘ever closer union’ clause in the Treaty on European Union

A federal constitution or, in the case of the EU, a constitutional treaty defines the relationship between the central and the state levels and the essential values upon which a federation is built. The constitutions of federal systems differ due to their specific historical contexts.[4] The original American constitution was concise, with a preamble of 52 words and a body of 7 articles that defined the original distribution of power while emphasising the protection of the self-government of states (as famously discussed by Tocqueville).[5] In contrast, the EU treaty is much longer and reflects the original German constitution. By defining the fundamental rights that apply to all citizens, the German constitution reached beyond the *Länder* (states) and addressed the citizens with the aim of forming the German state. Following the German tradition, the tone of the EU treaty similarly embodies the concept of an ever closer union between the member states (deeper integration). However, ‘ever closer union’ can also be understood in terms of being a well-organised horizontal construct, as in the American form of self-government combined with a commitment to manage interdependence. Without clarity regarding the nature of the treaties, the notion of ever closer union has obscured the essential questions related to national space, minimum national obligations and how to manage interdependence. The European setup has gradually limited the space available and tolerance of diversity. Yet, in practice, self-determination arises by default as member states struggle to take ownership of or to fulfil EU agreements. Although regarded as a founding principle, the EU treaties offer little guidance regarding the meaning of subsidiarity.[6]

As the EU widens and deepens, the growing number of common ambitions and the regulatory framework are clashing increasingly with the insufficient quality of the national institutions and the lack of genuine support for European goals. Recognising the importance of diversity in preferences and capabilities calls for the expansion of self-government. Self-government does not, however, imply independence; rather, it represents the first step towards managing cooperation.

Reform two: cooperation and the strengthening of weak ties

There is a range of European policy sectors that work well and in which all member states operate as partners. For example, airlines service their highly complex planes in more or less all member states. This underlines that independent, technically advanced and well-monitored national aviation agencies can operate with comparable standards and recognised professional values. The same applies for, among others, the entire food industry. Other sectors, however, continue to suffer from serious gaps in the convergence of national institutions. This allows for a comparative perspective and the opportunity to draw out the lessons learned. Although officials and politicians have a tendency to dislike comparisons, arguing that ‘my field of work is different and more difficult’, in fact, many areas face comparable challenges. The differences between successful and unsuccessful policy areas in terms of establishing convergence can be linked to the quality of the EU’s system of multilevel governance.

The economic sectors that now operate at the frontiers of global competitiveness did not achieve their positions easily. They had to adapt to global challenges, converge on common standards, redefine public and private institutions to foster innovation, implement and enforce legislation on issues ranging from environmental to competition rules, and overcome crises. Highly advanced sectors, such as medicine, the silicon chip industry and the EU’s complex food sector have all grappled with profound crises. Similarly, the two widely divergent

[4] T. Kleinlein, ‘Federalisms, Rights, and Autonomies: The United States, Germany, and the EU’, *International Journal of Constitutional Law* 15/4 (2017).
[5] Evidently, the legal structures of both federations have been elaborated through laws that sit alongside the constitution (e.g. the Bill of Rights in the US).
[6] A. Schout, *EU Subsidiarity as an Antidote to Centralisation and Inefficiency*, Martens Centre (Brussels, 2022).

areas of national statistics and inspections of slaughterhouses were so poorly organised that they triggered major EU-wide crises. Poor EU statistics led to the economic crisis at the end of the 2000s, when Greece had to admit that its data on public deficits were falsified, while the inadequate quality of slaughterhouses contributed to the devastating 'mad cow' disease crisis in the 1980s and 1990s. The current high standards in these areas should not overshadow the profound crises that each had to overcome. In addition to mad cow disease, the fragmented European food industry and its poor inspection regime continued to struggle for a while, with issues such as high levels of dioxin being found in chickens. Now, thanks to a subsidiarity-based European food safety system, agricultural exports benefit from highly regarded quality standards, irrespective of the member state that produces and inspects the food. Similarly, internal market access for medicines previously suffered from deep fragmentation, with national governments protecting their own producers and imposing strict constraints on medicines from other member states, while the Commission was limited in its ability to act for legal and political reasons. The introduction of a network-based medicines agency resulted in a modernised European medicines market. Importantly, each of these areas was forced to turn a corner in terms of integration due to these adverse events and crises.

One of the previous problems with integration in these areas was related to enforcement, which was frustrated by politicisation and the lack of an agreed-upon European enforcement model. Improvement in European enforcement played a key role in binding the member states together. The successes in these sectors resulted to a large extent from the establishment of team-based monitoring systems. Networks of independent national monitoring agencies were created, centred around EU agencies. They developed common rulebooks and agreed on standards for inspections, transparency, the division of labour and teamwork. Furthermore, the Commission does not conduct inspections on its own; monitoring also relies on teams of national inspectors who inspect each other and write reports that are, with some delay, published on the network's website. Team-based working has contributed to common standards and learning, while the expectation of transparency has enforced the independence of the inspectors.

These mechanisms have enabled highly different countries to agree on common standards and foster active cooperation at various levels of government. Such cooperation not only results in standardised procedures but also ensures that inspectors cultivate shared professional values of independence and transparency. Systems may differ, but working methods and professional values converge. This indicates that subsidiarity-based agency networks make a difference.

These mutual inspections are linked to a combination of first- and second-order monitoring. First-order control is ensured because all national agencies inspect their own national systems, while team-based mutual inspections, alongside those of the Commission, supervise the national inspectorates (second-order control). Thus bottom-up convergence in terms of systems and values is indeed possible, despite the varying starting points of the member states. Top-down enforcement would be unlikely to achieve this level of collective resilience among the national institutions that deal with permanent innovations, changes in consumer preferences and shifts in geopolitical relations.

One explanation for the emergence of convergence and collective resilience is that decentralised networks pressure the actors involved at all levels to experiment, write guidebooks, participate in inspections and learn to work with shared professional values. In other words, a multitude of experts at different levels of government must continuously demonstrate their quality and trustworthiness to broad groups of peers. This concept is known as 'the strength of weak ties'. The strength is not derived from one committee or another, but rather from the creation of many bilateral and multilateral links that connect the member states within EU governance systems. In these networks, officials are compelled to prove themselves as valuable colleagues with shared professional values and to fight off national politicisation.[7] Hence, the significance of subsidiarity lies not only in keeping tasks close to national welfare functions but also in facilitating trust-building through multilayered ties.

The successful areas, therefore, can help to clarify what good governance involves: subsidiarity-based agency networks, the separation and decentralisation of enforcement tasks, and transparent reporting. Moreover, we can see that in such areas the European Commission plays a different role, functioning more as a manager than as a standalone policymaker and supervisor.[8]

Missed networking opportunities

Many EU networks, however, offer little more than opportunities for information exchange and have hardly any institutionalised role. Systems for first- and second-order monitoring do not exist in many policy areas. For instance, national public investment systems are important for ensuring national competitiveness and effectively utilising EU investment funds. Nevertheless, despite the billions invested from EU budgets, there is no system for mutually assessing these investment systems. Moreover, the *ex post* auditing of EU funds presents a significant missed opportunity for networking. The European Court of Auditors does not operate as a networked organisation and, therefore, contributes little to building a reliable and transparent European auditing culture.[9] In economic governance, the role of the Directorate-General for Economic and Financial Affairs in monitoring national competitiveness and economic reforms is largely disconnected from the (under-used and under-developed) networks of national fiscal and productivity boards. Another example is the Commission's impact-assessment system, which does not engage with national assessment systems in either the writing or the quality control of Commission assessments. This contributes little to activating national impact systems, solidifying the value of independent impact assessments across the EU, or establishing common methodologies for assessing the administrative burdens of national and European policies.

There are many areas, both visible and less so, where EU networks are under-used. As a result, common values of good governance and best practices will not emerge. Setting up effective links with and between member states demands effort. There is typically considerable distrust, both among member states and in the Commission, regarding the will and abilities of member states, For example, a senior Commission official referred to the member states as 'a basket of rotten apples'.[10] Moreover, both member states and the Commission are reluctant to accept agency structures that are distant from governments. Additionally, striking bilateral political deals with the Commission often appears more attractive to national politicians than building transparent inspection networks. Finally, the importance of cooperation is easily underestimated. As an example, when a police officer from an institutionally strong member state was asked whether he would join a network meeting, he declined on the basis that everything was working well in his country.[11] This response dangerously misses the point about the strength of weak ties.

7 In his famous book *Making Democracy Work*, Robert Putnam presents trust as a 'moral resource' that increases when it is used. The more people have to cooperate, the more they—and their colleagues—are forced to be reliable. Trust, he notes, is a public good that, like all public goods, tends to be undervalued and under-used. R. Putnam, *Making Democracy Work: Civil Traditions in Modern Italy* (Princeton: Princeton University Press, 1993).

8 Schout, *EU Subsidiarity as an Antidote to Centralisation and Inefficiency*.

9 A. Schout, *Cohesion Policy: A Management Audit*, Clingendael Research Paper (The Hague, 2024).

10 Schout, *EU Subsidiarity as an Antidote to Centralisation and Inefficiency*, 8.

11 A. Schout and M. Luining, *Rule of Law Policy: Ambitions Without Strong Networks*, Clingendael Research Paper (The Hague, 2018).

Step three: formalising good governance principles

Accepting considerable margins for self-government is a starting point for managing interdependence. To facilitate multilevel cooperation, it would be beneficial to establish an agreed framework of good governance in European administrative law. Related discussions were once on the EU agenda but have gradually faded from view. After the implosion of the Santer Commission, the EU began to seriously debate the issue of good governance. The agenda included, among other topics, fact-based integrated impact assessments, EU agencies, transparency and networks. The 2001 White Paper on European governance[12] had a major impact, particularly on the use of integrated impact assessments and on the transparency of EU documents. However, discussions on EU agencies proved to be too sensitive, resulting in a weak *Joint Statement on a Common Approach for Agencies* in 2012.[13] The ambitions for good governance, depoliticisation, and the use of agencies and networks were overshadowed by political ambitions from the Juncker Commission onwards. The 'how' of good governance gained a reputation for technocracy, shifting the focus to the 'what' of (ambitious) policies. As it stands, the EU has not yet succeeded in unifying the heterogeneity of national approaches to administrative law and administrative values. Paraphrasing Monnet, nothing lasts without well-defined multilevel institutions.

Conclusion

Many changes have been attempted to make national institutions more resilient, but upward convergence has not materialised in traditionally weak areas. The first step proposed in this contribution is to acknowledge that member states are different and that acknowledging these differences is essential to enabling member states to take ownership, to creating tailor-made policies and to promoting mutual learning. Self-government, however, does not equate to independence. The second step is to establish common administrative values and procedures through intensified cooperation (harnessing the strength of weak ties). Currently, EU policy areas are governed in highly ideocratic ways. These differences in part stem from the lack of an administrative model and a lack of clarity in the treaties and administrative law regarding the relations between the EU and the national level. The EU needs to renew the process to establish shared governance values. After the fall of the Santer Commission, there was broad agreement that new governance standards and methods needed to be introduced. The next Commission should revisit the good governance agenda, and this time ensure buy-in from the member states. Further enlargement will place additional pressure on the EU's polity to define national leeway as well as good governance standards. The EU's administrative models need to be ready and implemented by then.

Moreover, the European Commission should critically examine the areas in which networking can be strengthened. Instilling good governance values is not just a matter of high-level political debates about administrative law. It is also about starting pragmatically at the grass-roots level of day-to-day policies. This will require that the Commission takes on a managerial approach rather than its traditional hierarchical and legal roles.

Strengthening the Union's governance fabric and social capital will not solve all problems related to the lack of convergence, nor will it prevent leaders such as Viktor Orbán from mounting challenges. Yet, it will place the EU as a whole on a more engaged footing. The time is ripe for reconsidering the treaties and for establishing nascent European administrative procedures accordingly.

12 European Commission, *European Governance: A White Paper*, White Paper, COM (2001) 428 final (12 October 2001).

13 Council of the European Union, *Joint Statement of the European Parliament, the Council of the EU and the European Commission on Decentralised Agencies* (18 June 2012).

	Programme 1	Programme 2	Programme 3
	Reconsidering good governance	**Improving monitoring and enforcement**	**Addressing good governance in the member states**
Project 1	Change the spirit of the treaties from maximalist integration to self-government. 'Ever closer union' should be complemented by 'unity in diversity'. This would help all parties to accept that ownership of EU ambitions demands respect for differences and that mutual recognition should often suffice.	Specify the principles of first- and second-order control by learning lessons from policy areas that are both effectively and not effectively monitored and enforced. The former include food safety and European statistics, while the latter includes economic governance.	Use comparable impact-assessment systems to study to what extent and how EU good governance topics have worked their way into the member states. Have innovations in governance at EU level seeped into new procedures and values at the member state level? To what extent has the Commission's impact-assessment system been copied in the member states?
Project 2	Revisit the White Paper on European governance from 2001. Work closely with national authorities towards a Good Governance Mark II project to ensure buy-in from the member states.	Set up teams for examining the effectiveness of monitoring and enforcement systems to ensure mutual learning and building of common values throughout the EU. Moreover, entrust independent and national experts with formulating the appropriate roles and designs for agencies. The Nordic model is a logical point of reference.	Evaluate the choice of instrument in the 'better regulation guidelines'. It was originally intended that instruments would be kept as light as possible. To what extent have EU and national policies respected this preference? (See also the Draghi Report on over-regulation and fragmentation.)
Project 3	Adapt the treaties and administrative legislation. This should be supervised by the president of the Commission in coordination with the European Council. A first step for the president should be to consider why the previous debate on good governance stalled.	Acknowledge that the new ways of working will demand new—more managerial—functions for the European Commission, which has previously been reluctant to work with EU agencies and national authorities.	Adapt the administrative procedures law by specifying the standards of good governance.

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Stronger Subsidiarity for a More Effective, Accountable and Resilient EU

by Federico Ottavio Reho

Summary

This paper argues that, as the EU is set to acquire new resources and possibly step up its action in several important fields, from industrial policy to defence, stronger protection of subsidiarity is necessary to ensure that it does so without encroaching upon the prerogatives of the lower levels and while remaining as close as possible to the citizens. The paper outlines some of the limits of the currently existing safeguards of subsidiarity, including the principle's failure to become justiciable, the consequences of the EU's 'over-constitutionalisation', and the difficulties with the 'yellow' and 'orange card' procedures. It then proposes a number of possible actions to strengthen subsidiarity on three fronts: its legal definition and justiciability, its institutional protection and its political protection. The conclusion underlines that the ultimate safeguards of subsidiarity are a culture and an ethos that value bottom-up solutions, decentralisation, polycentricity, competition and less regulation.

Keywords Subsidiarity – Simplification – Accountability

Introduction

Respect for subsidiarity is a key precondition for the long-term political sustainability of a heterogeneous federal union such as the EU. In such a polity, legitimacy always flows upwards from the member states, regions and peoples, who share sovereignty in and rule together through common institutions, but have no vocation to ever merge into a single *demos* and state. At a deeper level, subsidiarity defines a specific type of federal political order that strives to preserve the diversity, spontaneity and freedom of all human communities as intrinsically worthy, and in which the higher levels of government exist to assist the lower ones and enhance their ability for self-determination.

The more powers and competences that the EU acquires, therefore, the more important the strong protection of subsidiarity becomes to ensure that they are exercised without encroaching upon the prerogatives of the lower levels and that they remain as close as possible to the citizens. In other words, empowering the EU and strengthening subsidiarity are two sides of the same coin, and have historically progressed together. Thus, it is only appropriate to consider introducing more robust safeguards of subsidiarity in parallel with the ongoing discussions on a stronger role for the EU in several important fields, from industrial policy to defence.

Existing safeguards of subsidiarity and their limits

The key pillars of subsidiarity protection under the current treaties are Article 5 and Protocols 1 and 2 of the Treaty on European Union (TEU). Article 5 defines subsidiarity as meaning that EU action is justified only if and insofar as its objectives cannot be sufficiently achieved by the member states (that is, 'EU necessity'), but can rather, by 'reason of the scale or effects', be better achieved at Union level ('EU added value'). Protocol 1 requires national parliaments to be adequately informed about EU initiatives and legislative proposals and allows them to send reasoned opinions to EU institutions on the conformity of a particular legislative proposal with the principle of subsidiarity. Protocol 2 deals with the role of national parliaments in the enforcement and application of the principle of subsidiarity and proportionality. In particular, it lays out the 'yellow' and 'orange card' procedures, whereby national parliaments, by sending their reasoned opinions within a certain time frame and in sufficient number, can oblige the Commission to review a proposal deemed at odds with subsidiarity and impose conditions and obstacles to its development should the Commission still wish to progress with it. Moreover, since the entry into force of the Lisbon Treaty, the same protocol also grants the European Committee of the Regions (CoR) the right to bring an action before the European Court of Justice (ECJ) on the grounds of the infringement of subsidiarity.

Though helpful as broad legal–political principles, these provisions have largely failed to protect the functions of member states and regions or to mitigate the longstanding problem of 'competence creep', that is, the tendency to adopt EU legislation in areas in which the EU has not been conferred a specific legislative competence.[1] There are multiple and complex reasons for this, one being that although it has been in force since 1992, the subsidiarity principle has never acquired any justiciable content. Its vagueness means that the principle has never emerged as a standard for adjudicating concrete jurisdictional disputes. Another, much neglected, reason is the 'over-constitutionalisation' of the EU: that is, the fact that, the treaties having been turned into a de facto constitution by the case law of the ECJ, European constitutional law is full of provisions that, in any regular polity, would be governed by what is known as ordinary law. For example, the constitutionalised goal of establishing a common market provides a legal basis that could be used to generally undermine the competences of the member states, as every national norm could be construed as an impediment.[2]

The right of complaint granted to national parliaments under the Treaty of Lisbon cannot compensate for this, as it suffers from limitations of its own, ranging from the existing discrepancy of powers and resources among the national parliaments to the relatively short period (eight weeks) available to them to scrutinise subsidiarity under the yellow and orange card procedures. As a consequence, so far only three yellow card procedures have been undertaken and not a single orange card has been used. Relatedly, the EU has also often been accused of a tendency to over-regulate. Despite repeated attempts to tackle over-regulation during the last decade, no satisfactory solution to this problem has been found so far. Overall, the Article 5 definition of subsidiarity appears 'very minimalist', as 'reasons of scale and effects can always be found to justify EU action, and have been'.[3] Moreover, existing safeguards clearly lack effectiveness. Going forward, more robust ones need to be put in place, in parallel with the necessary strengthening of EU resources and executive capacity.

Proposals for the stronger protection of subsidiarity

To overcome some of the difficulties outlined above, the remainder of this paper suggests actions to reinforce the protection of subsidiarity on three fronts: the legal definition of subsidiarity and its justiciability, the institutional protection of subsidiarity and the political protection of subsidiarity. These three aspects appear to be the essential pillars of any comprehensive system of subsidiarity protection. The proposed measures range from relatively simple initiatives that would not require a treaty change to more transformative interventions that would. They are presented in more detail in the following sections.

Reinforcing the legal protection of subsidiarity

A key loophole in the system of subsidiarity protection currently in place in the EU is the failure of subsidiarity to become fully justiciable and acquire the status of a judicial review principle. In other words, despite the

1 S. Garben, 'Competence Creep Revisited', *Journal of Common Market Studies* 57/2 (2019).
2 D. Grimm, *The Constitution of European Democracy* (Oxford: Oxford University Press, 2017).
3 F. O. Reho, 'Subsidiarity in the EU: Reflections on a Centre–Right Agenda, *European View* 18/1 (2019).

founding treaties making it clear, since the changes introduced by the Maastricht Treaty, that subsidiarity is a legally binding principle, the ECJ has consistently refused to strike down any legislation challenged before it on subsidiarity grounds. Not least because of the principle's vagueness, the Court has preferred to treat its substantive content as political and, as such, has left it to the discretionary appraisal of the EU institutions, particularly the Commission. In a sense, the Court's interpretative stunting of the legal protection of subsidiarity is yet another example of its well-known judicial activism in favour of further integration.[4]

Moving forward, this should be corrected by amending Protocol 2 of the TEU to establish clear guidelines on the application of the principles of subsidiarity and proportionality, and by including a detailed definition of subsidiarity in the Inter-Institutional Agreement on Better Law-Making. Inspiration for this could be drawn from Protocol 30 to the 1997 Amsterdam Treaty on the application of the principles of subsidiarity and proportionality, which ceased to be in force with the Lisbon Treaty. The Protocol contained substantive criteria for deciding when a legislative proposal was compatible with the subsidiarity principle, and several guidelines for assessing whether the conditions imposed by it had been fulfilled. No comparable legal basis exists in the current treaties.[5]

The goal of these legal clarifications would be to restate for the ECJ's benefit that the principle of subsidiarity is meant to be justiciable, while also offering the Court more substantive and detailed criteria and guidelines for applying the principle without fear of interfering with the political process. Moreover, we know from public choice theory that ECJ judges have a vested interest in transferring power from the member states to the EU level, and the Court's history and record largely confirm this. To correct this built-in bias and ensure that the Court acts as an impartial interpreter of the treaties as far as subsidiarity is concerned, a new constituent court of the ECJ should be established, specialised in disputes about the allocation of competences between the Union and its member states, as well as actions against alleged violations of the principles of subsidiarity and proportionality. It should be composed of former judges from the national constitutional courts and act as a chamber of the ECJ, so as not to undermine the Court's overall authority.[6]

More broadly, to solve the problem of 'over-constitutionalisation', which seems to be one of the root causes of 'competence creep', it would be wise to reclassify all provisions of a non-constitutional nature present in the EU treaties (essentially, most of the Treaty on the Functioning of the European Union (TFEU)) as ordinary law. As long as such provisions continue to enjoy constitutional rank, when the Commission and the ECJ apply them they are essentially implementing the constitution, which makes it impossible to redirect their actions through legislation to protect national and regional competences.[7] A more precise definition of shared competences under Article 4(2) of the TFEU would also help.

Reinforcing the institutional protection of subsidiarity

Beyond these legal changes, it is also important to reinforce the institutional mechanisms available to protect subsidiarity in the EU. A much neglected but essential aspect of this is arguably national parliaments' ability to hold their governments accountable for EU matters. EU member states display a variety of constitutional structures and provisions, and thus the ability of the national parliaments to accomplish this task is very uneven. Some of them enjoy a very high degree of oversight of their governments' EU involvement and negotiations, others lack the slightest ability to control and question them.

[4] G. A. Moens and J. Trone, 'The Principle of Subsidiarity in EU Judicial and Legislative Practice: Panacea or Placebo?', *Journal of Legislation* 41/1 (2014).

[5] R. Lopatka, 'Subsidiarity: Bridging the Gap Between the Ideal and Reality', *European View* 18/1 (2019).

[6] European Constitutional Group, *A Proposal for a Revised Constitutional Treaty* (2006), 9; R. Vaubel, *The European Constitutional Group: The Constitutional Approach to Limiting the Power of Government at the European Level* (2019), 4.

[7] Grimm, *The Constitution of European Democracy*, 1–20.

This unevenness in national parliaments' powers and resources is an inevitable consequence of Europe's historical and institutional diversity. As such, it cannot be fully remedied. However, it could be reduced by developing what we might call a 'gold standard' for the participation of national parliaments in EU legislative and political processes. This would be a list of minimum requirements that would enable national parliaments to scrutinise their governments on EU affairs and learn from the best practices of other parliaments (e.g. Finland's and Denmark's).

As mentioned above, however, national parliaments are also directly involved in scrutinising subsidiarity under the yellow and orange card procedures. For this scrutiny to be more effective, the deadline for submitting opinions should be extended from 8 to 12 weeks and the thresholds required should be reduced, for example, from a third to a quarter of the votes expressed by national parliaments for the yellow card procedure, and from a simple majority to a third for the 'orange card' procedure.[8] Moreover, a 'green card' and a 'late card' procedure could also be introduced. The former would allow national parliaments to voice their support for a proposal submitted by another national parliament. If the support garnered was high enough, the European Commission would have to consider incorporating the proposal into its legislative agenda. This is not a fictional scenario: individual national parliaments have taken such initiatives in the past, and one of them was actually adopted by the Commission.[9]

In contrast, the 'late card' procedure would 'grant the national parliaments the right to scrutinise draft legal acts a second time at the end of negotiations between the Commission, the European Parliament and the Council'.[10] It is also worth mentioning that, in several member states (e.g. Germany), subnational parliaments possess significant legislative powers, including on matters that are regularly the object of EU legislative proposals. At the moment, they play no role in the institutional mechanisms for protecting subsidiarity. They could at least be granted consultative rights when matters under their legislative purview are at stake.

Finally, there is an obvious subsidiarity angle to the Commission's Better Regulation Agenda, particularly in initiatives such as the Regulatory Fitness and Performance programme (which aims to ensure that EU laws deliver on their objectives at a minimum cost for citizens and businesses) and the Fit for Future platform, which is a high-level expert group that helps the Commission simplify EU laws and reduce unnecessary related costs. Institutionally, reinforcing the role of the CoR and even of the European Economic and Social Committee in scrutinising EU legislation when it comes up for revision in such and similar fora would make sense. This would deepen both vertical and horizontal subsidiarity by embedding subnational and socio-economic actors, respectively, more closely in better-regulation initiatives.

Reinforcing the political protection of subsidiarity

The history of the last 30 years, however, shows that the existing legal and institutional safeguards of subsidiarity can easily be voided of substance and effectiveness if the prevailing political ethos sees the principle as, at best, a frill to pay lip service to or, at worst, a hindrance to circumvent on the road to centralisation. This is why the ultimate safeguards of subsidiarity are always political and, in a sense, even cultural. The three main EU institutions could choose a variety of ways to signal their political commitment to subsidiarity.

As far the European Parliament goes, one way would be to establish a Subsidiarity Subcommittee of the Committee on Constitutional Affairs, which so far has all too hastily brushed aside subsidiarity concerns for fear that they might halt the forward march of European integration. However, as mentioned above, this is a misguided conception of subsidiarity, which, when correctly understood, is not meant to be a brake on

[8] R. Lopatka, *Die EU und die Mitgliedstaaten: Subsidiarität. Proportionalität. Weniger, aber effizienteres Handeln*, AIES Studies (Vienna, 2018), 22.
[9] Lopatka, 'Subsidiarity', 32.
[10] Ibid., 34.

integration but rather a specific modality of pursuing it. Another important initiative in the Parliament would be the formation of a Subsidiarity Intergroup grouping of Members with a specific interest in upholding subsidiarity as a fundamental EU constitutional principle in its broadest sense.

At the level of the Council, responsible working groups should be encouraged to systematically assess the compliance of the Commission's proposals with the principles of subsidiarity and proportionality. Moreover, the Commission itself should politically commit to reducing the burden and intrusiveness of EU legislation in various ways. These include

- committing to choosing the form of EU action which least interferes with national law (e.g. directives instead of regulations, the latter having now become the overwhelmingly dominant form of EU legislation, despite, or perhaps because of, their being the most intrusive);
- limiting the use of delegated and implementing legal acts, which have multiplied in recent years, but which elude subsidiarity control mechanisms, to the disadvantage of member states and regions; and
- committing to one or the other form of sunset clause, for example, by strictly implementing the 'one in, one out' principle, according to which an existing EU provision is cancelled in parallel with any new one being proposed.[11]

This would limit the proliferation of EU regulatory initiatives that risk burdening businesses and stifling innovation.

Finally, it is important to underline that, for the first time in the history of the directly elected European Parliament, in the current legislature forces to the left of the centre–right European People's Party do not now have a majority themselves. This means that, based on the current political composition of the Parliament, centre–right support is indispensable to approve any legislative proposals and resolutions that are put forward. This places on the European People's Party the special responsibility to act resolutely as the political guardian of subsidiarity by rejecting on strict constitutional grounds initiatives, whether binding or not, from any EU institutions that seem to exceed EU competences and violate the rigorous upholding of subsidiarity. These include (but are not limited to) initiatives on, or touching upon, controversial moral disagreements, such as those promoting expansive and divisive interpretations of Article 2 of the TEU.[12] The existence of a predominant political force that chooses to act as the guardian of subsidiarity would be the ultimate political safeguard of this important principle.

Conclusion

We need to stop seeing subsidiarity as a vague and largely empty principle to which some people only pay lip service—or even worse, as a potential brake on European integration or as a fig leaf behind which ill-intentioned forces hide in the hope of maintaining an air of respectability while they promote a Eurosceptic agenda. Broadly and rightly understood, subsidiarity actually offers a specific approach to advancing European integration and constructing European unity. It is an approach that values bottom-up solutions, decentralisation, polycentricity, competition and less regulation, as opposed to one that insists on centralisation, harmonisation and increased regulation. Stronger protection of subsidiarity will not hinder the cause of European integration, but rather will make the EU more effective, accountable and resilient at a time when the need for it to acquire additional powers and resources in a number of fields is widely and justly felt. The robust upholding of subsidiarity requires effective legal, institutional, political and ultimately cultural safeguards. The proposals contained in this paper could be important steps towards achieving this.

11 Lopatka, 'Subsidiarity'.
12 F. O. Reho, 'Protecting Fundamental EU Values: In Search of a Balanced Approach', *European View* 23/1 (2024).

	Programme 1	Programme 2	Programme 3
	Reinforcing the legal protection of subsidiarity	**Reinforcing the institutional protection of subsidiarity**	**Reinforcing the political protection of subsidiarity**
Project 1	Amend Protocol 2 TEU to establish clear guidelines on the application of the principles of subsidiarity and proportionality, and include a detailed definition of subsidiarity in the Interinstitutional Agreement on Better Law-Making.	Reinforce national parliaments' ability to hold their governments accountable for EU matters by issuing a gold standard for the participation of national parliaments in EU legislative and political processes.	Establish a Subsidiarity Subcommittee of the Committee on Constitutional Affairs as well as a Subsidiarity Intergroup in the European Parliament, and encourage the relevant Council working groups to systematically assess the compliance of Commission proposals with the principles of subsidiarity and proportionality.
Project 2	Establish a new constituent court of the ECJ that specialises in actions against alleged violations of the principles of subsidiarity and proportionality, composed of former judges from the national constitutional courts.	Grant longer deadlines for national parliaments to scrutinise subsidiarity under the yellow and orange card procedures, reduce the thresholds required for both, introduce a 'green card' and a 'late card' procedure, and grant a role to subnational parliaments possessing legislative powers.	Reduce the burden and intrusiveness of EU legislation by committing to choosing the form of EU action which least interferes with national law (e.g. directives instead of regulations); limiting the use of delegated and implementing legal acts; and strictly implementing the 'one in, one out'
Project 3	Reclassify all provisions of a non-constitutional nature present in the EU treaties as ordinary law (essentially, most of the TFEU) and formulate a more precise definition of shared competences under Article 4(2) TFEU.	Reinforce the role of the CoR (vertical subsidiarity) in scrutinising EU legislation when it comes up for revision (e.g. the Regulatory Fitness and Performance programme and Fit for Future platform), as well as the role of the European Economic and Social Committee (horizontal subsidiarity).	Reject on strict constitutional grounds initiatives, whether binding or not, from any EU institutions that seem to exceed EU competences and violate the rigorous upholding of subsidiarity, refusing to discuss their substantive merits (e.g. initiatives on, or touching upon, controversial moral disagreements).

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EU Enlargement Policy

by Nikolaos Tzifakis

Summary

European integration has historically advanced through parallel steps towards deepening and widening cooperation. In our times, marked by the outbreak of a persistent poly-crisis, the EU again needs to move forward decisively with both dimensions of European integration. The containment of aggressive Russian revisionism has made it a strategic priority to accelerate the accession to the EU of all countries on the continent that share European norms and values. This paper argues that the successful completion of the current EU enlargement process requires reforms on three fronts: (1) EU governance needs to become more effective, (2) the Union's enlargement policy must be reinvigorated and (3) accession conditionality must be made credible again.

Keywords EU internal reforms – Candidate countries – Accession conditionality

Introduction

European integration has historically advanced as a binary process, consisting of parallel steps towards deepening and widening cooperation. More frequently than not, these two dimensions of European integration have reinforced each other. On the one hand, the successful advancement of supranational cooperation has prompted third countries to express interest in joining the European project. On the other hand, the accession of new members has propelled the EU to reform its institutions and extend its integration into new policy areas (e.g. the cohesion policy).

In our times, marked by the outbreak of a persistent poly-crisis, the EU needs to move forward decisively with both dimensions of European integration once again. The containment of aggressive Russian revisionism has made it a strategic priority to accelerate the accession to the EU of all countries on the continent that share European norms and values. This paper presents the state of play in EU enlargement policy and advances some policy recommendations to reform EU governance and accelerate the integration of all (potential) candidate countries.

State of play

The prospect of integrating several new member states is compelling the EU to reflect seriously on the efficiency of its institutions, procedures and policy instruments. The process of improving EU governance will involve long overdue reforms. The size of EU institutions (especially the European Commission and the European Parliament) cannot be increased indefinitely. Moreover, the range of issue areas where decisions are still taken with unanimity should be shrunk to avoid decision-making paralysis. Lastly, the EU budget should substantially increase to address the multiple challenges of our times (e.g. the green energy transition) facing an enlarged Union.

The European Parliament and European Commission have registered their desire for a treaty revision that would permit the undertaking of wide-ranging reforms. With such a move, not only will the EU increase the efficiency and democratic accountability of EU governance, but it will also make a decisive step forward towards European integration.[1] Nevertheless, there is no consensus among EU member states on the scope of, or even the need for, such an ambitious reform process.[2] In the meantime, an indefinite postponement of

1 European Parliament, *Proposals of the European Parliament for the Amendment of the Treaties*, P9_TA(2023)0427 (22 November 2023).

2 P. Buras and E. Morina, *Catch-27: The Contradictory Thinking About Enlargement in the EU*, ECFR Policy Brief (November 2023), 20.

much-needed EU internal reforms would put the enlargement policy on hold, shaking the interested countries' confidence in their prospect of joining the EU.

The EU has decided to give Ukraine, Moldova and Georgia this prospect at a time when the enlargement policy has failed to inspire applicant countries to implement the reforms essential for their EU accession. The EU enlargement policy has not worked efficiently during at least the last decade. All Western Balkan countries have experienced democratic backsliding while claiming to work towards preparing for EU accession. The EU has used conditionality inconsistently on several occasions. In some cases, the EU has failed to reward progress because of the tendency of member states to use the enlargement policy as a vehicle for projecting their national preferences. On other occasions, the accession path of (potential) candidate countries has advanced (e.g. through the opening of negotiations in chapters of the acquis) despite their poor track record in implementing reforms. While the EU has established tools to sanction stagnation in the reform effort (e.g. the 'balance clause' in fundamentals and process reversibility), it has never employed them. The EU should draw lessons from its policy failures in the Western Balkans as it embarks on the additional and more challenging task of helping Ukraine, Moldova and Georgia prepare for EU accession.

Finally, pre-accession financial assistance has not brought economic convergence between the EU27 and the Western Balkans. The assistance has been insufficient in size and does not follow the methodology and logic of the EU Structural and Investment Funds. The Western Balkan countries would need around 70 years to fully converge with the EU27 at the current pace of growth.[3] In addition, the accession prospects of Ukraine, a large country that will need vast amounts of post-war reconstruction assistance, make it imperative to increase and thoroughly review the Union's financial instruments to support (potential) candidate countries.

Prospects

The successful completion of the EU enlargement process requires reforms on three fronts: (1) the Union's internal reforms need to be advanced to make the EU 'enlargement ready', (2) the EU's enlargement policy must be reinvigorated to increase its efficiency and (3) accession conditionality must be made credible again.

EU internal reforms

Although a treaty modification does not figure among the immediate priorities of the EU member states, the Union's contemporary institutional setting allows ample room to take essential steps that would substantially improve the efficiency of EU governance.

According to Article 17(5) of the Treaty on European Union, the European Council has the leeway to decide unanimously on the size of the European Commission. Indeed, the same article also provides that, starting in November 2014, the number of Commission members should correspond to two-thirds of the number of EU member states. However, the size of the Commission has not been reduced accordingly due to the reluctance of several member states to periodically forego the right of proposing one of their citizens as a member of the Commission. Although the European Council does not appear ready to set a smaller size, certain ideas are worth exploring to prevent an even greater fragmentation of portfolios in the Commission following the accession of new member states. For instance, the 'Group of Twelve' (i.e. the Franco-German Working Group) proposed dividing the Commission's members equally between lead commissioners and commissioners on a strictly rotating basis and distributing portfolios to pairs of lead commissioners and commissioners.[4] The bottom line is that a treaty revision is not required to reduce the size of the Commission and the number of portfolios distributed among Commission members.

3 European Bank for Reconstruction and Development, *Can the Western Balkans Converge Towards EU Living Standards?* (February 2024), 8.
4 O. Costa, *Sailing on High Seas: Reforming and Enlarging the EU for the 21st Century*, Report of the Franco-German Working Group on EU Institutional Reform (Paris and Berlin, 18 September 2023), 20.

For the European Parliament, Article 14(2) of the Treaty on European Union indicates that its composition is decided by the European Council by unanimity, on the initiative (and with the consent) of the European Parliament. The same article also sets the rules for the size of the European Parliament—a maximum of 751 Members of the European Parliament (MEPs)—and the EU citizens' representation (i.e. degressive proportionality and maximum and minimum thresholds for member state representation). Therefore, the existing institutional framework ensures that allocating MEP seats to new member states will not cause a proportionate increase in the Parliament's size.

Moreover, the Parliament's Constitutional Committee has received several proposals concerning the distribution of MEP seats among member states (e.g. the 'FPS method', the 'Power Compromise' and the 'Cambridge Compromise').[5] Selecting one of these models (each building on a different mathematical formula) would set the basis for a fair, democratic and transparent redistribution of MEP seats in an enlarged Union.

A major concern about the impact of EU enlargement on European integration is the possibility of decision-making failure in issue areas where unanimity is the rule. Still, the Council of the European Union and the European Council could use the general and specific 'passerelle' clauses previewed in various articles of the Treaty of Lisbon to decide (unanimously) on modifying decision-making procedures and replacing unanimity by qualified majority voting in most policy areas.[6] As the European Commission suggested, the recourse to passerelle clauses may be accompanied by 'appropriate and proportionate safeguards' to reassure member states that their strategic national interests would not be overlooked.[7]

Finally, an increase in the EU's own resources and the EU budget to finance policy priorities and socio-economic convergence in an enlarged Union requires the consent of the European Parliament and member states. It is not dependent on a treaty modification.

In sum, although a treaty modification would give a new impetus to European integration, it is not a prerequisite to making the Union 'enlargement ready'. What is needed is a commitment from member states to work towards improving EU governance. The internal reforms discussed here are much-needed irrespective of whether the EU accepts new members.

EU enlargement policy reform

The EU should reinvigorate its enlargement policy to improve its efficiency. At present, three reforms are urgently needed: (1) unblocking decision-making at the Council level, (2) ameliorating the quality of problem diagnosis concerning the deficiencies in the rule-of-law sector of applicant countries and (3) increasing and revamping pre-accession assistance.

For the Council, making dozens of decisions on the basis of unanimity during a candidate country's accession path has been counterproductive. Member states have numerous opportunities to veto the accession progress of third countries, frequently for reasons unrelated to EU enlargement policy. The Council has repeatedly been consumed in discussions about bilateral issues between member states and candidate countries instead of assessing the latter's fulfilment of EU accession requirements. That said, the EU accession of an interested third country is a fundamental constitutive decision for the Union to which all members should consent. In this

[5] See, for instance, V. Ramírez González, *A Mathematical Formula for Determining the EP Composition*, Directorate-General for Internal Policies, Policy Department for Citizens' Rights and Constitutional Affairs, Briefing, PE 759.358 (February 2024); F. Pukelsheim and G. Grimmett, 'Power Compromise: An Objective, Fair, Durable and Transparent Fix for the EP Composition', Directorate-General for Internal Policies, Policy Department for Citizens' Rights and Constitutional Affairs, Briefing, PE 759.357 (February 2024).

[6] S. Kotanidis, *Passerelle Clauses in the EU Treaties: Opportunities for More Flexible Supranational Decision-Making*, European Parliamentary Research Service, Briefing PE 659.420 (December 2020).

[7] European Commission, *Communication on Pre-Enlargement Reforms and Policy Reviews, Communication*, COM (2024) 146 final (20 March 2024), 19–20.

respect, while the EU could continue taking all critical enlargement-related decisions unanimously (i.e. decisions related to accepting an application, granting candidate status and concluding negotiations), it could introduce qualified majority voting at all intermediate stages of the process where technical progress is assessed (e.g. the opening and closing of negotiations in different clusters). As Zweers et al. remarked, the current legal practice of requiring unanimous decisions at every step in the enlargement policy is not derived from EU primary or secondary law. We find it formally inscribed in the negotiation frameworks that the EU has concluded with each candidate country. Hence, if member states acknowledge the imperative of accelerating the EU enlargement policy, they could revise the legal practice applied in Council decision-making without treaty modification.[8]

Administering the enlargement process based on merit not only requires reducing its politicisation (and improving decision-making) at the Council level. It also presupposes upgrading the Commission's monitoring and reporting work. The progress of applicant countries is assessed annually in voluminous reports (120 to 160 pages long) that present a wealth of technical information across accession clusters and chapters. Nevertheless, the cautious diplomatic language that is used dilutes the findings and obscures the diagnosis of problems.

In 2024 the Commission, for the first time, also included four Western Balkan countries (Montenegro, Serbia, Albania and North Macedonia) in its annual *Rule of Law Report*. This decision allowed for an assessment of where these countries stood compared to EU member states regarding their rule-of-law sectors. Adding all applicant countries to the Commission's next *Rule of Law Report* would be useful. Nevertheless, the Commission's rule-of-law dialogue is far from optimal. For instance, insufficient attention has been paid so far to whether the recommendations articulated in these reports are genuinely implemented.[9] Also, concerns have been expressed about their overtly optimistic and diplomatic language and the lack of transparency in the consultations leading to their drafting.[10]

Helping applicant countries confront structural deficiencies in their rule-of-law sectors requires a more drastic solution. The Commission's reports should be complemented with periodic expert-level reviews by independent analysts (on the model of the Priebe Reports about Bosnia and Herzegovina and North Macedonia), whose task would be to account for the systemic causes of weaknesses in the rule-of-law sector. The policy prescriptions of these independent groups of experts should inform accession negotiations.

Finally, EU pre-accession assistance has not sufficed to stimulate the economic convergence of candidate countries with the EU27. In per capita terms, Western Balkan countries are still expected to receive 12 times less money than Croatia (i.e. an EU member state) despite their eligibility for additional assistance from the recently launched New Growth Plan.[11] The EU should not only substantially increase pre-accession aid; candidate countries should also be helped to grow their capacity to administer and absorb EU funds.[12] To that end, it would be beneficial if the EU introduced the methodology of support offered to member states through the EU Structural and Investment Funds to pre-accession assistance.[13]

8 W. Zweers et al., *Unblocking Decision-Making in EU Enlargement: Qualified Majority Voting as a Way Forward?*, Clingendael, Policy Brief (June 2024), 8.

9 C. Brasseur, V. Pachta and C. Grigolo, *Towards an Enlarged Union: Upholding the Rule of Law*, International IDEA, Policy Paper 30 (April 2024), 19.

10 European Court of Auditors, *The Commission's Rule of Law Reporting*, Review 02 (February 2024); J. Grogan, 'The EU's Rule of Law Crisis: Has Progress Been Made?', *UK in a Changing Europe*, 5 August 2024; Balkan Civil Society Development Network, *2024 EC Rule of Law Report: EU Accession Countries and Member States on Equal Footing, Civic Space Threats Overlooked* (Skopje, July 2024), 10.

11 B. Jovanović, *New Growth Plan for the Western Balkans: Solid Foundations, Shaky Extensions*, European Policy Institute (Skopje, February 2024), 7.

12 European Commission, *Communication on Pre-Enlargement Reforms and Policy Reviews*, 14.

13 M. Mihajlovic and R. Tabossi, *Reforming the EU's Pre-Accession Funding Instrument: Effective Membership Preparation Through the Staged Accession Model*, Centre for European Policy Studies and European Policy Centre, Issue Paper (September 2023).

Credibility of EU accession conditionality

To restore the credibility of its enlargement policy, the EU needs to convince applicant countries that they have real prospects of becoming members once they fulfil all accession requirements. Moreover, the EU should consistently apply accession conditionality by encouraging and rewarding compliance with EU policy prescriptions and sanctioning stagnation in the reform process.

Reforming EU institutions (deepening) and preparing applicant countries for EU accession (widening) are two processes that should run in parallel, not one at the expense of the other. The EU should unequivocally state that the accession of new member states is not conditional on the completion of its internal reforms. If candidate countries are ready to accede before EU governance is improved, they may still be offered EU accession, subject to a few transitional time-specific (e.g. five to seven years long) derogations of certain member rights. As the Centre for European Policy Studies and the European Policy Centre jointly proposed in their staged accession model, such derogations could be introduced in those countries' accession treaties, and they could concern areas such as the right to veto decisions taken in the Council with unanimity and the right to nominate a commissioner.[14]

In the meantime, applicant countries should be consistently encouraged to undertake difficult reforms entailing non-negligible political costs. The prospect of full membership no longer induces compliance with EU requirements for countries that have been struggling to advance along their accession path for the last two decades. The Commission and the policy community have proposed several interim rewards for applicant countries registering progress in implementing reforms (e.g. sectoral, gradual or staged accession). Interim rewards could include gradual integration into the single market and other policy areas, eligibility for assistance from EU Structural and Investment Funds, and periodic participation in observer status at Council meetings (discussing issues in which these countries have substantially advanced or concluded accession negotiations).[15]

Lastly, beyond introducing tangible interim rewards in the enlargement policy to induce compliance with accession conditionality, the EU should also operationalise the reversibility of the process. Democratic regression, prolonged stagnation in introducing reforms, and poor alignment with EU foreign policy decisions and actions should no longer be inconsequential. As it previewed in its revised enlargement methodology (adopted in February 2020), the EU might confront such instances of non-compliance with a range of measures such as pausing or suspending accession negotiations, reopening closed clusters or chapters, and reviewing the financial assistance and benefits offered to applicant countries. Reacting to non-compliance would restore the credibility of the enlargement policy as a merit-based policy. It would also show candidate countries that the EU is not indifferent to their accession process.

Conclusion

The European project has been repeatedly challenged in times of crisis since the establishment of the European Communities. Nevertheless, member states have historically overcome hurdles by progressing towards deepening and widening cooperation. The current poly-crisis represents another instance in which European leaders are called to take decisive steps forward. Notwithstanding the lack of consensus about the scope and necessity of a treaty modification, EU members may still implement much-needed reforms to improve EU governance, reinvigorate the enlargement policy and restore the credibility of accession conditionality. That said, member states' divergent views and national preferences should not be underestimated. The EU leaders are called to strike a new balance between empowering the Union to confront the multiple challenges of our times and protecting their vital national interests, where necessary.

[14] M. Mihajlović et al., *Template 2.0 for Staged Accession to the EU*, Centre for European Policy Studies and European Policy Centre, Revised Proposal (August 2023), 6.

[15] M. Delevic and T. Prelec, 'Flatter, Faster, Fairer – How to Revive the Political Will Necessary to Make Enlargement a Success for the WB and the EU', *European Fund for the Balkans*, 17 January 2020; European Commission, *Communication* on Pre-Enlargement Reforms and Policy Reviews, 12–17; Ibid., 7–10.

	Programme 1	Programme 2	Programme 3
	Reform EU institutions, procedures and instruments in preparation for the accession of new member states.	**Increase the efficiency of the EU enlargement policy to accelerate the process.**	**Restore the credibility of EU accession conditionality.**
Project 1	Reform EU institutions. Review the rules that determine the composition of the European Parliament and the European Commission to avoid an open-ended increase in their size.	Introduce qualified majority voting in all intermediate steps of the accession process, such as opening and closing negotiations in different chapters and clusters. Unanimity should be maintained at all decisive moments, i.e. the stages of accepting an application, granting candidate status and concluding negotiations.	Adopt a European Council declaration, stating unequivocally that the accession of new member states is not conditional on the completion of EU internal reforms. If candidate countries are ready to accede before the reform of EU institutions is completed, a series of transitional time-specific (e.g. five to seven years long) derogations will be introduced in those countries' accession treaties. These could concern areas such as the right to veto decisions taken with unanimity and the right to nominate a commissioner.
Project 2	Extend the application of the ordinary legislative procedure and qualified majority voting in most policy areas. Decision-making by unanimity should remain in a few domains, such as the Common Security and Defence Policy and, extraordinarily, whenever a member state raises a vital interest issue.	Complement the Commission's annual progress reports with biennial thorough reviews of the interested countries' rule-of-law sectors. These reviews, conducted by groups of independent analysts, should account for the causes of deficiencies in the rule of law (on the model of the Priebe Reports about Bosnia and Herzegovina and North Macedonia). The policy prescriptions in these reports should inform accession negotiations.	Introduce tangible interim rewards for interested countries registering progress in the accession process. These may include access to EU Structural and Investment Funds, and periodic participation in observer status at Council meetings (discussing issues in chapters or clusters in which these countries have substantially advanced or concluded accession negotiations).
Project 3	Increase the size of the EU budget to empower the Union to face the multiple challenges of our times, including supporting the accession of (potential) candidate countries.	Increase pre-accession financial assistance and introduce the methodology and logic of support offered to member states through the EU Structural and Investment Funds.	Operationalise the reversibility of the enlargement methodology. Democratic backsliding, prolonged stagnation in introducing reforms, and poor alignment with EU foreign policy decisions and actions should no longer be inconsequential.

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AQUITAINE
LIMOUSIN
MIDI-PYRENEES
PROVENCE ALPES
PIEMONTE
LIGURIA
MONACO
EMILIA-ROMAGNA
SAN MARINO
ITALIA

Demography

Table of abbreviations

EE	Eastern Europe
NEET	Neither in employment nor in education or training
SEE	South-Eastern Europe

Introduction

by Klaus Welle and Vít Novotný

The European welfare state is being challenged by new realities. People's outlooks on life have changed dramatically over the past decades, including their views on religion, the family and work. The consequences of these societal changes include rising life expectancies and stagnating fertility rates that are insufficient for the natural increase of the population. Humanity's efforts to curtail overpopulation and increase longevity have caused the ageing of our societies, a trend that has been under way for decades.

Our institutions and policies are not ready for these developments. National social security systems lack sustainable funding. Labour market rules are lagging behind the needs of the ageing societies, and these rules do not capitalise on the experience that older workers can bring in. In general, pronatalist policies in the form of cash transfers to young families have not fulfilled their objective. The EU's population has been growing only thanks to immigration from outside the bloc, but family reunification—the most frequent type of EU-bound immigration—has not improved the ratios of workers to non-workers. In Southern and Eastern Europe and in many regions elsewhere on the continent, depopulation and emigration are compounding the problems caused by ageing. Moreover, the Covid-19 pandemic has contributed to a worsening of mental health. This has impacted young people with particular severity, keeping them out of schools and jobs.

To mitigate the effects of population ageing and the other phenomena mentioned, it is incumbent on the EU's national governments to create institutional environments that increase human capital and make it easier for women and men to both pursue a career and raise a family. As for the numbers of children born, the fact that fertility rates in some EU countries are higher than in others suggests the crucial importance of national social policies. It used be assumed that a woman who 'stays at home' is more likely to have children than a woman who 'pursues a career.' Contrary to that outdated notion, it now appears that having stable work allows those who wish to have children to choose to do so.

Health care, affordable housing and lifelong learning have become crucial for maintaining the well-being of the population and a productive labour force. The participation of women, older people, young people and immigrant groups in the labour market must be increased. The state pension age should be increased, albeit with elements of flexibility to allow for individual choice. Finally, innovative solutions are needed to address both depopulation in some countries and areas and the growing regional imbalances within the EU.

Forging a Productive and Child-Friendly Society

by Daniela Vono de Vilhena

Summary

Developing effective policies that lead to productive and child-friendly societies requires an understanding of how various factors such as health, socio-economic background and education influence individuals' lives from birth. Recognising that challenges such as delayed transitions to stable employment, housing and family life are interlinked allows policymakers to design interventions that address root causes and provide sustainable support. For example, access to affordable childcare leads to better child development, while also improving parents' likelihood of being employed and enhancing their work–life balance. It can also alleviate long-term socio-economic disadvantages for all. By considering these interconnected factors, policymakers can create a comprehensive framework that supports individuals and their families at every stage of their lives, fostering resilient and equitable societies.

Keywords Independence – Housing – Employment – Education – Entrepreneurship – Equality – Well-being

Introduction

Taking a life-course perspective, this contribution provides insights into the latest evidence on concrete policies that contribute to achieving productive and child-friendly societies. It focuses on three main recommendations: (1) young people should have stable, productive and independent lives at an early age; (2) governments should provide public services and infrastructure to enable the working-age population to thrive; and (3) authorities should invest in human capital from preschool age onwards.

Ensuring young people have a stable, productive and independent life at an early age

In general, young people today are taking longer than previous generations to leave home, find stable employment, live with a partner and possibly have children. This is a multidimensional issue with multiple interrelated causes, such as educational attainment, migration background, labour market integration, access to housing[1] and psychological independence.[2]

Promoting independence in young adulthood is a challenge for most European countries to varying degrees, and an urgent necessity in the context of labour and skills shortages. Despite significant reductions in unemployment rates and the percentage of young people not in employment, education or training over the past decade, many jobs remain poorly paid, while the cost of living remains high. This combination makes it difficult for young people to achieve a decent and stable life.

Access to housing is particularly challenging today and is associated with a higher likelihood of young people feeling excluded from society.[3] Young people see access to housing as an important step towards autonomy, security and stability, and as a means of socialisation.[4] Research also suggests that while living with parents

[1] A. F. Castro Torres and C. R. Ramos, 'Social Classes and Transition to Adulthood in Spain', *Perspectives Demogràfiques* 34 (2024).
[2] A. Berrington et al., *Becoming an Adult in Europe. It's Time to Provide More Cross-Sectorial Support to Young People*, Population Europe, Population & Policy Compact 13 (Berlin, 2017).
[3] Eurofound, *Becoming Adults: Young People in a Post-Pandemic World* (Luxembourg, 2024).
[4] M. Pape, *Social and Youth Housing in the EU*, European Parliamentary Research Service, Briefing PE 757.653 (February 2024).

for a short period of time can be helpful in terms of saving money and promoting career development, it can also be as detrimental to future employment prospects as being long-term unemployed.[5]

In addition, transitions to housing independence are becoming increasingly non-linear. Once young adults leave the parental home, they are more likely to return during young adulthood than they were in the past, a phenomenon known as boomerang children.[6] Economic and mental health issues are the main reasons for this trend.

Therefore, creating stable and sustainable policies and subsidies to promote housing independence among young people should be a priority for European countries. Social housing and social rent programmes for young people are most often organised by regional governments and municipalities, but these programmes can receive funds from the EU.[7] It is important (1) to promote more dialogue on the issue between EU institutions, national and local government bodies; (2) that the duration of any benefit provided is stable and long enough to avoid homelessness or a return to the parental home; and (3) that the age groups covered by any benefit reflect the realities of different countries. According to the latest available data from Eurostat, the average age of leaving the parental home in the EU ranges from 31.8 years in Croatia to 21.3 years in Finland.

Achieving financial independence is crucial for young people to lead stable, productive and independent lives from an early age. The labour market remains largely insecure for the younger generation.[8] Younger workers are more likely to be employed on non-standard, flexible contracts than in permanent, open-ended employment relationships.[9] It is important to incentivise employers to value and attract more young people by offering attractive salaries and job stability, flexible working conditions and a work–life balance.

There is strong evidence to support these recommendations. For example, the results of a survey of around one million students and young professionals conducted each year by Universum Communications Sweden AB and summarised in its *World's Most Attractive Employers* reports,[10] found that attributes such as work–life balance and flexible working conditions have become significantly more important to young professionals, particularly in fields such as engineering and information technology. It is not just about job characteristics but about what individuals consider to be a good life.[11]

The promotion of hybrid and flexible forms of employment and entrepreneurship should be pursued, but without compromising job stability and security. Studies examining the consequences of working from home during and after the Covid-19 pandemic tend to suggest negative outcomes for workers if the well-being and career progression of individuals are not considered.

For example, Kasperska et al.[12] found that employees working from home were less likely to receive promotions, pay increases or access to training opportunities than those working in the office. Interestingly, they found that these disadvantages were particularly true for men and women without children, but not for mothers. A survey among human resources managers and employees conducted by Eurofound in 2023 found that those

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5 A. Saydam and K. Raley, 'Slow to Launch: Young Men's Parental Coresidence and Employment Outcomes', *Journal of Marriage and Family* 86/4 (2024).

6 J. Stone, A. Berrington and J. Falkingham, 'Gender, Turning Points and Boomerangs: Returning Home in Young Adulthood in Great Britain', *Demography* 51/1 (2013).

7 Pape, *Social and Youth Housing in the EU*.

8 Eurofound, *Becoming Adults*.

9 L. Rouvroye et al., 'Employers' Views on Flexible Employment Contracts for Younger Workers: Benefits, Downsides and Societal Outlook', *Economic and Industrial Democracy* 43/4 (2022).

10 Universum, *World's Most Attractive Employers: Top Trends and Aspirations for 2024*.

11 J. Erola, M. C. Mills and H. Solga, *Beyond Education and Training – How Can We Adapt to Future Needs of Local Labour Markets?*, Population Europe, Population & Policy Brief 42 (Berlin, 2023).

12 A. Kasperska, A. Matysiak and E. Cukrowska-Torzewska, 'Managerial (Dis)Preferences Towards Employees Working From Home: Post-Pandemic Experimental Evidence', *PLOS ONE* 19/5 (2024).

who regularly work from home tend to work longer hours than required by their employment contract.[13] In addition, working from home in isolation is a risk factor for young people's mental health. Supporting young workers to prevent stress, isolation and anxiety is important in this context.[14]

In terms of entrepreneurship, young adults are much less likely to be self-employed than adults overall. According to a joint publication by the OECD and the European Commission, there are many reasons for this, including a lack of or limited skills, financial resources and credit history; experience in the labour market to start a business, and access to business networks. More public support is needed to increase the number of young people who want to start their own successful business in Europe, particularly in terms of access to finance, training and mentoring opportunities.[15] Greater simplification of procedures and guidance on how to start and develop a business could also increase young people's participation in entrepreneurship.

Providing public services and infrastructure for the working-age population to thrive

The impact of having children on adults' careers—also known as the child penalty—has been extensively studied in recent decades. There is clear evidence that, in most countries, men and women tend to have similar career trajectories before parenthood, but these change significantly after they become parents.[16] Mothers also tend to be paid less than childless women, which is known as the motherhood wage gap or motherhood wage penalty. In Europe, the pay gap is smallest in the Nordic countries, Belgium and France, due to public policies promoting gender equality and work–life balance; it is largest in Central and Eastern European and Anglo-Saxon countries.[17]

A recent study suggests that family policies should be seen as life-course policies: without them, mothers' poverty risks increase over time. Leave policies, childcare policies and child-benefit policies play different roles at different stages of the life course, and all are necessary to promote positive outcomes for children and their working-age parents.[18]

Governments and businesses are already well aware of labour shortages, a situation that is set to worsen as the baby-boomer generation begins to retire. Ensuring that having children does not disadvantage women in their careers is important not only from a gender-equality perspective, but also to ensure Europe's competitiveness and a strong and sufficient labour force. There is a large gap between the hours women say they want to work and the reality of the labour market. Both governments and employers need to make it easier for women to participate in the labour force and to work as many hours as they want. To this end, tax incentives (and the removal of tax disincentives) are crucial. In Germany, for example, current tax rules mean that working more is not always financially worthwhile for many women.[19]

In addition, promoting the use of parental leave by fathers and a generally greater involvement of men in care and family life is essential to support women's working lives. For example, an interesting study using longitudinal data from the Millennium Cohort Study in the UK shows that fathers' involvement in childcare

[13] Eurofound, *Right to Disconnect: Implementation and Impact at Company Level* (Luxembourg, 2023).
[14] D. Vono de Vilhena et al., *Towards a Brighter Future for Younger People: Lessons Learned From the Berlin Demography Days 2022*, Population Europe, Population & Policy Brief no. 36 (Berlin, 2022).
[15] OECD and European Commission, *Policy Brief on Recent Developments in Youth Entrepreneurship*, OECD SME and Entrepreneurship Papers, no. 19 (Paris, 2020).
[16] H. Kleven, C. Landais and G. Leite-Mariante, *The Child Penalty Atlas*, National Bureau of Economic Research, Working Paper no. 31649 (2023).
[17] E. Cukrowska-Torzewska and A. Matysiak, 'The Motherhood Wage Penalty: A Meta-Analysis', *Social Science Research* 88–9 (2020).
[18] H. Zagel and W. Van Lancker, 'Family Policies' Long-Term Effects on Poverty: A Comparative Analysis of Single and Partnered Mothers', *Journal of European Social Policy* 32/2 (2022).
[19] M. Fratzscher, 'Frauen brauchen endlich bessere Rahmenbedingungen', *DIW Berlin*, 19 July 2024.

has a positive impact on mothers' return to work both at nine months and at three years after childbirth. In some cases, this involvement is more influential than the mother's occupational class or the number of hours that the father works.[20] In terms of concrete policies, one of the most effective options for maintaining and/or increasing mothers' participation in paid work seems to be the introduction of non-transferable paternity leave policies.[21]

Universal child benefits are another tool that can be used to support the working-age population. Their provision is considered a 'foundational policy for child and social development' and their impact on providing economic stability to families, supporting child development and reducing child poverty has been well documented.[22] They involve the provision of universal child or family allowances on a regular basis, as a cash or tax transfer, to the primary carer for dependent children for at least 10 years.[23]

Finally, health and well-being matter. Investment in healthcare and access to housing are important ways of ensuring the productivity of working-age citizens. Europe is facing the ageing of its population, and voices in the European Commission are already calling for a positive approach to demographic change. Embracing the concept of 'longevity societies' invites us to reap the benefits of longer lives by changing the way we age. Specifically, it means shifting our health focus to delaying the negative effects of ageing,[24] which means investing in preventative health systems.

With regard to housing, studies show that adequate housing is not only fundamental for social justice, but also essential for most people for a variety of reasons, from preventing health problems related to poor living conditions, such as infectious, respiratory or chronic diseases and mental health conditions,[25] to taking major further steps in life, such as having a first child.[26]

Increasing and improving human capital investment in children and adolescents

Disparities in learning and achievement are often established before children begin formal schooling, and are strongly associated with children's socio-economic status. These early inequalities tend to persist if not properly addressed and are difficult to overcome throughout an individual's educational pathway.[27] Increasing the supply of and facilitating access to high-quality preschool education is a recommendation often mentioned in European policy frameworks, such as the European Pillar of Social Rights and the European Child Guarantee, and many member states are currently investing in this area.

It is also important to note that the availability of preschool education is key to allowing mothers to re-enter the labour market. For example, a report by the European Commission's Joint Research Centre[28] suggests

[20] J. B. Henry et al., 'Fatherhood Matters: An Integrative Review of Fatherhood Intervention Research', *The Journal of School Nursing* 36/1 (2020).

[21] G. Eydal and T. Rostgaard, 'Childcare by Fathers in the Context of Active Father-Oriented Policies', in M. Daly et al. (eds.), *The International Handbook of Family Policy: A Life Course Perspective* (Oxford: Oxford University Press, 2022); A. Dunatchik and B. Özcan, 'Reducing Mommy Penalties With Daddy Quotas', *Journal of European Social Policy* 31/2 (2021).

[22] ILO, UNICEF and Learning for Well-Being Institute, *The Promise of Universal Child Benefits: The Foundational Policy for Development* (Geneva, 2024), 1.

[23] Overseas Development Institute and UNICEF, *Universal Child Benefits: Policy Issues and Options* (London, 2020).

[24] A. J. Scott, 'The Longevity Society', *The Lancet Healthy Longevity* 2/12 (2021).

[25] J. Krieger and D. L. Higgins, 'Housing and Health: Time Again for Public Health Action', *American Journal of Public Health* 92/5 (2022); WHO, *WHO Housing and Health Guidelines* (Geneva, 2019).

[26] M. Bujard and M. Scheller, 'Impact of Regional Factors on Cohort Fertility: New Estimations at the District Level in Germany', *Comparative Population Studies*, 42 (2017); L. Mencarini, *Is It All About Happiness? The Latest Evidence on Wellbeing and Childbearing Decisions in Europe*, Population Europe, Population & Policy Compact 22 (Berlin, 2019).

[27] L. Panico and L. Washbrook, *What Will Narrow Inequalities in Child Development Before School Entry?*, Population Europe, Policy Brief no. 38 (Berlin, 2022).

[28] E. Narazani et al., *The Impact of Alternative Childcare Policies on Mothers' Employment for Selected EU Countries*, European Commission Joint Research Centre Working Papers on Taxation and Structural Reforms no. 08/2022 (Seville, 2022).

that increasing the coverage of early childhood education and care to 50% for children under three could significantly increase the female labour supply. The study estimates that this change would lead to an increase in the labour supply ranging from 2% in Portugal to 32% in Hungary.

Although early childhood education and care generally benefits children's long-term learning outcomes, very recent research looking at the Nordic countries has found that it does not compensate for the performance of children with a low socio-economic status.[29] According to the European Commission's *Education and Training Monitor 2022 Comparative Report*, 'young people from disadvantaged socio-economic backgrounds are almost six times more likely to underachieve at age 15 than those from advantaged socioeconomic backgrounds, suggesting a strong intergenerational transmission of educational disadvantage'.[30] This implies that tackling disparities in school performance should not only be better addressed in the early years, but should continue throughout primary and secondary education.

In addition, raising the minimum age of school-leaving to when pupils earn a secondary degree is a necessary step to reduce the share of early leavers from education and training. The EU target is to reduce the number of early school leavers in Europe to below 9% by 2030,[31] which many member states have already achieved; however, 11 countries are still lagging behind according to the latest Eurostat data.[32]

The teaching of social and emotional skills in schools should also be promoted because of its positive impact on children in the short and long term. A study by Sorrenti et al.[33] examined the causal impact of socio-emotional skills training implemented in a number of schools in Switzerland in 2005 on the educational attainment of the children exposed to the training. This intervention, the Promotion of Alternative Thinking Strategies, consisted of weekly lessons and homework that were added to the curriculum in primary schools.

The results indicated, for example, that four years after taking part in the intervention, children were 4.4 percentage points more likely to be enrolled in academic secondary school (*Gymnasium*). As these children grew older, the researchers found that the positive effects of participating in this socio-emotional training continued: they were 7.1 percentage points more likely to complete academic secondary school than those who did not participate in the intervention. Finally, 15 years after taking part in the intervention, individuals were 6.5 percentage points more likely to be attending or have completed university.

Finally, it is important to emphasise the need to design policies that do not penalise under-resourced pupils and at the same time allow mothers to work full-time. This includes insisting on full-time schooling, providing affordable school meals, offering help with homework, organising extracurricular activities during school hours and reducing the length of school holidays.

29 M. Laaninen, N. Kulic and J. Erola, 'Age of Entry Into Early Childhood Education and Care, Literacy and Reduction of Educational Inequality in Nordic Countries', *European Societies* 1–30 (2024).

30 European Commission, Directorate-General for Education, Youth, Sport and Culture, *Education and Training Monitor 2022 Comparative Report* (Luxembourg, 2022), 4.

31 A. Bertoletti, *Forecasting Progress Towards the EU-Level Targets of the European Education Area* (Luxembourg, 2023).

32 Eurostat, 'Early Leavers From Education and Training' (May 2024).

33 G. Sorrenti et al., 'The Causal Impact of Socio-Emotional Skills Training on Educational Success', *The Review of Economic Studies* (2024).

	Programme 1	Programme 2	Programme 3
	Ensuring young people have a stable, productive and independent life at an early age	**Providing public services and infrastructure for the working-age population to thrive**	**Increasing and improving human capital investment in children and adolescents**
Project 1	Create stable and sustainable policies and subsidies to promote residential independence among young people.	Ensure that childbearing does not penalise women in the labour market. To this end, regulations are needed that promote work–life balance, the use of parental leave by fathers, and the greater involvement of men in care and family life.	Increase the supply of and facilitate access to high-quality preschool education. This can be done for example, by incentivising companies to build nurseries; increasing the number of hours children are allowed to attend formal childcare; and ensuring an adequate number of teachers, up-to-date pedagogical practices and appropriate age-specific settings.
Project 2	Incentivise companies to attract more young people by offering attractive salaries, flexible working conditions and a work–life balance.	Expand universal child benefits and additional financial support to ensure adequate family income.	Disparities in school performance at the primary and secondary levels should be tackled by supporting under-resourced pupils and disadvantaged schools. Raise the minimum age for school-leaving to when pupils earn a secondary degree. Moreover, social and emotional learning should be also promoted.
Project 3	Encourage hybrid and flexible forms of employment and entrepreneurship without compromising on job stability and security.	Invest in healthcare and access to housing to ensure the well-being and productivity of the population.	Design policies that do not penalise under-resourced pupils and at the same time allow mothers to pursue full-time work. This includes insisting on full-time schooling, offering affordable school meals, providing help with homework, organising extra-curricular activities within school hours and reducing the length of school holidays.

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Increasing the Labour Participation of Women

by Anna Matysiak and Anna Kurowska

Summary

Despite having higher education levels, European women participate less in the labour force than men. They often work part-time, earn lower wages and are underrepresented in leadership positions. This disparity, rooted in traditional gender ideologies and institutional barriers, limits the economic and social advancement of European societies, especially amid ageing populations and labour shortages. Women invest more in housework and childcare, face higher caregiving burdens, and endure psychological strain from balancing paid and unpaid work. Policy recommendations include redistributing care responsibilities between women, men, employers and the state and increasing the market value of care work. Furthermore, governments should combat gender-based segregation in the labour market, ensure pay and promotion transparency, and appreciate employee-oriented flexible working arrangements. Finally, it is crucial to address women's health needs throughout their careers. Comprehensive interventions are essential to ensure women's full and sustained employment.

Keywords Gender inequalities – Labour market – Care – Employment segregation – Wage gap – Flexible work – Women's health – Policies

Introduction

Although the education levels of European women are higher than those of men, their participation in the labour force remains lower. Women work part-time more often, earn lower wages and are underrepresented in managerial positions. Additionally, women often outnumber men in lower-paid occupations. This disparity in labour market participation poses multiple challenges. Women's potential, including their human capital and creativity, is not fully utilised, which impedes the economic and social advancement of European societies. This is particularly problematic given the rapid ageing of European populations, which is leading to labour shortages and fiscal pressures. Furthermore, as a consequence of their lower participation in the labour market, women receive lower pensions and are at higher risk of poverty when they become older. It is thus crucial to address gender disparities within the labour market and actively foster women's employment that can be sustained in the long run, that is, enabling the reconciliation of paid work with private life and the integration of diverse professional and life goals. To achieve this, comprehensive policy interventions are needed.

Gender inequalities and gaps in care

Although the gender gap in domestic work has gradually decreased over the past few decades,[1] women continue to invest significantly more hours in housework and childcare than men do.[2] In the EU, twice as many women as men spend at least five hours every day caring for children.[3] The unequal division of unpaid work, particularly caregiving, limits women's ability to fully participate in paid employment. It also leads to women experiencing greater difficulties in combining paid work with care than men. These difficulties, in turn,

[1] E. Altintas and O. Sullivan, 'Fifty Years of Change Updated: Cross-National Gender Convergence in Housework', *Demographic Research* 35 (2016), 455–70.

[2] A. Pailhé, A. Solaz and M. Stanfors, 'The Great Convergence: Gender and Unpaid Work in Europe and the United States', *Population and Development Review* 47/1 (2021), 181–217.

[3] European Institute for Gender Equality, *A Better Work–Life Balance: Bridging the Gender Care Gap* (Vilnius, Lithuania, 2023).

result in adverse mental health outcomes for women who balance extensive paid employment with unpaid household labour.[4]

The gender disparities in the division of domestic work are rooted in traditional gender ideologies but are also perpetuated by institutional arrangements that hinder men's greater engagement in care in the household. In contrast to non-transferable rights (i.e. available to fathers only), shareable parental leave, even if well paid, does not foster a substantially higher use of leave by fathers.[5] Meanwhile, in most European countries, men still have access to much shorter non-transferable paid care-related leave than women.[6]

Another institutional barrier to women's engagement in employment is the remaining childcare gaps (understood as the period between the end of well-paid parental leave and the minimum age for the child's legal entitlement to full-time institutional childcare). Only six EU member states do not have a childcare gap,[7] and the number is even lower if real opportunities for high-quality childcare are taken into account. Furthermore, many European countries still do not provide full-time and flexible institutional childcare, which is essential for women's ability to work full-time.

Finally, gender inequalities and institutional barriers to full-time employment are also faced by women in the later stages of life when elderly care is involved. In 2023 over 20% of inactive but wanting-to-work women aged 20–64 in the EU, compared to just 3% of inactive men in the same age group, were not in paid work due to responsibilities linked to caring for children or for adults with disabilities.[8] But many working women combine paid work with providing care to their elderly parents, and this has negative effects on their psychological well-being, particularly in cases of high-intensity care.[9] These negative consequences, in turn, may impact women's productivity at work. Working women are disproportionately involved in caring for elderly people across Europe, with the highest gender gaps found in southern and eastern member states, where 30% of women provide care to elderly parents, compared to only 17% of men.[10]

Gender-based segregation and inequalities in pay

Apart from gender inequalities in care, gender-based segregation significantly contributes to women's lower participation in the labour market and gender disparities in labour market outcomes. Women work in greater numbers in service jobs, particularly in sales, retail trade, health, social work and education, while men more often work in manufacturing and construction sectors.[11] Women are also heavily underrepresented in the well-paid information, communication and technology sector.[12] Vertical segregation is even stronger, with women making up only one-third of the board members in the largest listed companies in the EU and fewer than 10% holding the highest executive positions.[13] Additionally, women remain underrepresented among political leaders and in top governmental roles.[14]

[4] J. Ervin et al., 'Gender Differences in the Association Between Unpaid Labour and Mental Health in Employed Adults: A Systematic Review', *The Lancet Public Health* 7/9 (2022), e775–86. See also M. Gilbert-Ouimet, C. Brisson and M. Vézina, 'Psychosocial Work Stressors, High Family Responsibilities, and Psychological Distress Among Women: A 5-Year Prospective Study', *American Journal of Industrial Medicine* 63/2 (2020), 170–9.

[5] A. Koslowski and G. Kadar-Satat, 'Fathers at Work: Explaining the Gaps Between Entitlement to Leave Policies and Uptake', *Community Work & Family* 22/2 (2019), 129–45; L. Haas and T. Rostgaard, 'Fathers' Rights to Paid Parental Leave in the Nordic Countries: Consequences for the Gendered Division of Leave', *Community Work & Family* 14/2 (2011), 177–95.

[6] S. Blum et al., *19th International Review of Leave Policies and Research 2023*, International Network on Leave Policies and Research (2023).

[7] European Commission, Eurydice, *Structural Indicators for Monitoring Education and Training Systems in Europe – 2023: Early Childhood Education and Care* (Luxembourg, 2023).

[8] Eurostat, 'Inactive Population Not Seeking Employment by Sex, Age and Main Reason', updated 12 September 2024.

[9] E. Labbas and M. Stanfors, 'Does Caring for Parents Take Its Toll? Gender Differences in Caregiving Intensity, Coresidence, and Psychological Well-Being Across Europe', *European Journal of Population* 39 (2023), 18.

[10] Ibid.

[11] A. Matysiak and E. Cukrowska-Torzewska, 'Gender and Labour Market Outcomes', in N. Schneider and M. Kreyenfeld (eds.), *Research Handbook on the Sociology of the Family* (Edward Elgar Publishing, 2021), 329–41.

[12] OECD, *Joining Forces for Gender Equality: What is Holding Us Back?* (OECD Publishing, 2023), 151.

[13] European Institute for Gender Equality, *Gender Statistics Database* (2021).

[14] OECD, *Joining Forces for Gender Equality*.

Gender-based segregation in employment is driven by different educational choices and strong social norms associating service work with femininity and technical or managerial work with masculinity.[15] Women are less likely to graduate in science, technology, engineering and mathematics subjects and men in health, welfare, business, administration and law.[16] Women often leave male-dominated jobs for other fields, partly due to work cultures that reward long hours and availability beyond standard work hours, which is challenging for women with care obligations.[17] Men avoid female-dominated jobs, likely due, in part, to lower pay. Gender-based segregation may be further exacerbated by feelings of social isolation or experiences of sexual harassment which women are more exposed to in male-dominated fields.[18]

Gender-based segregation is a major reason for the persistence of gender differences in hourly wages.[19] Female-dominated jobs often pay less than male-dominated ones. Other factors contributing to the gender wage gap include women's disproportionate involvement in care (e.g. care-related career breaks, reduction in working hours) and discrimination, which takes place when women and men receive different wages for similar work.[20]

Several reasons explain why female-dominated jobs pay less than male-dominated ones. One is the undervaluation of typical female tasks due to their association with unpaid household chores, such as care.[21] Another is the overvaluation of typical male traits such as power in hierarchically structured organisations.[22] Service work, often done by women, may also be less well paid because it is considered a vocation driven by altruism rather than a desire for profit.[23]

Cumulative gender inequalities later in life

Childbearing often leads to career breaks for women, and the subsequent childcare responsibilities further reduce their work engagement. These cumulative effects contribute to the disadvantages women face in the labour market later in life. In many European countries, the gender wage gap tends to increase with age until retirement.[24] This growth in pay inequalities may be attributed to both the lower mobility of women between companies and their lower chances of being promoted within firms as compared to men. With rapidly ageing societies, more and more women will face increased care responsibilities later in life, which may contribute to the further aggravation of their disadvantageous position in the labour market.

Furthermore, women, unlike men, undergo serious health-related changes in later life due to their menopausal transition. Studies estimate that between 20% and 40% of menopausal women experience adverse health symptoms that negatively impact the quality of both their personal and work lives.[25] These negative effects are

[15] A. Matysiak, W. Hardy and L. van der Velde, 'Structural Labour Market Change and Gender Inequality in Earnings', *Work, Employment and Society* (2024).

[16] OECD, *Education at a Glance 2022: OECD Indicators* (Paris, 2022), 170.

[17] Y. Cha, 'Overwork and the Persistence of Gender Segregation in Occupations', *Gender & Society* 27/2 (2013), 158–84.

[18] S. Das, A. Kotikula and E. Carranza, *Gender-Based Employment Segregation: Understanding Causes and Policy Interventions*, World Bank, Jobs Working Paper no. 26 (Washington, DC, 2019), 26–7.

[19] F. D. Blau and L. M. Kahn, 'The Gender Wage Gap: Extent, Trends, and Explanations', *Journal of Economic Literature* 55/3 (2017), 789–865; D. Leythienne and P. Ronkowski, *'A Decomposition of the Unadjusted Gender Pay Gap Using Structure of Earnings Survey Data'*, Eurostat Statistical Working Papers (Luxembourg, 2018).

[20] Matysiak and Cukrowska-Torzewska, 'Gender and Labour Market Outcomes'.

[21] P. England, M. Budig and N. Folbre, 'Wages of Virtue: The Relative Pay of Care Work', *Social Problems* 49/4 (2002), 455–73.

[22] R. E. Freeland and C. E. Harnois, 'Bridging the Gender Wage Gap: Gendered Cultural Sentiments, Sex Segregation, and Occupation-Level Wages', *Social Psychology Quarterly* 83/2 (2020), 129–51.

[23] P. England, 'Emerging Theories of Care Work', *Annual Review of Sociology* 31 (2005), 381–99.

[24] OECD, *Joining Forces for Gender Equality: What is Holding Us Back?* (2023), 174–5.

[25] C. Hardy et al., 'Work Outcomes in Midlife Women: The Impact of Menopause, Work Stress, and Working Environment', *Women's Midlife Health* 4/3 (2018); B. Ayers and M. S. Hunter, 'Health-Related Quality of Life of Women With Menopausal Hot Flushes and Night Sweats', *Climacteric* 16/2 (2013), 235–9.

not only due to menopausal symptoms but also due to embarrassment and concern about the reactions of others.[26] It has been shown that negative menopausal effects are reported no matter which type of occupation women perform.[27]

Policy recommendations

Care should no longer fall solely to women but be shared equally between women and men. To achieve this goal, the support of both the state and employers is needed. Society, including employers, must see men as no less responsible or capable than women for caring. To become more engaged in childcare, fathers need to have access to well-paid non-transferable childcare-related leave.[28] Studies show that non-transferable leave quotas for fathers have positive effects on gender equality in labour market outcomes.[29] Fully paid non-transferable leave for fathers, equal in length to maternity leave, would be an ideal solution, providing not only equality of rights to care for both parents but also financial sustainability and a strong symbolic message that care is as valuable as paid work. Policies should not only encourage fathers' involvement in childcare but also promote men's participation in care over the entire life course, including elderly care. Furthermore, following the European Commission's European Care Strategy, European states should also ensure access to full-time, affordable and flexible institutional childcare and elderly care. All European states should close childcare gaps. Institutional flexible and affordable long-term care services should also be developed along with childcare, as growing demand for these services is expected as a result of rapidly ageing societies. Finally, employers should facilitate work–life balance by offering employee-oriented flexible working arrangements with pay and promotion opportunities equal to standard work arrangements.

Increasing the participation of women in the labour force also requires equal career opportunities for women and men. To this end, it is pivotal to reduce gender-based segregation in the labour market by both increasing the presence of women in leadership positions and encouraging women and men to enter sectors and occupations traditionally dominated by the opposite gender. Like the OECD[30] and World Bank,[31] we recommend multidimensional actions implemented from early educational stages. These may include supporting gender-neutral teaching materials and providing training for teachers on how to avoid perpetuating gender stereotypes. Encouraging more men to enter the education field (especially to teach at the pre-primary and primary levels) is also needed to present diverse role models and more effectively meet the different needs of boys and girls.[32] Furthermore, policies should support workplace environments that accommodate the diverse needs of women and men and provide them with opportunities to excel. Instead of promoting a culture of excessive devotion to work, such as long hours and constant availability, workplaces should prioritise work–life balance and employees' mental well-being (e.g. through the flexible organisation of work, task sharing and respecting the need for time off work) and foster employees' inclusion (e.g. through penalising sexual and other types of harassment and providing training on gender sensitivity).[33] Furthermore, increasing remuneration in female-dominated professions that require the same or similar skills as male-dominated ones may help attract men

[26] M. J. Smith et al., 'Men and Women's Perceptions of Hot Flushes Within Social Situations: Are Menopausal Women's Negative Beliefs Valid?', *Maturitas* 69/1 (2011), 57–62; M. S. Hunter and K. Liao, 'A Psychological Analysis of Menopausal Hot Flushes', *British Journal of Clinical Psychology* 34/4 (1995), 589–99.

[27] S. D'Angelo et al., 'Impact of Menopausal Symptoms on Work: Findings From Women in the Health and Employment After Fifty (HEAF) Study', *International Journal of Environmental Research and Public Health* 20/1 (2022), 295.

[28] J. Ekberg, R. Eriksson and G. Friebel, 'Parental Leave – A Policy Evaluation of the Swedish "Daddy-Month" Reform', *Journal of Public Economics* 97 (2013), 131–43; A.-Z. Duvander and M. Johansson, 'What Are the Effects of Reforms Promoting Fathers' Parental Leave Use?', *Journal of European Social Policy* 22/3 (2012), 319–30.

[29] A. Patnaik, 'Reserving Time for Daddy: The Short and Long-Run Consequences of Fathers' Quotas', *Journal of Labor Economics* 37/4 (2019), 1009–59.

[30] OECD, *Joining Forces for Gender Equality*, 13–14.

[31] Das, Kotikula and Carranza, *Gender-Based Employment Segregation, iv–vii.*

[32] For more details see OECD, *Joining Forces for Gender Equality, 109–12.*

[33] For more details see Das, Kotikula and Carranza, *Gender-Based Employment Segregation, vi, 26–28.*

into these occupations and combat gender differences in pay. Such actions should diminish gender differences in pay gaps in the long run. Last but not least, efforts are needed to ensure equal opportunities for women and men in equivalent positions. The EU Pay Transparency Directive is a good step in this direction. Next steps could incorporate promoting transparency in hiring and promotion practices.

Finally, increasing women's participation in the labour market requires investment in their human capital, including skills and physical and mental health. Adapting work environments to women's health needs is crucial to maintaining higher productivity and preventing workforce withdrawal. Such actions should extend beyond pregnancy and maternity, encompassing a comprehensive understanding of women's health needs at various life stages, including menstruation and menopause. The European Menopause and Andropause Society guidelines emphasise the need for supportive workplace environments, including flexible working hours, improved access to health services, and increased awareness among employers to help mitigate the negative impact of direct and indirect menopausal symptoms on women's quality of life and work performance. Workplaces should support employees' access to medical services and offer periodic high-quality health evaluations. Finally, skill enhancement programmes are needed that are tailored to women in their mid-career stages, given women's susceptibility to skill depreciation due to care-related career breaks and their higher prevalence in positions at risk of automation.

	Programme 1	Programme 2	Programme 3
	Redistributing care responsibilities between parents, the welfare state and employers	**Fostering gender equality in professional careers and pay**	**Improving the ability of women to remain active in the labour market longer**
Project 1	Foster men's involvement in child and elderly care, for example, by ensuring access for men and women to equally paid care leave and promoting men's engagement in care through social campaigns.	Reduce gender segregation in occupations, particularly by encouraging women's entry into science and technology and men's uptake of traditionally female-dominated jobs.	Adapt work conditions to women's health needs at various life stages, extending the focus beyond periods of pregnancy and early childbearing to encompass menstruation and menopause.
Project 2	Advance full-time, flexible, high-quality and affordable child and elderly care.	Increase the share of women in managerial positions by ensuring both transparent promotion processes and working conditions that encourage a work–life balance in such positions.	Facilitate access to preventative healthcare through workplace environments.
Project 3	Incentivise employers to create conditions that facilitate work–family balance and ensure equal treatment of those working flexibly with those in standard working arrangements.	Ensure equal pay for women and men in equivalent positions by ensuring transparency of pay across all EU member states.	Develop skill enhancement programmes tailored, in particular, to women in the middle stages of their careers, enabling them to adapt to rapid technological changes in the labour market.

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Boosting the Participation of Both Young and Older People

by Arnstein Aassve

Summary

Increasing work participation among both younger and older populations is crucial for sustaining Europe's welfare systems and improving competitiveness. The 'radical change' Europe requires, according to Mario Draghi, includes achieving higher participation rates. Reducing the number of young people neither in employment nor in education or training cannot come solely through reliance on current Youth Guarantee policies; educational systems need reforms that prioritise investment, inclusion and lifelong learning. Additionally, with rising longevity, pension systems face growing pressure. While increasing the retirement age seems politically difficult, a promising solution lies in the introduction of flexible pension schemes, allowing individuals to work longer if desired while ensuring equitable protection for those opting to retire at the statutory age. A key point here is that these policy challenges have emerged gradually over decades and will have enduring consequences: the required long-term policy reforms must be removed from the short-term political cycles, as future generations will need to be able to rely on stable policies, no matter which political party is in office.

Keywords Youth participation – Ageing and retirement – Policy cycle

Introduction

European welfare systems were established during a time when Europe's demographic landscape was vastly different from that of today. Fertility rates were significantly higher, and life expectancy was lower, which made the pay-as-you-go pension system more sustainable. However, populations across Europe are now ageing, as individuals live longer and healthier lives, while fertility rates continue to decline.

To address this demographic shift, increasing labour market participation is essential as a means to compensate for the growing number of retirees and persistently low birth rates. The available policy levers are well known, though not all will provide immediate solutions to the ageing population challenge. There is no single solution: the issue must be tackled through a range of policy responses, including those on migration, enhanced productivity through technological innovation and—though not effective in the short term—efforts to raise fertility rates.

Additionally, one crucial policy direction has the potential for a significant impact if properly focused and implemented. The EU has vast untapped potential in both its youth and older age groups. This paper outlines strategies to enhance participation among these demographics, identifies the policy challenges and suggests potential solutions.

Youth participation

As highlighted in Mario Draghi's recent report, the future competitiveness of Europe will, in part, depend on achieving significant advancements in technological innovation, which must be translated into job creation and the development of industries capable of competing on the global stage.[1]

[1] M. Draghi, *The Future of European Competitiveness. Part A: A Competitive Strategy for Europe* (September 2024).

The demographic profile of the EU presents significant challenges.[2] For the first time in human history, the traditional age-pyramid of Europe is no longer a pyramid. Rather, it has turned upside down to resemble a mushroom shape: the proportion of older individuals has increased dramatically—outnumbering the youth cohorts. In other words, in the inverted age-pyramid of 2024, there are few young people and an abundance of baby boomers nearing retirement: European pension systems will be put under tremendous strain.

But perhaps even more worrying is that among the shrinking cohort of young people aged 15 to 29, the number of those neither in employment nor in education or training (NEET) stood at 11.2% in 2023. This represents a dramatic number of inactive people. There are, however, substantial variations across EU member states. The NEET rate in 2023 ranged from 4.8% in the Netherlands to 19.3% in Romania. Significant regional disparities also exist within countries. For example, in 2020, the NEET rate in the Italian region of Trentino was 13.5%, while in Sicily it reached a peak of 37.5%.

The concept of NEET gained prominence following the 2008 economic recession. In response, significant policy initiatives were implemented, most notably through the Youth Guarantee, which was further strengthened in 2020.[3] However, despite these efforts, the financial burden of NEETs remains substantial. Eurofound has estimated,[4] for the year 2021 alone, the cost of foregone earnings and excess welfare transfers to be a staggering €141 billion. Moreover, despite the introduction of the Youth Guarantee, the estimated cost over the past decade has not seen a significant decline.

Despite declining since 2008, the persistence of NEETs is not favourable for European competitiveness. Becoming a NEET significantly compromises an individual's chances of gaining a foothold in the labour market, hinders economic independence, and has long-term scarring effects over the course of their lives, including in old age.[5] The fundamental issue is that NEETs do not participate as productive citizens. On the contrary, they often depend on support from family members or the state. What, then, are the potential policy levers to address this situation?

Do our school systems play a role in helping young adults become productive citizens? There are certainly stark differences across Europe.[6] The Nordic education system is inclusive, with low dropout rates and an extremely low NEET rate. Notably, a high percentage of students in these countries enter tertiary education, ensuring a highly educated younger generation. Conversely, in regions where the NEET rate is high, enrolment in tertiary education is significantly lower. Although establishing causality is challenging, the evidence suggests that where schools prioritise inclusion, dropout rates and NEET rates tend to be lower, which means that a larger proportion of youth contributes to our economies.

Do schools provide young adults with appropriate training? This is, of course, a complex issue, and the body of literature addressing it is extensive.[7] Even without an examination of curricular specifics, it is clear that given the revised pension systems (where contributions are becoming more significant), the rise of private healthcare provision and the fact that people live longer, young adults need to be better equipped to plan for the whole course of their life. Moreover, with rapid technological advancements, the educational needs of today's youth differ substantially from those of previous generations. Ultimately, an effective school system should help young individuals develop resilience, preparing them to navigate both present and future challenges.

2 European Commission, *The Impact of Demographic Change in a Changing Environment* (2023).

3 Council Recommendation of 30 October 2020 on A Bridge to Jobs – Reinforcing the Youth Guarantee and replacing the Council Recommendation of 22 April 2013 on establishing a Youth Guarantee, OJ C372 (4 November 2020), 1.

4 Eurofound, *Becoming Adults: Young People in a Post-Pandemic World* (Luxembourg, 2024).

5 K. Ralston et al., 'Economic Inactivity, Not in Employment, Education or Training (NEET) and Scarring: The Importance of NEET as a Marker of Long-Term Disadvantage', *Work, Employment and Society* 36/1 (2022).

6 L. van Vugt et al., 'The Role of Education Systems in Preventing NEETs', in M. Levels et al. (eds.), *The Dynamics of Marginalized Youth Not in Education, Employment, or Training Around the World* (London: Routledge, 2022).

7 OECD, 'How School Systems Prepare Students for Their Future', in OECD (ed.), *PISA 2018 Results* (Volume II): *Where All Students Can Succeed* (Paris: OECD Publishing, 2019).

Female labour force participation represents another significant area of untapped potential in addressing the challenges of an ageing society.[8] In 2023 the female employment rate in the EU stood at 70.2%, with a gender employment gap of 10.2 percentage points. However, there are considerable disparities across EU member states. For instance, the female employment rate in Sweden reached 80.2%, while in Greece it was significantly lower, at 57.6%. Increasing female labour force participation would not only capitalise on otherwise under-utilised capacity but, as multiple studies suggest, closing this gender participation gap would also significantly boost GDP growth and help alleviate the pressure from the ageing population.

Increasing participation among the older population

The increased longevity in Europe is a remarkable success story. It means that today, a 65-year-old can expect to enjoy 20 years of healthy retirement. Only a few decades ago, such an extended retirement period would have been unimaginable. However, sustained low fertility rates have turned increased longevity into a challenge. Today, the choice is clear: either retirees must accept lower pension payments or they will need to extend their working lives.[9]

Is raising the statutory retirement age a realistic policy option? If we look to France, the answer seems to be a resounding 'No'. The increase in the statutory retirement age from 62 to 64 sparked nationwide violent protests.

Several arguments are commonly raised against increasing the retirement age. First, individuals with physically demanding jobs understandably resist the idea of working beyond the normal 40-year contribution period. If their work has caused health issues or prolonged strain, this argument is reasonable and deserving of consideration. Another frequently raised concern, particularly among younger people, is that if older workers remain in the labour market longer, they will occupy jobs that should go to those in the younger generations. This, it is argued, is unfair and hinders the younger generation's ability to transition into adulthood and contribute to the workforce.

While these concerns are strongly held by many, neither is valid. The latter argument assumes a static labour market in which the number of jobs is fixed and the employment of older individuals reduces opportunities for younger workers.[10] However, labour markets are far from static; they are evolving rapidly. Many jobs currently held by older workers will disappear due to technological advancements. The key lies in job creation: as the economy progresses through technological change, new jobs will emerge that require skill sets which younger workers are often better equipped to handle.

Is raising the statutory retirement age politically tenable? While France's 2023 pension reform, which raised the retirement age from 62 to 64, was met with fierce protests, there are examples of successful reforms elsewhere.[11] Norway recently raised its retirement age to 72. However, the Norwegian approach differs significantly. Such an estimated increase is achieved by allowing individuals to choose how long they wish to work beyond the statutory retirement age. It is not unreasonable to think that many would prefer to work longer if given the opportunity. This may be true in many European countries, including France. If individuals were allowed to

8 J. Fluchtmann, M. Keese and W. Adema (eds.), *Gender Equality and Economic Growth: Past Progress and Future Potential*, OECD Social, Employment and Migration Working Paper no. 304 (Paris, 2024).

9 European Commission, *2024 Ageing Report: Economic and Budgetary Projections for the EU Member States (2022–2070)*, European Economy Institutional Paper 279 (Luxembourg, Publications Office of the European Union, 2024); European Commission, Directorate-General for Employment, Social Affairs and Inclusion, *The 2024 Pension Adequacy Report – Current and Future Income Adequacy in Old Age in the EU* (vol. 1) (Luxembourg, Publications Office of the European Union, 2024).

10 R. Böheim and T. Nice, 'The Effect of Early Retirement Schemes on Youth Employment', *IZA World of Labor* 70 (2019).

11 A. P. Fouejieu et al., *Pension Reforms in Europe: How Far Have We Come and Gone?*, International Monetary Fund, Departmental Paper no. 2021/016 (Washington, DC, 2021).

choose their retirement age, the average retirement age would likely be higher, even in France. There are several lessons to be learned from this flexible approach to retirement:

- Long-term policy reforms should be insulated from short-term political cycles. The reform in Norway is grounded in solid demographic projections, which, unsurprisingly, show that people are living longer and healthier lives.
- Reforms with significant ramifications require broad political consensus and support. The underlying principles must be agreed upon before consultations begin.
- A flexible retirement system must carefully incorporate equity and incentive structures. Those unable to work beyond the minimum statutory age should not be disadvantaged in a system where others can continue working.

Lifelong learning 2.0

The increasing longevity and extended working lives of individuals have significant implications for how we approach education. Traditionally, education is completed with secondary or tertiary schooling, after which young adults are expected to have acquired the necessary skills for their chosen careers and then work until retirement. However, with the rapid pace of technological change, as exemplified by the rise of artificial intelligence, labour markets are evolving swiftly. The challenge is that beyond acquiring relevant education for their initial jobs, people have to face the fact that technological advancements will render many current occupations obsolete. Therefore, educational systems must adapt to a new reality in which people will remain in the workforce for much longer before retiring.[12]

While flexibility in retirement is a positive step, it becomes less beneficial if individuals lose their jobs well before their planned retirement age. In the future, it will be more practical for individuals to attend college multiple times during their working lives.[13] For instance, after obtaining a college degree at the age of 23, they should have the opportunity to return to college at age 40, and again at age 55. This would allow people to retrain and acquire new skills in response to technological advancements and innovation. Moreover, this system would likely encourage older individuals to remain in the workforce longer.

Implementing such a system would require a significant rethinking of how tertiary education is designed, particularly with regard to funding. A system that allows adults to return to study for additional degrees would place financial burdens not only on the state but also on individuals and families, especially those with young children. One potential solution could involve expanding the current system of pension contributions. In addition to contributions toward future retirement payments, individuals could make fixed contributions towards a retraining sabbatical period, starting from the moment they enter the labour market in their early twenties.

The overall cost of such a system would be substantial. However, if one compares the cost of a worker being excluded from the workforce at age 50 with that of an individual who continues to contribute until a retirement age of 75, the net benefit would likely be significant.

[12] P. Fidalgo and J. Thormann, 'The Future of Lifelong Learning: The Role of Artificial Intelligence and Distance Education' in F. Gomez Paloma (ed.), *Lifelong Learning – Education for the Future World* (IntechOpen, 2024).
[13] OECD, *Back to the Future of Education: Four OECD Scenarios for Schooling*, Educational Research and Innovation (Paris, 2020).

Short-term remedies

Digital skills and public–private partnerships

Long-term strategies must align with short- and medium-term goals. While the educational systems of the future will require comprehensive reform, some actions can be taken immediately.[14] One such step is to integrate digital technologies into school curricula alongside traditional subjects. Currently, much of the older generation is excluded from the benefits of digitalisation due to limited or no prior training, as they grew up in a time when digital technology was not prevalent.

The digitalisation process now profoundly impacts public and private services, both of which increasingly require basic knowledge of information technology. A lack of digital literacy poses a risk to older workers, as more jobs demand digital competency.

The public sector plays a key role, but because this issue affects the private sector too, policymakers should prioritise partnerships with private firms. Private companies, in collaboration with governments, should be incentivised to retrain and support workers nearing the end of their careers. Retraining workers, rather than laying them off, is a more effective use of resources, and public–private partnerships will be essential for successful implementation.[15]

Even with broad improvements in digital skills, many people will still struggle to navigate institutions due to the complexities of the digital transformation and cybersecurity requirements. A neglected factor here is user-friendliness. Bureaucratic procedures are often overly complicated, making it difficult for older citizens—who were not exposed to digital technology during their education—to navigate these systems effectively.[16]

Increasing the workforce in long-term care

As working lives extend and lifelong learning becomes key to promoting active ageing, the demand for care work is expected to rise sharply. With increased life expectancy, the nature of elderly care is evolving, with conditions such as dementia becoming more prevalent.

To address this growing need for care, immigration could play a crucial role. However, proper training and qualifications for immigrants are essential. Currently, approximately 34 million people in the EU were born outside its borders (around 8% of the population), and 10% of young people (age 15–34) have at least one foreign-born parent. While the healthcare sector urgently requires more workers, only a limited number of immigrants possess qualifications that meet EU standards.

The European Commission's 2021 Long-Term Care Report stresses the need for action.[17] Immigrants offer valuable skills, with over a quarter being highly educated. However, about 40% of them are over-qualified for their jobs, while nearly 20% have only primary education and need additional support. Many domestic workers, often women with migrant backgrounds, face poor working conditions, frequently working undeclared or as bogus self-employed, and receive low wages and inadequate labour rights. The International Labour Organization's Convention 189 sets standards for decent working conditions for domestic workers, but only eight EU member states have ratified it.

Migrant care workers frequently operate in precarious, informal employment. To meet the demand for care,

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[14] European Commission, 'Digital Education Action Plan 2021–2027: Resetting Education and Training for the Digital Age'.
[15] H. A. Patrinos and F. Barrera-Osorio, *The Role and Impact of Public–Private Partnerships in Education (English), World Bank (Washington, DC, 2009)*.
[16] S. J. Czaja et al., 'Factors Predicting the Use of Technology: Findings From the Center for Research and Education on Aging and Technology Enhancement (CREATE)', *Psychology and Aging* 21/2 (2006) 333–52.
[17] Council Recommendation of 8 December 2022 on access to affordable high-quality long-term care, OJ C476 (15 December 2022), 1.

sustainable and legal migration pathways must be developed to provide opportunities for migrant workers and address labour shortages in the care sector.[18]

	Programme 1	Programme 2	Programme 3
	Facilitating longer working lives	**Increasing labour force participation through education and training**	**Investing in the digitalisation of public services**
Project 1	Increase the state pension age. Norway is one country with a general agreement to increase the retirement age to 72, though with important elements of flexibility.	Expand and facilitate training in care-related occupations, in particular for those with an immigrant background. EU institutions could play a role in establishing educational or training standards that would lead to an EU certification. This would help open up access to professions that can be over-protected by domestic rules.	Expand training and education to improve citizens' digital competency and their preparedness for the digital age.
Project 2	Develop flexible retirement schemes. Flexibility should offer not only a choice in terms of the number of additional years worked, but also whether those years are taken as part-time work. Such a system may require collaboration between the private sector and the state.	Reform education with the aim of reducing the share of young people who leave school without basic skills and addressing youth unemployment. This will require changes to long-established educational systems, but will make education more inclusive	Simplify and make digital services in the public sector more accessible and user-friendly, particularly for older people. Avoid older people needing to be dependent on younger family members for assistance.
Project 3	Expand schooling and retraining for the older age strata of the population. Universities should enable individuals in their 40s, 50s and 60s to re-enter education and gain new qualifications to ensure longer and more meaningful working lives.	Make educational reforms to respond to the technological developments that are leading to jobs, professions and occupations changing or disappearing. The modern education system needs to provide opportunities to upgrade one's education or retrain, as opposed to ending up inactive and becoming dependent upon state welfare benefits or family support.	Expand and develop existing training facilities to improve the digital competency of the older generations.

[18] European Commission, *Action Plan on Integration and Inclusion 2021–2027*, Communication, COM (2020) 758 final (24 November 2020).

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van Vugt, L. et al., 'The Role of Education Systems in Preventing NEETs', in M. Levels et al. (eds.), *The Dynamics of Marginalized Youth Not in Education, Employment, or Training Around the World* (London: Routledge, 2022), 205–18.

Leveraging the Potential of Migrants and Diasporas

by Rainer Münz

Summary

Europe is experiencing shrinking workforces and native populations. This is the long-term result of low fertility rates. With the baby-boomer generation entering retirement, the gap is rapidly widening. As a consequence, EU countries should try to increase the labour force participation of older people in general and members of certain diaspora groups in particular—with a special focus on the 18–25 age group, as well as on women with non-EU migrant backgrounds. This requires both changes to the educational system to deal with the growing number of children with a migrant background and more integration measures targeting adult migrants with low levels of education and little work experience. Beyond these adaptations, EU countries will need to develop admission policies that mainly attract labour and skills compatible with EU labour market needs. Smart migration policies will have to put the employability of newly admitted migrants at their centre. In this context pre-departure measures should be discussed. At the same time, EU countries should speed up the recognition of skills that migrants have acquired in their countries of origin and offer upskilling wherever this is required. From a socio-economic point of view, it is inefficient for migrants to work below their skill levels.

Keywords Labour markets – Labour migrants – Migration policy – Integration of migrants – Educational systems

State of play

Europe is facing two fundamental demographic shifts that are impacting our societies and economies. On the one hand, the number of deaths in EU countries is higher than the number of births—this has been the case since 2013. And this gap between the increasing numbers of deaths and the declining numbers of births is widening.[1] As a result, Europe's native population has started to shrink. This trend will almost inevitably continue in the coming decades.[2] On the other hand, the large baby-boomer generation, born in the 1950s and 1960s, is retiring. At the same time, because of persistently low fertility rates, leading to low numbers of births, Europe's younger generation, which is leaving the education system and entering the labour market today, is about 35% smaller than the retiring generation that is vacating positions on the labour market. The consequences of this are pretty clear: Europe's population is ageing rapidly and Europe's domestic labour force is declining. This is creating a shortage of labour and skills in a variety of sectors across Europe.[3] And the decline of native populations throughout the EU and beyond will mean that this shortage continues to increase in the years and decades to come as no return to higher fertility and surging numbers of births is in sight.

In this situation some people—particularly those representing business interests and affected public services—see immigration as a potential solution to the demographically induced shortage of labour and skills. Data on immigrant integration show, however, that many third-country nationals arriving in Europe and settling in an EU country do not quickly join the labour force.[4] There are two main reasons for this unsatisfactory economic and labour market outcome.

1 Eurostat, *Demography of Europe – 2024 Edition* (2024).
2 Eurostat, 'Population Projections at Regional Level' (2021).
3 European Commission, 'Tackling Labour and Skills Shortages in the EU', Press Release, 20 March 2024.
4 Eurostat, 'Employment Rates by Sex, Age and Citizenship' (2022); OECD and European Commission, *Indicators of Immigrant Integration 2023: Settling In* (Paris, 15 June 2023).

The first reason has to do with deficient integration policies and regulations hindering migrants from fully deploying the skills they acquired in their sending countries. Lengthy or inadequate recognition procedures make it difficult for potential employers to assess the employability of skilled or semi-skilled non-EU migrants. In certain cases discrimination might also be at play. As a result, despite skills shortages in the EU27, more than a third of all working migrants are employed below their skill level, obviously leading to brain waste.[5] The same is also true for many intra-EU migrants.[6] This also has a negative impact on productivity.[7] To fully leverage the talent of immigrants it is crucial to speed up and standardise skills recognition.[8] EU member states should cooperate by establishing a Europe-wide register for educational attainment and skills equivalency, applicable in all EU countries. This would also make it easier for non-EU migrants to move between EU countries.

The second reason is related to the nature and origins of recent immigration flows to the EU. During the past 15 years, inflows of non-EU citizens to EU countries have been dominated by asylum seekers, displaced Ukrainians, dependent family members and marriage migrants. Less than 20% of recent arrivals have been admitted due to their education or skills.[9] Consequently, many migrants arriving via the dominant pathways do not match the EU's labour market needs. For some of them, becoming economically active is not even at the centre of their decision to move to Europe.[10]

While more targeted migration and admission policies are relevant for future labour market outcomes, it is also important to activate those segments of the European resident populations that have a migrant background and low labour force participation.[11]

Among natives and intra-EU migrants, some three in four people (age 18+) are working. Among adult migrants born outside the EU less than two in three are economically active. The gap is particularly visible among women. Only one in two non-EU-born women residing in the EU is working, while this is the case for three out of four EU-born women.[12]

There are two main groups of people with a migrant background that have below average labour force participation. The first comprises young people who have left the education system without achieving any qualifications. This group consists of those who were born and raised by immigrant parents but have failed to successfully meet minimum standards during their educational careers.[13] It also includes those who arrived in their early or mid-teens and were not able to be integrated into the regular curriculum. Even in times of shortages, their chances on the EU labour markets are reduced. As a result, about one in five young people with a non-EU migrant background are not in employment, education or training (NEET).[14]

The other group consists of women with non-European roots. Currently their labour force participation is also considerably lower than the average among native women.[15] On the one hand this might have to do with a lack of skills. Many female migrants from African and Western Asian countries will have attended school

[5] Eurostat, 'Non-Nationals More Likely Over-Qualified Than Nationals', 9 March 2023; T. Sparreboom and A. Tarvid, *Skills Mismatch of Natives and Immigrants in Europe*, International Labour Organization (Geneva, 2017).

[6] *Scilog*, 'Why EU Migrants End up in Jobs Below Their Qualifications', 17 June 2024.

[7] A. Vandeplas and A. Thum-Thysen, *Skills Mismatch and Productivity in the EU*, European Commission Discussion Paper 100 (Luxembourg, July 2019).

[8] V. Margaras, and K. Eisele, *Recognition of the Qualifications of Third-Country Nationals*, European Parliamentary Research Service, Briefing PE 754.594 (November 2023).

[9] R. Muenz and J. Yaryyeva, *Immigration to Europe: The Big Picture for the EU and Its Member States*, Martens Centre (Brussels, 2024).

[10] This is particularly true for some of the marriage migrants.

[11] European Commission, *Action Plan on Integration and Inclusion 2021–2027*, Communication, COM (2020) 758 final (24 November 2020).

[12] Eurostat, 'Employment Rates by Sex, Age and Citizenship'.

[13] A. Behr and G. Fugger, 'PISA Performance of Natives and Immigrants: Selection Versus Efficiency', *Open Education Studies* 2/1 (2020).

[14] Eurostat, 'Young People Neither in Employment nor in Education and Training by Sex, Age and Labour Status (NEET Rates)' (2024).

[15] Eurostat, 'Employment Rates by Sex, Age, Educational Attainment Level, Citizenship and NUTS 2 Region' (2024).

for less than eight years. On the other hand, it may be partly the result of cultural values imported from their countries of origin, where there is little or no tradition of women—and mothers, in particular—working in the formal sector of the economy.[16]

Discussion and recommendations

The EU's emerging demographic and labour deficit could be addressed several ways. The most sustainable ways to reduce the lack of labour and skills would be to achieve the following:

1. Higher labour force participation among older people, through either a substantial rise in the retirement age (ideally by automatically linking the statutory pension age to increasing life expectancy, as has happened in Denmark and Sweden) or arrangements that allow and encourage older people to stay economically active while also receiving an old-age pension.

2. Higher labour force participation among migrants already residing in the EU, especially among those from non-EU countries and female migrants.

3. The admission of new foreign labour with skills that match the unmet demands of the European labour markets.

In the short term, 'importing' foreign labour through immigration is the quickest 'remedy' to the apparent shortages in Europe's domestic labour markets. Such a policy clearly has implications for the composition and fabric of European societies. And this strategy will only work if these migrants expediently integrate into these labour markets. EU countries therefore need to develop smarter migration policies, including in terms of admission on legal and humanitarian grounds where this is mandated. This could include requiring pre-departure enrolment in language classes or targeted upskilling for marriage and family migrants prior to the granting of a residence permit.[17]

The strategy has at least two prerequisites:

1. It needs to be based on a careful selection process with a clear focus on the expected employability of admitted immigrants.[18]

2. It requires wage levels, working conditions and a social environment that is able to attract the right mix of migrants.[19]

The admission process should include (whenever possible) solid documentation of already acquired skills, as well as pre-departure measures such as online or in-person language training at the place of origin.[20] Both would help to speed up economic integration in the destination country once the admitted labour migrants settle in. Wherever necessary, this should be accompanied by continued post-arrival language training and onboarding at the new workplace.[21] Non-discrimination measures should be enacted and enforced to create a level playing field between migrants and native participants in the labour market.

Employers could play a crucial role in future selection processes by assessing the potential of candidates applying for work permits and their need for additional qualifications. The fact that a person applying for a

[16] A. Orav, *Migrant Women and the EU Labour Market. Overcoming Double Discrimination*, European Parliamentary Research Service, Briefing PE 747.905 (Brussels, May 2024).
[17] A. Chindea, *Headstart to Integration: A Global Review of Pre-Departure Support Measures for Migrants*, Institute of Migration (Geneva, 2015).
[18] European Commission, Directorate-General Migration and Home Affairs, 'Labour Migration Platform', 5 March 2024.
[19] European Commission, 'Legal Migration: Attracting Skills and Talent to the EU', Press Release, 27 April 2024.
[20] Chindea, *Headstart to Integration*; Migration Policy Institute Europe, *More Cooperation on Immigrant Integration Before Departure Would Benefit Origin and Destination Countries*, Policy Brief (17 February 2015).
[21] U. Hanemann, *Language and Literacy Programmes for Migrants and Refugees: Challenges and Ways Forward*, UNESCO (Paris, 2018).

work permit already has a job offer from an employer in the destination country could be used as a labour market test and therefore as a selection criterion.[22]

In parallel to improved admission processes, a welcoming environment for those whom EU countries want to attract is becoming ever more relevant as other parts of the world are also experiencing ageing and potentially or actually shrinking native populations. As a result, a growing number of developed countries are also looking for globally mobile talent and skills. In this the—so far rather reluctant—EU countries are competing not just with each other, but also with the US, Canada and Australia, as well as Singapore, Korea and the Gulf states.[23]

A welcoming environment needs to include provisions for the children of labour migrants who are either coming with them or joining them at a later time. It is important that these children not only receive intensive language training from the outset but are also well integrated into the education systems of the receiving countries and able to leave school with qualifications. This is an important prerequisite for their future ability to join the labour market of the receiving country and should be seen as a long-term benefit of current investments in their education by the receiving EU countries. This will require a reorientation of existing preschool and school systems.[24]

Today, Europe's education systems are mostly oriented towards the educational requirements of domestically socialised children with sufficient command of the country's main language. Increasingly, however, these systems need to be able to integrate children of very different cultural and linguistic backgrounds.[25] These children often do not speak the language of instruction and may even have learned to read and write using a different alphabet. Some refugee children may have grown up under conditions that did not allow them to attend primary or secondary school in their home country or in a transit country.

It is crucial that EU countries do not see the integration of children with migrant backgrounds as only a transitional challenge that relates to refugees and their family reunions triggered by inflows of asylum seekers. It needs to be seen as a permanent task that is linked to future labour recruitment efforts which will lead to family migration. And the quality of the education system, including its ability to deal with the children of immigrants, is also an important criterion that is considered by globally mobile qualified labour when it comes to decisions about where to settle.

An important goal of current and future integration policies should be to better leverage the potential of migrants and diaspora members already living in an EU country. Wherever necessary, qualified migrants whose skills do not fully match the required standards of the receiving countries should be given the opportunity to upskill. This is of particular relevance, for example, for migrant labour employed in the health sector.

By the same token, foreign students graduating from colleges and universities in EU countries should be given the opportunity to remain in the EU and become economically active. This needs to include an extension of their residence permits in order to facilitate job hunting for recent graduates from non-EU countries.[26]

At the same time, economically inactive young adults (i.e. NEETs) should be activated and given access to European labour markets. Despite the fact that the overall share of NEETs in the population is declining, they are still over-represented among young people with a migrant background whose parents have come from

[22] P. Nigitsch, M. Weigle and F. Frongia, *Cultivating Talent: Exploring Effective Talent Attraction and Retention Practices in and Beyond the EU*, International Centre for Migration Policy Development (Vienna, 2024).

[23] R. Muenz, *The Global Race for Talent: Europe's Migration Challenge*, Bruegel (Brussels, 2014); L. Cerna, *Immigration Policies and the Global Competition for Talent* (Basingstoke: Palgrave Macmillan, 2016); *Trade in Motion*, 'The Global Race for Talent' (2024).

[24] European Commission, 'Refugee and Migrant Integration Into Education and Training' (2022).

[25] A. Orav, *Integration of Migrant Children*, European Parliamentary Research Service, Briefing PE 754.601 (Brussels, November 2023).

[26] Global Education Monitoring Report Team, *Global Education Monitoring Report, 2019: Migration, Displacement and Education: Building Bridges, not Walls*, UNESCO (Paris, 2018).

countries outside Europe.[27] Integrating NEETs will require concentrated training efforts and—ideally—financial support linked to training outcomes in order to create a material incentive.

Another group with low levels of labour force participation are women with non-European roots. As a consequence, targeted measures addressing female diaspora members need to be designed to make them ready for European labour markets. This should include programmes to improve literacy and numeracy, specific skills transference and language support, as well as health measures.[28] As many of these women are taking care of children, such measures need to be combined with an expansion of preschool facilities and afterschool childcare (possibly with language training and homework support provided). This combination of programmes and policy measures would definitely have the potential to foster the socio-economic integration of these women.[29]

Conclusion

To sum up, Europe faces demographic challenges due to shrinking native populations and workforces. Recruiting migrants could be a partial answer to these challenges, but EU countries will need to develop admission policies that mainly attract the labour and skills compatible with EU labour market needs. Additionally, they should implement integration and non-discrimination policies that enable newly arriving migrants to fully deploy their already acquired skills and to upskill, if necessary. At the same time EU countries should make better use of the potential of those already residing in Europe. This requires the introduction of measures and incentives to encourage young people and adult women with non-EU migrant backgrounds to join the labour force.

	Programme 1	Programme 2	Programme 3
	Developing a better migration policy	**Speeding up the economic integration of migrants and diaspora members**	**Supporting the integration of people with migrant and diaspora backgrounds, in particular women**
Project 1	Develop admission criteria which have a clear focus on employability.	Improve mechanisms for the recognition of non-EU qualifications, including those of Ukrainian refugees.	Increase efforts to integrate immigrants, including by insistence on language learning.
Project 2	Require pre-departure integration efforts such as language training and skills documentation.	Develop anti-discrimination measures.	Upskill immigrants and diaspora members with low levels of education and work experience.
Project 3	Provide intensive language training and targeted onboarding for migrants admitted for their labour and skills.	Establish a global register for educational attainment and skills equivalency, applicable in all EU countries.	Expand preschool facilities and after-school care for children (including providing support for language learning and homework). Develop curricula for young migrants arriving with little or no formal education.

27 OECD and European Commission, *Indicators of Immigrant Integration 2023: Settling In* (Paris, 2023).
28 A. North, *Gender, Migration and Non-Formal Learning for Women and Adolescent Girls*, UNESCO (Paris, 2019).
29 European Commission, *Action Plan on Integration and Inclusion* 2021–2027.

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Addressing Depopulation

by Tado Jurić

Summary

The decline in the native population in the EU is being caused by several factors, and these are not equally present in all member states. Certain member states, especially those on the periphery of the EU, are more affected than others. As peripheral regions become increasingly depopulated, the 'ring of desert' effect that appears in these areas also starts to impact developed regions. To address these issues, all EU member states and institutions should work together. As well as a decline in the birth rate and the rapid ageing in numerous EU peripheral regions, the spatial distribution of the population in the EU plays important role. All these challenges are accompanied by a lack of accurate statistics on migration. Encouraging immigration from third countries cannot be the only answer to this challenge, if for no other reason than because of the polarisation that this produces in EU societies. Instead, it is necessary to focus on structural measures such as remote work (spatial distribution), combating corruption and clientelism, developing a new approach to monitoring migration, recompensation (provide financial support to centres of excellence on the EU periphery as a form of compensation for the emigration of skilled workers, in whose education large sums are invested), improving infrastructure and establishing an EU-level office tasked with exchanging best practices in dealing with the various demographic challenges.

Keywords Depopulation – Periphery – Remote work – Brain drain – Corruption – Demographic measures

Introduction

Europe is the only inhabited continent that has experienced the demographic decline of its native population over the past decade;[1] all the others have undergone rapid population growth. In the 1970s Europeans constituted 14% of the global population, but today their share has fallen to 6%, and they are likely to make up only 4% of the population in less than half a century.[2] Additionally, Europe is the continent with the oldest population.

The native population decline in the EU is influenced by several factors: low fertility rates, emigration, an ageing population, economic factors and urbanisation.[3] It is only due to immigration from third countries that the EU has not experienced depopulation overall.[4] The aforementioned factors are not equally present in all member states, meaning that certain countries (the periphery of the EU,[5] Eastern and South-Eastern Europe) are more affected than others.[6] Internal EU migration, predominantly involving young, educated and skilled workers and their families, is characterised by movement from peripheral areas to the central regions.[7] This trend is creating a 'geography of discontent' (a social phenomenon in which a significant portion of the population living in

[1] Eurostat, *Demography of Europe – 2023 Edition*.

[2] European Commission, *The Impact of Demographic Change – In a Changing Environment*, Staff Working Document, SWD (2023) 21 final (17 January 2023), 9.

[3] Z. Brzozowska et al. 'Depopulation Trends in Europe: What Do We Know About It?', Population Europe (2021).

[4] Eurostat, 'Population and Population Change Statistics' (2024).

[5] The 'core' countries are typically the more economically developed and politically influential members of the EU. These countries often have stronger economies, higher GDP per capita and more stable political systems. Examples of core countries include Germany, France, the Netherlands and Belgium. These nations are often seen as the driving forces behind EU policies and decisions. The 'peripheral' countries are generally less economically developed and have less political influence within the EU.

[6] In 2023 the population increased in 20 EU countries, while it decreased in 7 (all on the periphery).

[7] T. Jurić, 'The "Structural Pessimism" of the EU Periphery: Measures to Establish a New Revitalisation Paradigm', *European View* 23/2 (2024)

certain territories feels aggrieved or dissatisfied) in the sending countries, further encouraging emigration. The population decline is severe in the Baltic states, and even more so in Croatia, Bulgaria and Romania. During the past 35 years, nearly 10 million people (mainly the young and primarily from the peripheral parts) are estimated to have left South-Eastern Europe (SEE)—about 22% of the population of the early 1990s.[8] Notably, depopulation in SEE is driven mainly by massive emigration rather than natural decline, with 65% attributed to this factor.[9] Policies that attract young workers to the EU's centre, combined with corruption and weak institutions in the countries of origin, are significant drivers of contemporary migration from the EU periphery.

Additionally, countries such as Spain and France are witnessing an outflow of people from rural areas due to inadequate infrastructure and services, poor job quality and declining incomes. There is no doubt that depopulation will seriously affect the social capital of Eastern Europe (EE) and SEE in the future—in the last eight years, the number of students and pupils has fallen by 10% in SEE.[10] Furthermore, depopulated regions often suffer from reduced economic activity, labour shortages and a shrinking tax base. This economic decline can lead to a vicious circle of further outmigration and reduced investment, but also to various social challenges, such as the closure of schools, healthcare facilities and other essential services.

State of play

The right to freedom of movement is one of the most positive achievements of European integration. It has created several benefits for the EU (allowing redistribution from areas with high unemployment to areas with a demand for workers, contributing to stronger European integration and promoting intercultural dialogue), but it has also had many negative effects on less-developed regions (i.e. the periphery). Namely, freedom of movement disrupts these regions' production and tax bases and increases the disparities between the more- and the less-developed regions of the EU, a result which is in complete opposition to the aims of EU cohesion policy.[11] The European Committee of the Regions warns that the phenomenon of brain drain poses a risk to the long-term sustainability of the European project if the social and economic imbalances between the sending and receiving regions remain unaddressed.[12]

Apart from economic factors, which most often stand out as a key push factor for emigration, the next element that explains the migration from the periphery to the EU's centre is related to the quality of institutions and the political climate.[13] Emigrants move from countries with weak institutions to those with stronger institutions.[14]

The main motives for emigration among people from SEE and EE are thus not only economic. There is an apparent link between a lack of political ethics, weak institutions and emigration. The immorality of political elites, legal insecurity, and presence of nepotism and corruption are at the top of the list of reasons to emigrate. A particularly worrying finding is that not only are citizens emigrating because of corruption, but due to their

[8] T. Jurić, *'Gastarbeiter Millennials': Exploring the Past, Present and Future of Migration From Southeast Europe to Germany and Austria With Approaches to Classical, Historical and Digital Demography* (Hamburg: Verlag Dr Kovač, 2021), 150.

[9] Ibid.

[10] T. Jurić and F. Hadžić, 'Posljedice recentnog iseljavanja na obrazovni sustav i dostupnost radne snage u Hrvatskoj i zemljama Zapadnog Balkana' [Consequences of Recent Emigration for the Education System and Labour Availability in Croatia and the Western Balkans], in M. Perić Kaselj (ed.), *Migracije i identitet: kultura, ekonomija, država* (Zagreb: IMIN, 2022).

[11] I. Goldner Lang and M. Lang, 'Mračna strana slobode kretanja: kada su u koliziji interesi pojedinca i društva' [The Dark Side of Freedom of Movement: When the Interests of the Individual and Society Collide], *Migracijske i etničke teme* 35/1 (2019).

[12] S. Cavallini et al., *Addressing Brain Drain: The Local and Regional Dimension*, European Committee of the Regions (2018), 1.

[13] T. Jurić, 'Suvremeno iseljavanje Hrvata u Njemačku: karakteristike i motivi' [Contemporary Emigration of Croats to Germany: Characteristics and Motives], *Migracijske i etničke teme* 33/3 (2017).

[14] R. Atoyan et al., *Emigration and Its Economic Impact on Eastern Europe*, IMF Staff Discussion Notes 16/7 (Washington, DC, July 2016).

emigration, corruption is increasing.[15] A study from 2023 demonstrated this in the case of Croatia. Namely, by emigrating, some critics leave the country, allowing the established corrupt networks to operate unhindered. Conversely, those who have strengthened their status due to clientelism and corruption do not emigrate.[16]

In addition to corruption, an important push factor for emigration is the idea of 'escaping from the province'.[17] As a result of emigration, large parts of the SEE region are becoming even more peripheral in the cultural and economic sense (and similar is happening in other parts of the EU too, especially in EE). As much as three-quarters of the territory of SEE forms a periphery that is dying out biologically, economically and culturally. For example, in Croatia 90% of all administrative regions are recording a higher number of deaths than live births, so there is virtually no natural increase in their populations.[18]

Throughout Europe's history, developed regions have consistently drawn young people, with the phenomenon of escaping from the province being a significant driver of youth migration. As peripheral regions become increasingly depopulated, the 'ring of desert' effect that appears in these areas also starts to impact developed regions (because depopulated areas are more vulnerable to illegal migration, the loss of social capital in the periphery results in the reduced competitiveness of the entire EU, social and political tensions increase, etc.). However, instead of increasing solidarity, the opposite is happening. For example, Croatia has subsidised Germany by investing €18 billion in the education of its emigrated citizens.[19]

Furthermore, it is crucial to devise models for connecting the young and the old. Due to the decreasing number of children in families, the traditional circle of care for older people is also diminishing, particularly in the more traditional environments in SEE and EE. State care institutions in these regions cannot, even in the medium term, provide enough places in retirement homes or an adequate number of nurses to care for the elderly (due to emigration from the EU periphery).

With this whole challenge, it is extremely important to be able to accurately assess the dimensions of the demographic challenges in the individual EU regions and to support demographic research and data collection, the results of which often have a lag of one to three years. For this purpose, we propose the new concept of Big (Crisis) Data, which is based on tracking the digital traces of migration[20] (see Recommendations).

An issue that must be addressed is the inability of the EU institutions to effectively tackle the demographic crisis and the revitalisation of the EU periphery. However, this is difficult because the treaties firmly place policy responsibility at the national level. The appointment of a commissioner for demography and democracy in the years 2019–24 was an attempt to begin to address this problem.

So far, accepting immigration from third countries seems to have been the main approach to solving demographic challenges in the EU. However, this solution has also led to the emergence of numerous new problems. Immigration leads to social and political polarisation within EU societies. This polarisation effect is an important reason why immigration cannot be the only solution to the demographic challenge. In connection with this issue, a lively political and academic debate has developed in Europe. On the one hand, proponents emphasise the necessity and usefulness of immigration and claim that migration is a permanent phenomenon of human

15 Jurić, *'Gastarbeiter Millennials'*.
16 T. Jurić, 'Corruption as a Push Factor for Emigration From Croatia: Correlation Between Corruption, "State Capture" and Emigration', *Kroatologija* 14/1 (2023).
17 Jurić, 'The "Structural Pessimism" of the EU Periphery'.
18 Eurostat, 'Population Change – Demographic Balance and Crude Rates at Regional Level (NUTS 3) (2019–2021)'.
19 Jurić, *'Gastarbeiter Millennials'.*
20 T. Jurić, *Big (Crisis) Data in Social Sciences and Humanities: Predicting Crises*, (Hamburg: Verlag Dr Kovač, 2023).

nature. Opponents, on the other hand, emphasise that immigration (1) suppresses the price of labour, (2) brings greater fiscal costs than benefits, (3) changes the national and religious structure, and (4) reduces trust in the community and weakens the state.[21] Alternatives to embracing immigration from third countries include activating the inactive population and encouraging women to return/participate more in the labour market.

Recommendations

The following recommendations have withstood scholarly scrutiny. The measures are arranged into three clusters: (1) developing demographic measures and coordinating policy, (2) enhancing labour markets and utilising demographic data, and (3) revitalising the periphery.

Developing demographic measures and coordinating policy

- Inheritance should be treated as a demographic tool. Two-thirds of countries in Europe have introduced some form of demographic measure, primarily focused on increasing birth rates, ranging from financial bonuses and tax incentives for each newborn, to paid maternity leave. However, the success of these measures has generally been lacking.[22] Our proposed measure involves making legal changes to inheritance, partly skipping one generation in the inheritance order as a demographic measure. Specifically, grandchildren do not currently directly qualify to inherit from their grandparents as children have priority. This legal provision should be amended to stimulate natality. This would result in competition among sons and daughters: those without offspring or with fewer offspring would lose a part of the inheritance. The basic goal of this measure would be to provide the younger generation with access to property and to stimulate natality.[23] This provision could be put into legislation in a way that ensures that the obligatory part of the inheritance, amounting to half of the estate, must always be left to grandchildren, while the other half could be divided between the spouse and children.[24]

- To address the depopulation issues, all EU member states and institutions should work to mitigate the adverse effects of freedom of movement and unfavourable demographic trends. Cooperation between sending and receiving countries and regions is essential.[25] However, all demographic measures are in vain without a body to oversee them. It is necessary to establish an office at the EU level to coordinate the work of all state bodies working on the demographic policies of EU member states.

- Solidarity among generations is indispensable for creating more resilient EU societies. Therefore, we propose the introduction of financial vouchers tied to each older person, which they could allocate to individuals who help them occasionally with basic tasks, such as shopping, transportation and so on (this acknowledges the fact that older people may not always need retirement homes; they often want to stay in their own home).[26]

[21] T. Jurić, 'Argumenti za i protiv imigracije (u Hrvatsku): Kritička analiza uvriježenih stavova' [Arguments for and Against Immigration (to Croatia): Critical Analysis of Established Attitudes], *Obnovljeni Život* 79/3 (2024).

[22] T. Jurić, 'Prostorni aspekt demografske revitalizacije: rad na daljinu kao demografska mjera' [The Spatial Aspect of Demographic Revitalization: Telecommuting as a Demographic Measure] *Političke analize* 11/41 (2022). The 'classic demographic measures' include delimitation of allowances during parental leave, universal child allowance, facilitation of the position of parents in the labour market, tax relief for parents with multiple children and young employees, a housing strategy and so on. Some of these measures are present in certain EU member states, while in others (such as Croatia) not a single one is present. Therefore, it is necessary to harmonise standards across the EU.

[23] The first generation is typically around 48 years old when inheriting. By then, most individuals have already acquired a property, while the second generation is around 18 years old, precisely the age at which individuals need encouragement. (Of course, such a measure must be carefully considered, and models must be devised to prevent discrimination against individuals who cannot have children, while also addressing numerous other related issues). This measure would likely promote a rapid increase in natality.

[24] For example, a son with two descendants compared to a son with one descendant would receive 66% of the inherited half of the property.

[25] T. Jurić, 'Addressing Depopulation', in P. Hefele, K. Welle et al. (eds.), *The 7Ds for Sustainability: In Depth*, Wilfried Martens Centre for European Studies (Brussels, June 2024), 100–1.

[26] Such forms of assistance could be valued by the younger generation, serving as a replacement for civilian military service, or as additional credits in high school or college.

Enhancing labour markets and utilising demographic data

- Financial support should be provided to centres of excellence based in the EU periphery for the education of those in deficit occupations (such as nursing in Croatia, Bulgaria and Romania), on the condition that, after their education, the beneficiaries stay and work in their home country for five years.
- Each EU member, especially in SEE where corruption is more pronounced, should launch a website that transparently lists the results of all public tenders, including who applied and who won the tender. Transparency has proven to be the best weapon against corruption and clientelism.
- A new approach to monitoring migration (emigration and immigration) should be developed, one which uses Big (Crisis) Data to track the digital traces of migration. This method has been tested by both the UN and the EU, providing unquestionably valuable insights and valid modelling of future trends. The main advantage of this approach is the timely recognition of migration trends a year before official data and their corrections are published, as figures in the various official migration databases can vary by as much as 80%. The aim is to enhance the collection of demographic data and accurately assess the scale of the demographic challenges in individual EU regions. This approach could also be useful in security studies as it provides insights into the movement and geolocations of irregular migrants. Above all, the approach allows for an assessment of the degree of integration and the 'willingness to integrate' of immigrants.

Revitalising the periphery

- Opportunities for remote work should be provided: this could repopulate and revitalise rural areas, reduce brain drain and encourage people (the diaspora) to return.[27]
- The infrastructure in the European periphery (provinces) should be improved.
- A classification system for areas with serious and persistent demographic challenges should be introduced to enable the increased allocation of funds from cohesion policies.

[27] This measure implies the introduction of broadband Internet throughout the EU. However, the transportation network also plays a crucial role in halting depopulation. Therefore, it is important to invest in public transportation (often impossible to establish on the periphery without subsidies). Additionally, it is necessary to introduce mobile healthcare teams, as many provinces lack adequate healthcare. The same applies to the provision of culture.

	Programme 1	Programme 2	Programme 3
	Developing demographic measures and coordinating policy	**Enhancing labour markets and utilising demographic data**	**Revitalising the periphery**
Project 1	Use inheritance as a demographic tool: amending inheritance laws to allow direct inheritance from grandparents to grandchildren would result in competition between sons and daughters to have more children (the first generation is typically around 48 years old when inheriting, while grandchildren are around 18, precisely when they need encouragement).	Provide financial support to centres of excellence for the education of those in deficit occupations (such as nursing) in Croatia, Bulgaria and Romania, on the condition that, after their education, the beneficiaries stay and work in their home country for five years.	Allow workers to relocate to the periphery and work remotely (with the obligation to come into the office once every two weeks). Remote work could repopulate and revitalise rural areas, reduce brain drain and encourage people (the diaspora) to return.
Project 2	Establish an EU-level office tasked with exchanging best practices among the relevant national demographic policy bodies.	Combat corruption and clientelism in Croatia, Bulgaria and Romania as these are two of the factors underlying emigration. Set up a website where the results of all public tenders (local and national), including stakeholders and amounts, are transparently listed.	Improve infrastructure by installing broadband Internet throughout the EU, investing in public transportation, introducing mobile healthcare teams and providing distance education options.
Project 3	Connect the young and the old through financial vouchers tied to each elderly person, which he or she can allocate to those providing assistance with basic tasks, such as shopping and transport.	Develop a new approach to monitoring migration, one that uses Big (Crisis) Data to track the digital traces of migration. The aim is to enhance the collection of demographic data and accurately assess the scale of the demographic challenges in individual EU regions.	Determine which areas have serious and persistent demographic challenges and allocate them funds from cohesion policies. Special support should be provided to areas with a population density of less than 12.5 inhabitants per km² or with an average annual population decrease of greater than 1%.

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De-risking Globalisation

Table of abbreviations

IDEA	Inspire, Debate, Engage and Accelerate Action (EU Fellowship Programme on China)
SME	Small and medium-sized enterprises
WTO	World Trade Organisation
G7	Group of Seven
CHIPS	Creating Helpful Incentives to Produce Semiconductors
MSE	Mini and Small Enterprises

Introduction

by Peter Hefele

Several crises over the last two decades, including the Covid-19 pandemic and, most recently, the Russian war against Ukraine, have shown the vulnerability of global supply-chain systems and have shattered illusions about ever-progressing globalisation. This has forced the EU to rethink its traditional reliance on and support for multilateralism and global cooperation, which had led to an over-dependence on certain countries and producers in crucial fields such as raw materials and chemical products. Over the last couple of years, the Union has responded to these developments by creating a series of policies and launching initiatives to de-risk its economic relations and reduce the potential for political blackmail.

The biggest systemic competitor in this respect is China, due to its economic power, political governance system and global revisionist ambitions. The challenges posed by its unique politico-economic system require a comprehensive answer from all open and market-based societies in the West.

Any de-risking strategy has to consider the effects on the sustainable transformation the EU is currently undergoing. Europe has always been a herald for open markets and globalisation. As it undergoes a massive transformation towards a low-emission economy, Europe should not build ‘green walls’ and engage in a subsidy race that may damage its long-term competitiveness.

The success and flexibility of Europe’s economy lie largely in supporting flourishing ecosystems for small and medium-sized enterprises. Industrial policy can contribute to enhanced resilience but must avoid over-regulation and unilaterally favouring large companies.

Shielding Europe’s economy and political system from external risks should not lead to abandoning the efforts to revitalise an open and sustainable global trade system. The priority should be to create alliances of the willing and promote the EU as a regulatory leader and reliable partner for third countries, particularly in the Global South. Strengthening the transatlantic trading relationship will continue to be a key element of this strategy.

Strengthening Transatlantic Relations

by Roberta N. Haar

Summary

Addressing the challenges of de-risking globalisation within the transatlantic relationship requires a multifaceted approach. Regardless of who becomes the next US president, he or she will grapple with populist and protectionist sentiments domestically, and geopolitical challenges externally. Under Trump, expect a more isolationist stance, with strained alliances and increased economic decoupling from geopolitical rivals. Harris would likely continue the Biden administration's selective multilateralism, focusing on economic competitiveness while rebuilding security ties with allies. Europeans must strengthen their leadership, invest in their capabilities and foster transatlantic solidarity on global challenges.

Keywords US – EU – Globalisation – De-risking

Introduction

At the time of writing, it is not known who the next president of the US will be. Nevertheless, it is possible to say something concrete about US policy on de-risking globalisation, which has both economic and security elements. On the economic side, whoever is elected must deal with the populist, protectionist and anti-interventionist sentiments bubbling up in the American public today.

On the security side, the new president must deal with the geopolitics of emerging technologies and with a China whose economic rise continues to translate into growing military assertiveness. Emerging technologies are affecting the economic competitiveness of states, which has security ramifications. These technologies are also directly closely connected to national security issues and potential future threats. Not only is warfare becoming increasingly digitised, but micro-processing chips, quantum computing and artificial intelligence all have dual-use military applications.

Trump has both ignited and exploited the anti-elitist, nationalist and anti-interventionist sentiments being expressed in America. If Trump is re-elected, he will pursue a New Isolationist agenda. New Isolationists believe that it was foolish to help China grow economically, and they resent America's allies as free riders. They also believe that the US is already in a grey-zone conflict with China, especially over Taiwan, which they are undecided about defending. If the US intends to win any future conflict with China, it must de-risk its supply chains from Taiwan and strategically decouple its economy.[1]

When President Joe Biden came to office, he chose to deal with the populist, protectionist and anti-interventionist sentiments in America by being less like Barack Obama and Bill Clinton, the two Democratic presidents who had preceded him and who had embraced the post-war liberal, free-trade and multilateral paradigm. An example of their approach is epitomised by Obama's negotiation of the Trans-Pacific Partnership with 12 countries, which emphasised the importance of free trade and open economic interchange.[2] Rather than continuing this focus on free trade, the Biden administration implemented a blunting strategy and has begun the process of decoupling with regard to China, globalisation and supply chains.

1 R. Lighthizer, 'Testimony of Robert Lighthizer Before the House Select Committee on Strategic Competition Between the United States and the Chinese Communist Party', *Select Committee on the CCP* (17 May 2023).
2 R. G. Sutter, *Chinese Foreign Relations: Power and Policy of an Emerging Global Force* (London: Rowman & Littlefield, 2021, 5th edn.).

Over time, however, Biden's foreign policy team have adopted European Commission President Ursula von der Leyen's formulation of 'de-risking'.[3] While a European may have coined the phrase, the change nevertheless was dramatic, marking a shift in 50 years of post-war US policy. A key part of this policy shift is embodied in the protectionist measures stipulated in the Inflation Reduction Act and the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act,[4] both of which have negative impacts for European states.[5]

If Kamala Harris wins the office of the presidency again for the Democratic Party, she will be more like Biden and less like Clinton or Obama, and will be selective in her multilateralism policies. This means that a Harris administration is likely to bring both darkness and light for Europeans by taking a flexilateral approach to globalisation—one that emphasises US interests in economic competitiveness, while also rebuilding its multilateral security ties with traditional allies in Europe and Asia.[6]

Given this state of play, the effort to de-risk globalisation together with the US centres on three key challenges in the transatlantic relationship: leadership, capability and solidarity. The leadership issue stems from a long-standing strain in US–European relations, which is being exacerbated by shifting global dynamics and new challenges that are undermining US leadership. The capability challenge arises from a US focus on the Asia–Pacific; renewed isolationism, exacerbated by the Trump administration; and emerging security threats, especially those associated with growing dependencies on geopolitical rivals for critical infrastructure. Lastly, the solidarity problem is fuelled by European disillusionment with the US commitment to the rules-based international order. It is deepened by differing views on key global issues such as climate change, how to respond to China and what to do about the recent surge in violence.

Strengthening the global leadership role for the EU

State of play

If the transatlantic relationship is to be strengthened, the first concern that needs to be addressed is the leadership problem, which has bedevilled relations since the Obama administration. Shifting geopolitical landscapes and the emergence of new global challenges (such as the energy crisis in Europe, the rise of authoritarianism, the rise of populism, threats related to pandemics, vulnerabilities linked to critical infrastructure, pressures related to climate change and a general surge in global violence) are undermining the US's traditional global leadership role.

Prospects

First, Europeans need to expect that the transatlantic alliance and NATO will be tested, especially if Trump wins in 2024. A second Trump administration would indicate that the US remains deeply divided, and it would follow a potentially erratic foreign policy and/or put the US into a new phase of isolationism. But even if Harris is elected, Europeans can expect differences in how the US views relations with geopolitical rivals and how it deals with security risks such as those affecting global supply chains.[7]

The second policy recommendation applies regardless of who is in the White House. European states should strengthen their leadership role, which involves reinforcing the idea that Americans and Europeans share a common purpose. Europeans should also develop a grand strategy within the transatlantic partnership—

[3] U. von der Leyen, speech on EU–China relations, Mercator Institute for China Studies and the European Policy Centre, 30 March 2023.

[4] B. Deese, 'Executing a Modern American Industrial Strategy', speech made at the City Club of Cleveland, 13 October 2022.

[5] R. Haar, 'Understanding the Debate in U.S. Foreign Policy Regarding the Benefits of Multilateralism and China', paper presented at the International Studies Association Annual Conference, San Francisco, California, 3–6 April 2024.

[6] R. Haar, 'Continued Support in Security and Continued Scepticism of Globalisation: What Kamala Harris' Nomination Might Mean for the EU', interview by *Studio Europa*, 29 July 2024.

[7] U. Jochheim, 'EU–China Relations: At a Glance', European Parliamentary Research Service, Briefing PE 754.637 (December 2023).

built upon the premise of shared global governance and a complementarity with the US's grand strategy as specified in its National Security Strategy.

Together, the EU and the US can sustain inclusive global institutions such as the G7, the G20, the WTO and the UN framework. For the EU, this means embracing more responsibility for co-developing strategic technologies, green technologies and the revolution in digitalisation.

If Harris wins the presidency, Europeans may find a pragmatic partner in global leadership in the US, one that keeps trade open and bolsters cooperation on critical issues such as AI regulation. In a Harris presidency, Europeans may find an ally who believes in the idea that the US has one critical task left as the *indispensable* superpower: it being 'the only country that can guarantee an open system'.[8]

Investing in capabilities to enable EU engagement on an equal footing

State of play

This leads to the second issue—that of capability, which has several facets. First, many European countries are failing to meet the 2% of GDP defence spending commitment set by NATO. Second, the US is now more focused on security challenges in the Asia–Pacific region. Third, new types of security threats are emerging, including to the resilience of global supply-chain systems, energy security and critical infrastructure. Fourth, the security environment in Europe has dramatically changed, with new threats emerging due to Putin's invasion of Ukraine and renewed violence in the Middle East. The recent upsurge in violence has also depleted stockpiles of weapons for both Americans and Europeans, putting further pressure on capabilities.

Prospects

First, European countries must meet NATO commitments and ensure sufficient resources and attention are devoted to addressing the new types of security threats. Such investments are key to de-risking globalisation. The EU could coordinate its investments with the US through several forums, the first of which is the EU–US Task Force on Energy Security. The goal of this task force—reducing reliance on Russian energy and diversifying natural gas supplies—not only aligns with climate goals for both the EU and the US, but augments resilient energy systems, promotes stability and transparency in the global energy markets, and enhances energy security.[9]

The second forum is the EU–US Trade and Technology Council, which was formed in June 2021 by Biden and EU leaders. Together, the EU and the US committed to sustaining market-oriented values by increasing transatlantic trade and investment in products and services related to emerging technologies, to strengthening their technological and industrial leadership in these same areas, and to protecting critical and emerging technologies and infrastructure.[10] At the most recent meeting in Leuven, the US and the EU pledged to build resilient semiconductor supply chains and to establish synergies in the investments in the semiconductor sector taking place under the EU Chips Act and the US CHIPS Act.

[8] R. Lissner and M. Rapp-Hooper, *An Open World: How America Can Win the Contest for 21st Century Order* (New Haven, CT: Yale, 2020), 216.
[9] US Department of Energy, 'Joint Statement by the U.S. and EU Following the 11th U.S.–EU Energy Council' (15 March 2024).
[10] Office of the United States Trade Representative, 'U.S.–E.U. Trade and Technology Council (TTC)'.

Supporting these forums is the EU's Global Gateway policy, which has allocated €300 billion to projects that focus on green energy, critical raw materials, connectivity, health and education in the Global South. The Global Gateway can help the EU to meet its international pledges as well as showing Americans that they can invest in ways that promote shared interests. Investing in global infrastructure and connectivity could offset the New Isolationists' campaign narrative that Europeans fail to spend enough on their own security and defence.

Second, in the defence and security arena, European countries must work to enhance their military integration and cooperation, both within NATO and with other European partners. This includes strengthening military planning and coordination, as well as developing joint military capabilities and joint procurement for defence systems. It could also involve the adoption of 'total defence' models that emphasise defence preparedness and civil defence.

A complementary step for the EU is to rectify fragmentation within the intra-European context. One way of overcoming fragmentation would be to coordinate EU investments, for example through the European Defence Agency and via Permanent Structured Cooperation. Fragmentation is one of the EU's perennial problems and dates back to the inception of the Common Security and Defence Policy. Duplication is wasteful and expensive. EU member states need to improve their pooling, sharing and specialisation of resources to prevent the improper use of funds.

Cultivating trust and transparency across the Atlantic

State of play

The third challenge is a solidarity problem. Like the previous issues, it has several sources, most prominently the fact that there is a growing sense of disillusionment among European leaders and citizens regarding the US's commitment to the rules-based international order that it built after the Second World War. Certainly, Trump's 'America First' foreign policy and its outright rejection of multilateralism propels this disillusionment. However, the Biden–Harris administration's attempts to engineer a comparative advantage through the Inflation Reduction Act, the CHIPS and Science Act, and the Infrastructure Investment and Jobs Act give Europeans the feeling that Biden and his vice-president have pulled the rug out from under their promised 'we're back' multilateral foreign policy—at least when it comes to free trade.

As she emphasised in her Democratic National Convention speech, Harris is expected to maintain the current de-risking approach to technological security, striving for US dominance in emerging technologies. Europeans are sure to experience this negatively. Following a flexilateral policy will involve backing continued investment in the US production of advanced technologies such as semiconductors, resisting the technology regulations primarily advocated by the EU, and showing a readiness to blur the lines on issues ranging from data collection to the military applications of AI, all in the interests of national security.

Prospects

To overcome both isolationist and flexilateral approaches, Europeans need to address the competitive–cooperative element of the economic transatlantic relationship by cultivating trust and transparency. This could be achieved through supporting existing initiatives, in addition to those already mentioned above, such as the Transatlantic Economic Council,[11] the Transatlantic Initiative on Sustainable Trade[12] and the Critical

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11 US Department of State, 'Transatlantic Economic Council'.

12 European Commission, *Transatlantic Initiative on Sustainable Trade (TIST) Stakeholder Engagement Event — Summary Report* (31 January 2024).

Minerals Agreement.[13] The Transatlantic Initiative on Sustainable Trade is a work programme of the EU–US Trade and Technology Council designed to promote a more integrated and resilient transatlantic green marketplace, while the Critical Minerals Agreement aims to strengthen supply chains for the minerals needed in the production of electric vehicle batteries

A second approach is to invest in soft-power initiatives such as cultural exchanges (e.g. Youth in Action and the European Voluntary Service) and educational programmes (e.g. Erasmus+). With the unifying framework of the Cold War diminishing, the alliance appears less suited to the contemporary geopolitical landscape; reminding publics on both sides of the Atlantic of the importance of their partnership and the global governance system could build solidarity.

Finally, collaborating with the US on a common policy for the Middle East, Africa and China would also go some way to forging a strong transatlantic partnership that can address risks at the global systems level. If the EU is to be a truly valuable partner in rebuilding a viable multilateral system, it must develop a meaningful focus on China and the Indo-Pacific, which could be coordinated through NATO/Supreme Headquarters Allied Powers Europe and the European Union Military Staff.

All these measures must encourage the US to remain open and multilateral. Trade sceptics reside in both main political parties in the US; there are many across the American political spectrum whose idea of de-risking globalisation is more protectionism. Europeans should stress that zero-sum approaches such as decoupling are ultimately ineffective at reducing threats to the US and come with the added expense that they hurt the rest of the world too. They should also emphasise that de-risking is about managing the risks with geopolitical rivals. Such management depends on healthy global multilateral forums. From time to time, the US needs reminding that its involvement in multilateral institutions and open markets is what made it a world leader.

Conclusion

Addressing the challenges of de-risking globalisation within the transatlantic relationship while also countering external threats such as Putin's aggression requires a unified and strategic approach focused on leadership, capability and solidarity. European nations must bolster their leadership role, aligning closely with the US to reinforce global governance and enable collaboration on critical issues such as climate change and how to harness the power of emerging technologies. Enhancing defence and security capabilities is essential to ensure that Europe and the US can jointly address new security threats and maintain resilient global supply chains. To sustain solidarity, fostering trust and transparency within the transatlantic partnership is crucial, particularly considering the external pressures that aim to weaken Western resolve. By investing in cooperative initiatives and maintaining a unified stance on global challenges, especially regarding China, the Indo-Pacific and the upsurge in violence in the Middle East, the US and Europe can employ their collective strengths, ensuring a stable and inclusive global order while countering threats to their shared values and security.

13 M. Szczepański, *EU–US Critical Minerals Agreement: Building Stronger Supply Chains Together*, European Parliamentary Research Service, Briefing PE 754.617 (November 2023).

	Programme 1	Programme 2	Programme 3
	Strengthening the EU's global leadership role	**Investing in capabilities to enable engagement with the US on an equal footing**	**Addressing the solidarity issue**
Project 1	Reinforce the idea that Americans and Europeans share a common purpose; maintain a strong strategic partnership to sustain inclusive global institutions such as the G7, G20, the WTO and the UN framework.	Do not play into the New Isolationists' campaign narrative in the US by failing to invest in national security and defence plans, digital infrastructure, and strategic capabilities and technologies. Adopt 'total defence' models that emphasise defence preparedness and civil defence.	Address the competitive–cooperative element of the economic transatlantic relationship by cultivating trust and transparency. Develop a cooperative relationship via the Transatlantic Economic Council, the Transatlantic Initiative on Sustainable Trade (for jointly assessing supply chains) and the Critical Minerals Agreement (for strengthening critical minerals supply chains). This will help to mitigate some of the negative repercussions of the US Inflation Reduction Act on EU industry.
Project 2	Develop a European grand strategy within the transatlantic partnership—built upon the premise of shared global governance and a complementarity with the US's grand strategy as specified in its National Security Strategy.	Invest in the means to meet new types of security threats, such as those to global supply-chain systems, energy security and critical infrastructure, such as smart electrical grids. Coordinate EU investments with the US through the EU–US Task Force on Energy Security, the EU Global Gateway, and the EU–US Trade and Technology Council.	Renew the commitment to diplomacy, and invest in soft-power initiatives such as cultural exchanges (e.g. Youth in Action, and the European Voluntary Service), educational programmes (e.g. Erasmus+) and by expanding Euronews. With the unifying framework of the Cold War diminishing, the alliance appears less suited to the contemporary geopolitical landscape; remind publics on both sides of the Atlantic of the importance of the partnership and the global governance system in order to build solidarity.
Project 3	Embrace more responsibility for promoting values globally, with a focus on those that pertain to the co-development of strategic technologies, green technologies and the revolution in digitalisation. Coordinate EU leadership through G7/G20 summits and the EU–US High-Level Dialogue on Climate Action, Environment and Energy.	Invest in ways that rectify fragmentation in the intra-European context, that enhance cooperative development of strategic technologies and infrastructure and green technologies, and that harness the revolution in digitalisation. Coordinate EU investments through the European Defence Agency and Permanent Structured Cooperation.	Collaborate with the US on a common policy for the Middle East, Africa and China. If the EU is to be a truly valuable partner in rebuilding a viable multilateral system, it must develop a meaningful focus on China and the Indo-Pacific. Coordinate EU policy through NATO/Supreme Headquarters Allied Powers Europe and the European Union Military Staff.

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Derisking EU–China Relations

by Jakub Janda

Summary

The EU is assembling its new approaches to economic security, which include reassessing its relations with an increasingly hostile China, building relations with its partners in the Indo-Pacific, and mitigating for any strategic shock that might stem from a possible conflict between China and a democratic coalition led by the US. In this context, the new European Commission needs to quickly deploy a series of interconnected policy initiatives and measures to ensure that the EU can protect its economic stability and security interests in the light of China's aggression.

Keywords China – De-risking – Taiwan – Indo-Pacific – Economic security – Export controls – EU – European Commission – European External Action Service – Taiwan Strait – International law

Introduction

Since 2019 the EU has been using a three-pronged strategic approach to China: it has been viewed simultaneously as a partner, an economic competitor and a systemic rival. However, in the past two years, the Chinese government has decided to increase its hostility towards EU interests. China is pursuing an 'unlimited partnership' with Russia, which is perpetrating war crimes against Ukraine while enjoying significant material, political, informational and diplomatic support from China. China has been steadily increasing its disruptive actions against Taiwan and the Philippines, showing a lack of respect for international maritime law and the stability of maritime trade routes in East Asia, core EU interests. Chinese economic coercion and technological espionage against the EU member states have increased in recent years, despite the continuous efforts of the Union's diplomats and extensive EU–China trade. Similar to the EU's diplomatic efforts with regard to Russia between 2014 and 2022, the EU's appeasement and engagement policy towards China has failed. It is therefore time for a new paradigm in strategic-level EU–China relations.

The aim of the EU's de-risking policy is to ensure that China cannot coerce or damage the EU in a way that would prevent the Union from pursuing its own autonomous interests, such as stable regional trade in and with the East Asian region. Given its economic and technological interdependencies with East Asian countries such as Japan, South Korea and Taiwan, the EU has the ultimate reason to deter China from taking hostile or even military actions in East Asia: it could trigger an economic disaster for Europe.[1] The EU must therefore be free to make sovereign decisions, including on the development of possible sectoral sanctions packages and communicating its readiness to deploy these to the leadership of Chinese Communist Party should the Chinese breach the international law of the sea in East Asia. To be able to deliver such deterrents, the EU first needs to rapidly decrease its strategic economic and technological dependencies on the Chinese Communist Party by ensuring a robust institutional setup in economic security, and implementing internal and external policies. Below I have outlined several policy recommendations.[2]

[1] Kiel Institute for the World Economy, 'Cost of Decoupling From China for German Economy Severe but Not Devastating' (14 December 2023).

[2] These policy recommendations are based on an ongoing European Values Center for Security Policy and Wilfried Martens Centre for European Studies research project that has been running since autumn 2023 and which is scheduled to be published in a separate report in 2024.

Institutionalising EU economic security policy

Every major policy area needs a solid and robust institutional structure within the EU institutions so that there is enough internal capacity, capability and access to leadership, funding and staffing to ensure there is sufficient political weight behind the Union's agenda. The following steps should be taken by the new European Commission to enable it to respond to geostrategic competition with a geo-economic focus.

- *Project 1*. The new European Commission should establish an economic security portfolio that is the responsibility of one Commissioner, likely under the guidance of the vice-president for trade or economic issues.
- *Project 2*. A fully fledged internal Commission think tank should be established that horizontally covers all key strategic policy areas in the EU relationship with China. It should build on the pilot version of the Inspire, Debate, Engage and Accelerate Action (IDEA) Fellowships under the guidance of the president of the Commission, and be expanded to cover the wider Indo-Pacific. The think tank should have at least 10 full-time specialists organising monthly online check-ins for the wider European expert community to ensure a continuous flow of information and knowledge.
- *Project 3*. The Commission should set up a formal standardised platform for EU companies that seek to understand the risks of volatile and politically unreliable foreign markets. Such a platform should provide a private safe space in which EU companies and business associations can receive select intelligence and lessons from specialists in order to make their trade decisions in the most informed way.

The development of an economic security policy toolkit

Once the above-mentioned solid institutional framework has been established by the new European Commission, substantive policy initiatives can be added to the agenda. The new college of commissioners should develop an internal policy toolkit to address the economic security interests of the EU. As some initiatives will reach across multiple portfolios, the Commission's leadership will need to coordinate and enable cooperation. As the initiatives are not likely to be welcomed by some of the EU member states, and primarily by some of their companies, the Commission needs to acknowledge that this issue is fully political, and not just technical or purely regulatory.

- *Project 1*. Internally, the Commission should prepare a trade defence escalation toolkit containing detailed economic, security and political analyses, and discuss it with the member states. It should involve possible scenarios for the deployment of the EU Anti-Coercion Instrument.
- *Project 2*. The Commission should conduct an annual assessment of the strategic dependencies of the EU and its member states' economies on its adversaries and competitors.[3] This would answer the main policy question: how is the EU open to blackmail from specific non-friendly states?. The Commission should also conduct simulations of crisis scenarios.
- *Project 3*. The Commission should declare specific sectors 'strategically relevant to European interests' and dedicate specific action plans to providing them with enhanced protection. These sectors should be selected on the basis of European strategic need and their strategic vulnerability to external (non-EU) players.

[3] For assessment methodologies, see J. Teer, D. Ellison and A. de Ruijter, *The Cost of Conflict: Economic Implications of a Taiwan Military Crisis for the Netherlands and the EU*, The Hague Centre for Strategic Studies (28 March 2024).

Global networking of EU economic security policies

As the EU is and wants to remain a global trade leader, economic security is not only a domestic matter for the EU internal market. Therefore, building a resilient global network of like-minded democracies and rapidly decreasing the EU's dependencies on its competitors should be the strategic political priorities. The EU should quickly prioritise 'teaming up' with those non-EU democracies which form the core of the global coalition to defend the rule of law and fair-trade practices. The new European Commission will have to spend much of its energy and political capital on persuading certain EU member states to drop some of their objections to EU trade deals with selected like-minded partners, otherwise the EU has no real chance of being the global fair-trade norm-setter.

- *Project 1*. The Commission should proactively search for potential positive trade and investment cooperation agreements with like-minded countries in the Indo-Pacific, including the Philippines, Australia and Taiwan.
- *Project 2*. The EU–China Comprehensive Agreement on Investment should be officially cancelled as, if it were to enter into force, it would deepen European strategic dependencies on the Chinese Communist Party, which is becoming increasingly hostile.
- *Project 3*. Establish a specialist team focused on sharing lessons in economic security policies with selected allies and like-minded partners in order to assist countries facing systematic Chinese economic coercion. The Commission should host an annual EU Economic Security Week.

Conclusion

It can be expected that the upcoming five-year term of the new European Commission will experience massive global turmoil as a result of the ongoing Russian military aggression in Ukraine and the increasing political and economic aggressiveness of China globally. The first Von de Leyen Commission was correct in declaring that it would have to focus on geopolitical issues, including setting up new economic security policies. The full-scale Russian invasion of Ukraine in 2022 forced the Commission to work unexpectedly rapidly. Today, we can clearly say that the European Commission is much stronger in terms of political will, bureaucratic capabilities and capacities. The new college of commissioners, who took on their roles in the middle of 2024, will face the political burden of dealing with (1) the increasing geostrategic aggressiveness of China against the EU, specific EU member states and selected business sectors; (2) the increasing divisions between some of the member states over how to approach the economic security agenda and the unstable geopolitical environment; and (3) the possible massive implications of the outcome of the November 2024 US presidential elections on these issues. In a nutshell, the new president of the European Commission and his or her commissioners will have to quickly develop deeply thought-through contingency plans and a robust institutional setup so that substantive economic security policies and measures can be tailored and implemented quickly, as required by the geo-economic climate.

At present, if China escalates either its political or economic coercive or blackmail policies against the EU, the Union as a whole will be caught without the ability to respond with proper defensive measures. Currently, the Commission has at its disposal the solid trade defence expertise and capabilities of the Directorate-General for Trade, but these should be considered more as tactical tools deployable as individual parts of an overall grand strategy—one which is still missing. That the EU does not have a full economic security strategy (comparable to Japan's, for example) stems from the fact that EU member states, and primarily some of their large businesses, have diverging views and interests. Therefore, a full strategy similar to the set of tools deployed by the EU against Russia in response to its aggression against Ukraine is still missing.

The geopolitical role of the Commission, together with that of the new president of the European Council, will be primarily internal—to facilitate the building of a general consensus among EU member states and large business interests. These parties need to achieve a common operational understanding of the threat coming from the Chinese government and agree on a set of expected scenarios for short- and mid-term geostrategic developments. Without such a full-picture view of, and agreement on the EU's overall objectives, the Commission only has the ability to take relatively tactical and de facto technical measures in matters of economic security such as protecting advanced technologies from Chinese espionage.

As its top priority, the new European Commission needs to obtain agreement from the European Council and the majority of the new Members of the European Parliament on these key questions: how can we, as the EU, our member state governments and national businesses, respond to a world in which the Chinese dictatorship is becoming increasingly hostile and aggressive? And, given that we know that dependencies on dictators do not help us but make us hostages, how do we prepare for any form of conflict with the Chinese government in a way that ensures that we can deter structural escalation by Beijing, which would cause political and economic catastrophe in Europe?

	Programme 1	Programme 2	Programme 3
	Setting up a robust institutional structure to respond to geostrategic competition with a geo-economic focus	**Developing an internal policy toolkit for addressing the economic security interests of the EU**	**Building a resilient global network of like-minded democracies and rapidly decreasing EU dependencies on competitors**
Project 1	Establish an economic security portfolio in the Commission that is the responsibility of a single commissioner, likely under the guidance of the vice-president for trade or economic issues.	Prepare a trade defence escalation toolkit within the Commission, which includes detailed economic, security and political analyses, and discuss it with the EU member states. It should include possible scenarios for the deployment of the EU Anti-Coercion Instrument.	Proactively search for potential positive trade and investment cooperation agreements with like-minded countries in the Indo-Pacific, including the Philippines, Australia and Taiwan.
Project 2	Establish a fully fledged internal Commission think tank that horizontally covers all key strategic policy areas in the EU's relationship with China. This should build on the pilot version of the IDEA China Fellowships under the guidance of the president of the Commission, and be expanded to cover the wider Indo-Pacific. It should have at least 10 full-time specialists organising monthly online check-ins for the wider European expert community to ensure a continuous flow of information and knowledge.	Conduct an annual assessment of the strategic dependencies of the EU and its member economies on its adversaries and competitors. This would answer the main policy question, 'How is the EU open to blackmail from specific non-friendly states?' The Commission should also conduct simulations of crisis scenarios.	Officially cancel the EU–China Comprehensive Agreement on Investment, as if it were to enter into force it would deepen European strategic dependencies on the Chinese Communist Party, which is becoming increasingly hostile.
Project 3	Set up a formal standardised platform for EU companies that seek to understand the risks of volatile and politically unreliable foreign markets. Such a platform should provide a private safe space where EU companies and business associations can receive select intelligence and lessons from specialists in order to make their trade decisions in the most informed way.	Declare specific sectors 'strategically relevant for European interests' and dedicate specific action plans to providing them with enhanced protection. The sectors should be selected on the basis of European strategic need and their strategic vulnerability to external (non-EU) players.	Establish a specialist team focused on sharing lessons in economic security policies with selected allies and like-minded partners in order to assist countries facing systematic Chinese economic coercion. The Commission should host an annual EU Economic Security Week.

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Working With Global Partners to Shape Global Trade

by Peter Hefele

Summary

The global trade landscape is undergoing significant changes after decades of growth, during which trade outpaced GDP expansion. Recent crises, including geopolitical tensions and the Covid pandemic, have slowed trade dynamics, raising concerns about the future of economic integration. Governments and businesses are now tasked with creating frameworks to stabilise supply chains and promote sustainable economic transformation while avoiding protectionist measures. The WTO, once a central figure in global trade governance, has struggled to adapt, leading to a rise in regional trade agreements such as the United States–Mexico–Canada Agreement and the Regional Comprehensive Economic Partnership in Asia. However, Europe has lagged behind others in forming new trade agreements with key partners such as India and the Association of Southeast Asian Nations, diminishing its influence in global trade.

Future European trade policy must address three critical areas: first, enhancing resilience against external shocks through supply-chain diversification; second, aligning trade practices with sustainable transformation to regain competitiveness; and third, leveraging digital technologies to facilitate faster and more secure transactions. As Europe hosts a diverse array of small and medium-sized enterprises, promoting their engagement in international trade and enhancing their contribution to the digital economy will be essential for navigating these evolving dynamics and ensuring robust economic growth amidst an uncertain global landscape.

Keywords Globalisation – Trade – Trade agreements – Resilience – Digitalisation – Sustainable development

Introduction

The global trade landscape is at a watershed moment. For four decades of almost uninterrupted growth, global trade grew faster than GDP.[1] It became a major driver in the economic development of developed and developing countries alike. But several crises have significantly slowed global trade dynamics when measured in terms of the ratio of global trade to GDP growth or the openness of trade.[2] Even if there is no reason to buy into 'deglobalisation', the development patterns of the global economy are changing and will put the benefits of economic integration at risk. Several reasons for these changes have been identified, such as technological advancements, shifting consumer preferences and destabilising geopolitical conflicts. For decades many politicians and entrepreneurs considered trade a magic wand for pacifying and overcoming tensions between different political systems, such as the strain between China and the West. More recently, however with the Russian war on Ukraine, the subsequent Western sanctions and the 'weaponisation' of trade by an increasingly aggressive China, these illusions have been dispelled. *Economic security* is now the new strategic guideline for major trading centres such as the US, Europe and Japan. This raises some fundamental questions for European economic policymakers, since policy is—internally and externally—the most integrated but also one of the most vulnerable areas in terms of being affected by frictions in the international trade system.

1 R. Baldwin, 'The Peak Globalization Myth: Part 1', *VoxEU*, Centre for Economic Policy and Research (21 August 2022).
2 See J. Matthes, 'Deglobalisierungs-Debatte: Was eine veränderte Globalisierung für das deutsche Exportmodell bedeutet', *Makronom*, 24 May 2023.

Governments and companies alike must navigate these trends and engage much more than before in creating new frameworks to ensure stable supply chains, optimise the cost advantages they offer and contribute to a sustainable transformation of the global economy while preventing a fall back into (green) protectionism. The symbol of the traditional trade order, the WTO, has been largely paralysed, and any quick recovery to its position as *the* central platform of further trade integration and dispute settlement seems out of sight.[3]

In reaction to this weakness, there is an increasing focus on regional trade agreements as countries and regional blocs seek to bolster economic ties *within* their regions or with their neighbours. Agreements such as the United States–Mexico–Canada Agreement and the Regional Comprehensive Economic Partnership in Asia aim to reduce tariffs and create more streamlined trade conditions within regions.

In contrast to this development, Europe has not been very successful in extending its net of sophisticated and ambitious free-trade agreements with extra-European partners, such as India or the Association of Southeast Asian Nations. Thus, it has lost influence in shaping the principles and characteristics of future global trade. Its efforts to revitalise existing global trade governance mechanisms, in particular the WTO, have failed as other major powers have blocked any reform for various reasons.

Therefore, any future European trade policy must engage on at least *three levels*:

1. As seen during the Covid pandemic, the global trade system is highly vulnerable to external shocks. Not fully recovered from the aftermath of the global pandemic, the Russian war against Ukraine, high energy prices and volatile raw materials, markets will remain subject to significant factors of uncertainty. Hedging these risks by supply chain diversification, whether through friend-, near- or re-shoring, has just begun. *Restructuring exchange patterns as part of increasing resilience* will remain a decade-long challenge for the EU.

2. These efforts should be, at the same time, in line with a *clear orientation towards sustainable transformation*, which has already begun to shape global trade practices. Europe's (to-be-regained) competitiveness is closely linked to the extent it can present itself as a laboratory of transformation—not by becoming a 'green fortress' but rather through being a catalyst of change for other economies.

3. Digitalisation, in the form of blockchain, artificial intelligence and Internet of Things technologies, is helping companies make transactions faster, more transparently and more securely. Technologically driven shifts in factor combination and allocation will also influence global trade flows and economic policies, and are increasingly impacting trade-related services, including trade finance. Europe is home to the most diversified and innovative landscape of small and medium-sized enterprises (SMEs) and thus must further promote the involvement of such companies in international trade.

Enhancing the resilience of the global trade system against external shocks

State of play

There is no reason to believe in the need for 'de-globalising'. However, the outlook for stabilising and revitalising the global trade system along the Bretton Woods principles[4] is rather bleak. Among the major trading blocs, only the EU and Japan—along with a couple of smaller nations, such as Singapore—have a genuine interest in signing trade agreements on an equal and multilateral footing. However, the development of a new hegemonic

[3] *BDI*, 'The Crisis of the WTO' (28 July 2022).

[4] I. Shine, 'We Need a New Bretton Woods Moment, Says António Guterres. What Was the Original Bretton Woods and What Did It Achieve?', *World Economic Forum*, 10 March 2023

power structure—for example, around China—has a tendency to lead to new, rather exclusive forms of economic integration and exclusion.

The detrimental effects of systemic crises such as Covid reveal the need for closer international cooperation. Part of the current system's failure to react—its inertia—lies in fundamental geopolitical conflicts and contradictory economic governance regimes. The current system of EU trade agreements follows a catch-all approach that at the same time attempts to achieve policy objectives beyond trade. Only in recent years has the debate on resilience[5] and economic security led to a new conceptual framework for the EU's economic and trade policy, rebalancing priorities and providing a more comprehensive approach across external (economic) relations.

Prospects

Economic security and resilience have become the 'shield' of the Union's economic exchange with non-EU countries, while enhanced competitiveness serves as the 'sword'. However, there is no systematic screening and scenario-building to deal with economic security and external shocks, in contrast to the regular economic forecasting inside the EU.[6]

If trade integration does not necessarily lead to democratisation, it can significantly enhance cooperation with and the mutual strengthening of democratic/democratising nations.[7] Therefore, everything speaks in favour of a G7-plus format as the first circle of the next phase of trade integration. In addition, purpose-specific alliances, such as climate clubs,[8] can also be seen as a substitute for all-inclusive agreements.

As the debate on the Carbon Border Adjustment Mechanism has shown, unilaterally imposed measures mostly hinder further trade integration and do not contribute to enhanced resilience or any development goals. Disseminating innovation through trade integration is, given certain circumstances, a preferable way of upgrading the economic structures of developing countries.[9] Combined with a diversification strategy, the EU could regain lost territory in international trade and become a model of sustainability. However, these efforts need to be complemented inside the Union by enhanced competitiveness and progress in creating a true single market.[10]

Recommendations

- Following the example of the US and Japan, forecast capabilities for external shocks should be co-developed with democratic partners, and consultancy should be given to developing countries as a basis for deepened partnerships.
- Screening all trade measures against the framework of sustainable development would help to avoid European policies slipping into a purely reactive, defensive mode and would increase Europe's resilience as well as its importance as a role model for next-generation development.

[5] A. E. Juncos, 'Resilience as the New EU Foreign Policy Paradigm: A Pragmatist Turn?', *European Security* 26/1 (2017).

[6] The US and Japan have developed more sophisticated tools. See E. Fabry et al., *Shields Up: How China, Europe, Japan and the United States Shape the World Through Economic Security*, Jacques Delors Institute, Policy Paper no. 298 (Paris, 2024).

[7] M. Tabellini and G. Magistretti, 'Economic Integration and the Transmission of Democracy', *VoxEU*, Centre for Economic Policy and Research (12 February 2023).

[8] Energy and Climate Policy and Innovation Council, 'The Climate Club Can Be Key to Decarbonizing the Steel Sector' (27 November 2023).

[9] K. Acri née Lybecker, 'Innovation and Technology Dissemination and Transfer in Low-Carbon Technology Markets: The Role of Intellectual Property Rights, Trade, and Other Enabling Factors', *Social Science Research Network* (2014).

[10] Paradoxically, many obstacles to further external trade cooperation can be found inside the Union. In certain markets, e.g. the agricultural sector, domestic obstacles prevent internal and external market integration.

- Even with the further unionisation of other policy fields, such as defence,[11] trade integration remains *the* most important channel of external influence for the Union. The enormous efforts to be made during the next rounds of enlargement should not divert European policymakers from retaking the initiative with like-minded partners. The window of opportunity for newly emerging powers in Latin America and Africa is still open.

Unleashing the potential of new technologies to optimise the economic benefits of trade for SMEs

State of play

The important role of SMEs in the economic landscape of Europe is widely recognised,[12] but their interests, particularly in international economic relations, are under-represented and often not explicitly addressed by national and European policymakers. Global market expansion for SMEs is still limited in many ways. For example, expanding management capacities or access to innovative financial services and market information usually comes with high transaction costs. New digital-based business models might have the potential to lower those entry barriers. However, to date they have been used by only a tiny percentage of SMEs. In some cases, regional clusters around multinational companies have paved the way abroad. However, in many other cases, SMEs are bound to specific economic environments, an issue which is difficult for the many (somewhat standardised) support programmes established by national and European bodies to address. Rather, past experiences speak to limited success in trans-regional and -national cooperation. These problems are mirrored in some ways in SMEs in developing countries which seek access to global and European markets.

Prospects

There is a huge danger that European solutions for innovations in tailor-made finance and the scalable design of platform technologies are lagging behind those of US and even Chinese competitors. The gap between multinational companies and SMEs, and in particular the majority of mini and small enterprises (MSEs), is instead widening in terms of the application of cutting-edge technologies, leaving productivity gains and competitive advantages under-developed. The limited capabilities of MSEs to generate digital-based business models are widely acknowledged. On the other hand, new opportunities for SMEs, for example in Central and Eastern European countries, may open up. Yet, digitalisation should not be seen as a magic wand for overcoming traditional obstacles, such as regulations, lack of qualified staff or market access barriers. Unfortunately, when talking about the integration of SMEs into international trade, we are talking about the second step when the first one has not yet been taken.

Recommendations

- The creation of a single European digital market, combined with progress in other European markets— the financial markets, for example—is critical to creating appropriately sized markets within a homogeneous regulatory environment. However, complex regulatory environments are often not designed for the majority of MSEs. Efforts made to reduce bureaucracy[13] should address the needs of SMEs and MSEs.

[11] On European defence see Acri née Lybecker, 'Innovation and Technology Dissemination and Transfer'.
[12] See H. Heitz, 'Empowering SMEs in the EU', in P. Hefele, K. Welle et al. (eds.), *The 7Ds for Sustainability: In Depth*, Wilfried Martens Centre for European Studies (Brussels, June 2024).
[13] U. von der Leyen, Statement at the European Parliament Plenary, Strasbourg, 18 July 2024, European Commission, 18 July 2024.

- The lack of management capacities and skilled labour will not be ‘cured’ by digitalisation; rather, it might, in the worst case, widen. Training programmes (initial and continuous) must be adapted accordingly.
- Access to national and global research and development, not only in the digital sphere, and their transformation into business models hardly happens in SMEs. Knowledge clusters hardly see any significant participation from SMEs. A change in the mindset of research and development actors is also needed.

Making Europe a stronger voice in the regional and global trade architecture

State of play

As a consequence of Europe’s perceived role as a normative power[14] and its exclusive competences in trade-related negotiations, trade policy has evolved into an almost ‘universal’ tool for the European Commission to achieve objectives beyond the promotion of economic exchange.[15] Promoting human rights and the rule of law through trade agreements has been a distinct feature of European trade policy. Initiatives such as the Global Gateway[16] aim to create alternative integration models centred around democratic countries. Still, they must also remain open to those partners who have an interest in maintaining and strengthening this order, as opposed to being unilateral and hegemonic trade structures. Contradictions remain between national and European trade-related policies due to differing national interests and economic structures, as can be seen in the discussion on import tariffs on Chinese products.

Prospects

On the Eurasian continent, in the Belt-and Road Initiative put forward by China and the Eurasian Economic Union spearheaded by Russia, political cooperation and economic integration by authoritarian powers reinforce each other. By contrast the list of open or unfinished bilateral and multilateral agreements[17] in the EU is worrying. The rise of left- and right-wing ‘souverainist’ forces in the recent European elections may slow down or halt negotiations, making it almost impossible to improve Europe’s leverage substantially through further trade integration. Some voices wish to set aside options for more ambitious objectives beyond trade, advocating instead a more modular, gradual approach as a more productive way to proceed. However, this less ambitious method will face massive opposition from the left and green political parties. Under the auspices of economic security, strategic alliances—for example, in the areas of raw materials and food—will dominate future discussions on the orientation of European trade policy. However, the lack of globally relevant industrial players in the EU diminishes the weight of the Union in global supply chains.

Recommendations

- The EU has become a trail-blazer in the regulation of key elements of future trade, particularly in the digital services field. It has a unique chance to become a leading voice in the process of digitally upgrading international trade relations and revising the architecture of trade. This potential can only be exploited, however, if Europe manages to create global players which can compete with their counterparts in the US and China.

[14] European Union External Action Service, ‘Critically Assess and Analyse the Notion That the EU Is a Normative Power’ (24 November 2016).
[15] J. Adriaensen and E. Postnikov, *Geo-Economic Turn in Trade Policy?: EU Trade Agreements in the Asia–Pacific* (London: Palgrave MacMillan, 2022).
[16] S. Tagliapietra, ‘The European Union’s Global Gateway: An Institutional and Economic Overview’, *The World Economy* 47/4 (2024).
[17] European Commission, ‘Trade Agreements: What the EU Is Working on’ (11 March 2024).

- The Union must exploit 'low-hanging' fruit with its neighbouring regions, for example in North Africa, promoting both economic integration and political stabilisation.
- Centrist political forces at the European level should fight against the further protectionism that left- and right-wing parties demand, in both the fulfilment of the single market and external trade relations, as they are inseparably linked.
- The enlargement process can provide models for step-by-step economic integration and serve as a blueprint for closer economic relations with neighbouring regions.
- Closer coordination of trade-related strategies[18] across the Atlantic needs more political 'investment' on both sides to counter alternative autocratic integration models.

	Programme 1	Programme 2	Programme 3
	Enhancing the resilience of the global trade system against external shocks	**Unleashing the potential of new technologies to optimise the economic benefits of trade**	**Making Europe a stronger voice in the regional and global trade architecture**
Project 1	Improve the coordination of forecasting and consulting on trade developments among Europe and its like-minded partners.	Reduce the complexity of the regulatory environment of the European digital market to make the advantages of the common European markets available to SMEs.	Revitalise transatlantic trade relations as a starting point and nucleus for a democratic trade area which is open to other partners, in particular, Europe's neighbourhood—through initiatives such as the Global Gateway—as an alternative to economic integration with authoritarian governments.
Project 2	Develop joint platforms with like-minded countries, both industrialised and developing, in parallel to the enlargement process, to enhance Europe's influence through trade cooperation.	Enhance SMEs' access to national and global research and development networks in combination with helping them create new digital-based business models.	Apply the advanced regulatory framework, particularly to the European digital space, to become a trail-blazer and leading voice in a digitally upgraded international trade architecture.
Project 3	Reorientate global trade policy along the lines of sustainable development and aim to enhance Europe's resilience.	Enhance the management capacities and skill levels of the labour force through specific training programmes to better tap into the potential of the digital economy.	Continue to fight against regional and global attempts at protectionism by finalising the European single market as a role model for free economic exchange.

[18] See R. N. Haar, 'Strengthening Transatlantic Relations', in P. Hefele, K. Welle et al. (eds.), *The 7Ds for Sustainability: In Depth*. Wilfried Martens Centre for European Studies (Brussels, June 2024).

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Digitalisation

Table of abbreviations

5 G	Fifth generation technology standard for cellular networks
AI	Artificial Intelligence
APIs	Application programming interfaces
ARCEP	Autorité de régulation des communications électroniques
CEE	Central and Eastern Europe
CMU	Capital Markets Union
DSA	Digital Services Act
DSM	Digital Single Market
EV	Electric Vehicle
Fintech	Financial technology
FDI	foreign direct investment
GDPR	General Data Protection Regulation
GPAI	general purpose AI
ICT	Information and Communication Technologies
O-RAN	Open Radio Access Network
R&D	Research and Development
SME	Small and Medium Sized Enterprise
STEM	Science, Mathematics, Engineering and Mathematics
TTC	Trade and Technology Council

Introduction

by Peter Hefele

Alongside the Green Deal and the first steps towards a Defence Union, creating a single European digital space was a key project of the outgoing European Commission (2019–24). This involved establishing an interconnected set of rules and regulations aimed at creating a level playing field for competition among European and international companies, enhancing the rights of Europe's 'digital citizens', protecting the integrity of democratic institutions and processes, and promoting global cooperation in the digital sphere.

Digitalisation is now seen as a key enabler that will lay the foundation for Europe's future value creation. The success of this project will also determine the geopolitical weight of the Union vis-à-vis major competing powers such as the US and China. From a novel approach to artificial intelligence governance to a revamped understanding of competition law in the digital domain, the EU's ambitions are high. Yet, piecemeal legislation and the lack of a fully integrated digital single market have led to inconsistent regulation, infrastructure gaps, a lack of investment and security-related issues in its digital sphere.

Many European tech companies are struggling to offer their services outside national borders and to expand their reach to a genuinely European (and global) customer base. To survive in a world where the US and China and their digital giants dominate international competition, the EU needs not only up-to-date regulations that create a fair and level playing field and protect the interests of European citizens but also a strong industrial base. The EU must ensure the production and importation of next-generation semiconductors, joint European funding for breakthrough research and development, and access to secure global supply chains. These goals cannot remain aspirations but must be realised. The resilience of hardware infrastructure and software services throughout the EU is more than a mere technical concern: it impacts the security of sensitive user data, intellectual property rights and national security. At the same time, Europe needs a new culture of risk-taking and entrepreneurship to unleash the innovation potential of digitalisation in the fields of the green transformation and healthcare. Digitalisation is also helping to overcome regional disparities within Europe and is enabling new growth, particularly in the Central and Eastern European countries.

The EU needs to boost its internal connectivity and digital excellence, and prepare for the ever-expanding global threats from hostile actors, malicious digital applications and state-led malign influence on online campaigns. When it comes to international partnerships, 'coopetition' will be the modus operandi of those countries that are part of the global democratic alliance. At the same time, efforts continue to be made to find a global consensus on the general principles for the use of artificial intelligence.

Rolling out Secure, Resilient Digital Infrastructures for Europe

by Amelia Andersdotter

Summary

The EU has a number of opportunities in the field of cybersecurity. By investing in competitive research and leveraging capital from the west and talent from the east, the EU could establish itself as a global stronghold of innovation in cybersecurity and privacy technologies. Consistent and coherent governance, combined with competitively organised markets and standardisation, could ensure that European values are imbued not just in local technological projects, but in the global economy as well.

Keywords 5G – Standardisation – Cybersecurity – Securities – Privacy – Innovation

Introduction

The EU is an end-destination market for information and communication technology (ICT). From hardware design and manufacture to software service conceptualisation and implementation, Europe, its companies and its public institutions are dependent on other regions. To manage this complex cyber-environment with its fragile logistical chains, the EU needs to agree on a proactive cyber strategy. Cloud infrastructures, the Internet of Things and 5G/6G networks are all expected to enable industrial and administrative efficiency. Meanwhile, establishing and protecting EU sovereignty and leadership will require a combination of *ex ante* measures (certifications, standards and capacity), *ex post* measures (procurement, research and enforcement) and governance (consistency, law and regulation, and strategic development).

Building a complete European digital market must involve synergising access to capital and manufacturing in the west with the product- and service-development skills of the east. The reasons for this are not only related to equitable and fair growth in the Union, but are also practical. EU member states must increasingly coordinate their actions across policy fields such as climate change, security policy and strategic manufacturing, and will run up against the challenge that a certain level of institutional stability and experience, as well as domestic capital, is necessary to make these adjustments. When such stability and experience are absent in a country, its peoples and institutions may legitimately fear that committing to another country's technologies might reduce their autonomy. Cross-commitment makes sure everyone has a stake in the successful adjustment of the entire European economy.

At the same time, the EU is having to answer crucial questions about how to transform its legally established values into verifiably testable criteria for technology, while also safeguarding competition and innovation. At both the European and the national levels, institutions need to develop a less risk-averse culture, where bold investments can lead the way to both competitive markets and future technologies, but also provide important opportunities to learn from failures.

High-level governance tools such as harmonised standards and self-conformity assessments, the realisation from classical European competition law that robust and competitive markets require a minimum number of competitors to remain viable, and transparency as a core value for success are already in place.

Catching up or falling behind? Roadblocks for Europe

In the cybersphere, the EU is either trying to catch up or falling behind. In jest, observers remark that in our multipolar world, the US is responsible for innovation, China for manufacture and the EU for regulation.[1] The concern should be that neither service development nor material production occurs on European soil.

In fact, while the European single market has been under construction for more than 30 years, the market is anything but digital. European startups such as Workable (human resources management), Gorilla (electricity pricing), Revolut (fintech), ESET (security) and Spotify (streaming) have launched their services by first establishing themselves in their home member state, before advancing to either the Netherlands or the UK, and then conquering the US market, ahead of returning 'home' to Europe to capture other larger markets beyond their home market. This is a costly and time-consuming endeavour, in which EU-founded companies have to compete against US companies on the US market before even standing a chance in the EU market.

Western European markets remain closed not just to Eastern European service and product developers, but to all non-domestic companies. For example, in France, all spectrum licences for commercial mobile network operations are held by French entities.[2] Only Belgium has ever awarded a spectrum licence to an Eastern European player (a 5G licence to DIGI Communications).[3] A large part of this challenge is surely rooted in the linguistic diversity of the EU, but the spectres of mistrust and security policy still present effective barriers to both market integration and industrial prominence.

Ambitious projects to ensure cross-border service availability, such as Gaia-X for cloud services, end up doing little more than developing structured text files (JSON tags).[4] Even where frameworks for competitive procurement are being developed to help guide public-sector investments, they are rarely implemented and poorly enforced.[5]

These shortfalls of the European integration project can only be remedied by the member states; however, the EU needs to develop more robust mechanisms to call them out. Rather than retreating into autocracy and a 'not made here' mentality, the member states need to work out why European entities do not invest in each other.

One example of the lack of cross-border cooperation is that of European participation and representation in industry-driven standards development. There are industry-wide platforms for the development of the common technical practices that underpin the entire global communications infrastructure, for example, the standardisation work of IEEE 802.11, the Internet Engineering Task Force, the UTF-8 Consortium or the USB Implementers Forum. In these fora, European companies are present and contribute, but do not lead the work. In fact, the only consortium of notable import founded and governed from European soil is the Open Radio Access Network (O-RAN) Alliance. This is not to denigrate the contributions of European companies to global technology standards, but rather to point out that they are neither interested in, nor capable of leading the way for others in the way we have come to expect from the Linux Foundation, the Kubernetes Foundation,[6] the Ceph and OpenStack foundations,[7] or the Connectivity Standards Alliance.[8]

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[1] C. Hobbs, 'Project Note: In Search of Europe's Digital Sovereignty', in European Council on Foreign Relations, *Europe's Digital Sovereignty: From Rulemaker to Superpower in the Age of US–China Rivalry* (30 July 2020).

[2] ARCEP, 'Mon Réseaux Mobile'.

[3] *Tweakers.net*, 'Nieuwe provider Digi Belgium start voor het einde van het jaar', 16 May 2024.

[4] See Gaia-X Technical Committee, 'Gaia-X Architecture Document – 23.10 Release, Chapter 3: Conceptual Model', chapter 3.3.1 'Gaia-X Credentials'. These credentials implement a JSON-LD syntax from W3C, 'Verifiable Credentials Data Model v2.0', 19 October 2024, chapter 6.1.

[5] Germany, Commissioner of the Federal Government for Information Technology, *Architekturrichtlinie für die IT des Bundes*, version 6.1 (Berlin, January 2024).

[6] Founded by Google through a donation of source code developed in-house for assisting in the management of virtual server configurations.

[7] Founded by IBM to enable industry-wide collaboration around cloud application programming interface developments.

[8] Currently stewarding ZigBee and Matter, the latter being a connected-home-over-Internet-protocol framework originally developed by Amazon, Apple and Google.

Meanwhile, the European regulatory standards framework has its roots in the beginnings of the single market, but primarily functions well in the context of synergising and finding compromise on national standards. Harmonised standards are developed to counter technical barriers to trade in market areas ranging from radio to cement.

In the majority of cases, functional safety standards and requirements frameworks already existed in the member states before the initiation of the single market, and the European-level institutions simply serve to ensure that European integration does not degrade the quality and safety of food, construction materials or electrical safety. The European Committee for Standardisation, the European Committee for Electrotechnical Standardization and the European Technical Standards Institute provide the intergovernmental frameworks within which the harmonisation of standard requirements can occur. For markets where product cycles are much longer than the typical certification cycle, for instance, sewer-pipe linings, fire alarms or food preservatives, these harmonised standards function well. The long lead times for the development and application of the standard matter little when product lifetimes are longer than 10 years.

However, for ICT, the European standardisation system does not perform so well. It lacks the flexibility afforded by industry-led groups and is encumbered by political formalism. The same mechanisms that are a strength in terms of safeguarding the application of the precautionary principle in food and building safety become a hindrance on the ICT market, where product cycles are shorter than certification cycles. Added to this is the fact that most ICT standards are already in production (for instance, in the shape of finalised code) and ready for deployment by the time they are standardised. This contrasts, for instance, with steel-pipe manufacturing, where a standard is established before production begins. The EU would do well to invest in its capacity to benefit directly from sensible industry standards in these circumstances, namely, by absorbing the outcomes from industry-driven standards bodies directly into procurement guidelines, rather than forcing them through its already established intergovernmental frameworks.[9]

Finally, the EU needs consistent and coherent political leadership. Instead of sending the European Commission services scrambling to invent a way in which 'European values' make their particular unit especially important to the European economy, political leaders need to have a sufficiently shared understanding of what they are doing to help the services work in tandem with each other and the cabinets on what a good enforcement policy might look like. Terms such as 'data protection' or 'trustworthy' need to be imbued with practical meaning, both to assist with the understanding of current laws and to drive new legislation.

A path towards the future: reiterating what has already worked

As dire as the situation may appear, the EU has succeeded in establishing a portfolio of policy options with which to gather knowledge, fund projects and create regulation. In the last 10 years alone, the second Payment Services Directive[10] has paved the way for open application programming interfaces (APIs) in the banking sector, which has enabled lots of innovative products to be launched on the European markets that otherwise would not have been commercially feasible. The Digital Operational Resiliency Act[11] is expected to create a market space for multiple cloud-service providers, thereby ensuring that no single cloud-service vendor becomes

9 A. Andersdotter and L. Olejnik, 'Policy Strategies for Value-Based Technology Standards', *Internet Policy Review* 10/3 (2021).

10 European Parliament and Council Directive (EU) 2015/2366 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) no. 1093/2010, and repealing Directive 2007/64/EC (Text with EEA relevance), OJ L337 (25 November 2015), 35.

11 European Parliament and Council Regulation (EU) 2022/2554 on digital operational resilience for the financial sector and amending Regulations (EC) no. 1060/2009, (EU) no. 648/2012, (EU) no. 600/2014, (EU) no. 909/2014 and (EU) 2016/1011 (Text with EEA relevance), OJ L333 (14 December 2022), 1.

too big to fail. With this evaluation of the financial sector, it should be considered whether similar regulation could be useful in other areas. Home automation, vehicle sharing and digital-content platforms could be areas where functional requirements for interoperable APIs could help consumers to switch between providers.

Regulations such as the General Data Protection Regulation are only now beginning to take effect on the markets as enforcement authorities become more competent and confident. Despite this, privacy engineering and privacy-enhancing technologies mostly remain the public concern of large American tech companies,[12] while European companies have either failed completely or at least failed to advertise any enthusiasm for or engagement with the topic. Here, a cultural shift is needed in the leadership of the largest European companies, which can only be brought about by consistent and steadfast political leadership.

The US Defence Advanced Research Projects Agency has a strategy of funding multiple consortia to perform the same task, thereby ensuring that all pressing technical problems are addressed in a multiplicity of ways by different entities. Each challenge thereby gives rise to a competitive market for solutions already in the initial stage of development. The ongoing development of open-source electronic design automation libraries for chipsets is a prime example.[13] The EU would do well to replicate this strategy.

On the research front, the EU should further explore social science perspectives. Instead of looking only at technology development, the EU needs economic and social models into which technical innovations can be sensibly incorporated. This may include exploring European conceptualisations of leadership and industrial leadership, innovation management practices, and both business- and socially oriented interactions between European technology companies and the public sector. Consider, for instance, the application of cryptographic tokens to property sales in European jurisdictions where notaries mediate property transactions: instead of creating efficiency, cryptographic protocols introduced the necessity of having two notaries where previously only one was needed.[14]

To identify current gaps in enforcement and standardisation, the EU should not hesitate to use its full arsenal of institutional tools. The General Data Protection Regulation calls for data-protection-friendly technical standardisation:[15] a European Parliament special inquiry should be requested to investigate which industry-driven initiatives exist in this space and how they relate to the enforcement challenges currently faced by data protection authorities. The ePrivacy Directive calls for technical tools to enable stronger protection from tracking:[16] a European Parliament special inquiry should be requested to map the challenges and opportunities arising from this obligation. The Radio Equipment Directive formulates built-in data-protection and privacy features as an essential requirement of all radio equipment,[17] an obligation that has been present in European law since 1999, but which has still not been realised fully for all radios:[18] a European Parliament special inquiry should be requested to investigate industry-driven initiatives and regulator efforts to advance this essential requirement.

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12 Google Cloud, 'Use Differential Privacy' (last updated on 15 October 2024); Amazon, 'AWS Clean Rooms Differential Privacy'; Github.com, 'Mozilla Prio Project' (archived on 13 February 2024).

13 See Defence Advanced Research Projects Agency initiatives Posh Open Source Hardware and Intelligent Design of Electronic Assets, and the initiatives sponsored under these programmes.

14 J.-F. Blanchette, *Burdens of Proof* (MIT University Press, 2012).

15 European Parliament and Council Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) (Text with EEA relevance), OJ L119 (27 April 2016), 1, arts. 12(7)–12(8), 25 and 43(9).

16 European Parliament and Council Directive 2002/58/EC concerning the processing of personal data and the protection of privacy in the electronic communications sector (Directive on privacy and electronic communications), OJ L201 (12 July 2002), 37, art. 5(3).

17 European Parliament and Council Directive 2014/53/EU on the harmonisation of the laws of the Member States relating to the making available on the market of radio equipment and repealing Directive 1999/5/EC Text with EEA relevance, OJ L153 (16 April 2014), 62, art. 3(e).

18 Although note, exceptionally, European Technical Standards Institute standard EN 303 645.

No other European body is as well placed as the European Parliament to maintain good relationships with all stakeholders, allowing it to survey the breadth and depth of industrial and social challenges in these already well-established priority fields of the Union.

The European Commission, in its turn, is well-placed to enforce existing legislation and agreements between member states. The politically appointed functionaries need to focus on the challenges faced by apolitical civil servants and determine where there are gaps or difficulties in enforcement, not only where member state governments feel that this enforcement is opportune, but across the board. A well-functioning executive is at the heart of any enterprise, whether it be a small or medium-sized company or a grand international experiment in cooperation across borders.

The European institutions could have a key role to play in identifying current capital flows in the EU. Whose money is being invested where, and in which services? The French telecommunications regulator Autorité de régulation des communications électroniques (ARCEP) has already done a lot of heavy lifting in terms of showcasing energy flows in the network operator industry.[19] Similarly pedagogic presentations are required about investments in innovation and development to enable and inspire a more integrated and equitable European digital single market. With more and more EU countries in Central and Eastern Europe (CEE) fearing that they are being left behind, careful analysis and consideration of the actual conditions on the ground could help to bring a sense of cohesion and clarity to the development of the EU market.

This might include understanding how research and development or customer support activities are being outsourced to CEE countries by Western European companies, but it may also shed light on the extent to which Western European capital is flowing into home-grown CEE activities such as e-commerce (the Allegro group), airlines (WizzAir) or cybersecurity (ESET). More recently, Europe has been the destination for large investments in privacy technologies in fintech and encrypted ledgers, which has primarily benefited developer bases in CEE.[20] However, it remains unclear whether the EU will be able to capitalise on its contributions to these emerging markets.[21]

Conclusion

Europe needs consistent, coherent leadership and governance to fully benefit from its contributions to the digital economy. As a large consumer market, and an internally under-appreciated centre for technological development and innovation, with strong social and fundamental rights ideals, the EU should be able to shape global privacy and security standards in line with its foundational values. However, the Union must strive for greater maturity in its policy application.

Following up on already established policy directions, such as the commitment to data protection, privacy and procedure, will rationalise the European project for both citizens and businesses. The positive effects will reverberate throughout the technological stacks. But this needs to be coupled with paying greater attention to the capital flows to and within Europe, from east to west, and to the shared European funding of competitive and innovative research.

The EU should also develop procedures to benefit from existing mechanisms in standardisation. Translating European values into deterministic and predictable test criteria remains a challenge for policymakers and technology developers alike.

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19 ARCEP and ADEME, *Assessment of the Environmental Impacts of the ICT Sector: Methodological Gap Analysis* (2023).
20 Electric Capital, *2023 Crypto Developer Report* (January 2024).
21 European Securities and Markets Agency, *Crypto Assets: Market Structures and EU Relevance* (Paris, 10 April 2024).

	Programme 1	Programme 2	Programme 3
	Creating digital resilience	**Ensuring digital sovereignty**	**Building future infrastructures**
Project 1	Establish (self-)certification schemes for products and services destined for the European market based on exact and replicable requirements. Continue to invest in European hardware infrastructure, including basic infrastructure such as long-distance cables and electricity grids.	Build capacity in project management for open-source code-as-infrastructure, especially in terms of industry-oriented fora (e.g. O-RAN Alliance). Trust, but verify: European open-source code libraries that address shared challenges should act as both public infrastructure and a trustworthy technology base.	Produce a standardisation strategy for 5G, O-RAN, cloud technologies and the Internet of Things that emphasises European values. Ensure fast deployment of the latest compliant technologies by allowing the flexibility of self-certification against approved standards with product recall penalties in the event of demonstrated infringements. Ensure that spectrum licences include requirements on the security of network equipment.
Project 2	Ensure technical resilience in investments across Europe. Use at least two vendors of network equipment from two different countries in any national network. Make the operation of a commercial system independent from features available from only one single upstream supplier (e.g. lock-in mechanisms, vendor-specific APIs or de facto standards).	Support technology development in Europe through strategic procurement, including where there is a risk of failure. Map capital flows into European technology industries and startups. Ensure that public money goes to public, open infrastructures, even code, that instil trust by being verifiable.	Hold a series of European Parliamentary inquiries into topic-specific enforcement activities in the area of cyber-excellence (e.g. activities regarding the essential requirement of radio equipment to respect data protection, as contained in Directive 2014/53/EU, art. 3(e)). Continue to focus on cyber-exercises and scenarios, especially in the cross-border context—consider the possibility of holding competitions that test sectoral, randomly selected teams, or similar, rather than national ones.
Project 3	Leverage the framework of harmonised standards. Develop shared open-source libraries for common goals and norms in public infrastructure, such as billing systems, personnel systems and so on. Support red-team research, responsible vulnerability disclosure and remedy/patching schemes.	Consistently recognise both the technical aspects of security (objective, deterministic criteria) and the organisational and legal aspects (venues of conflict resolution, jurisdiction and decision-making) when addressing cyber-governance. Bring together existing forces for capitalisation and market access to achieve pan-European service-launch opportunities.	Realise opportunities for innovators by opening up new regulatory spaces through replication of the changes in the fintech sector (with open APIs for specific bank payment systems in the 2010s) and the wireless local area network sector (when microwave bands were opened up to licence-exempt use in the 1990s).

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Completing the European Digital Single Market

by Milda Kaklauskaitė

Summary

With the aim of strengthening the EU's digital single market, this paper sets forth key policy recommendations which focus on unifying digital regulations and infrastructure. Simplifying bureaucracy by introducing an 'EU Company' status would ease cross-border operations for tech startups and small and medium-sized enterprises, fostering rapid market entry. Promoting innovation through incentives for large businesses to adopt European solutions and encouraging data sharing would level the playing field and boost the competitiveness of smaller companies. To support startup growth, completing the Capital Markets Union and aligning pension funds with startup needs are crucial, as these actions would unlock substantial investment and drive economic progress.

Enhancing cybersecurity is essential for digital sovereignty; investing in training and establishing a pan-European cybersecurity fund would ensure protection against cyber threats. Harmonising public procurement rules would encourage the adoption of European solutions, reducing reliance on external suppliers. Implementing these measures would enhance Europe's tech ecosystem, attract investment and ensure resilience in the digital economy.

Keywords DSM – Harmonisation – Startups – SMEs – Pension funds – Venture capital – Insolvency – Cybersecurity – CMU – Training – Procurement

Introduction

The digital single market (DSM) was introduced in 2015 for the purpose of bringing the EU's single market into the digital age.[1] While the single market, established in 1993, facilitated the free movement of goods, services, capital and people, the DSM aimed to enhance business competitiveness and protect online data. Key achievements include eliminating roaming charges and introducing digital copyright and e-commerce regulations, with the Digital Services Act focusing on user protection.

Despite these significant advancements, challenges remain. Excessive legislative and administrative burdens hinder tech innovators from scaling across borders. Larger companies are slow to adopt innovations from small European providers, and access to non-sensitive data is limited. The EU is also criticised for its lack of private investment, which stifles tech innovation, and for its fragmented financial sector, which restricts cross-border funding, particularly from pension funds. Cybersecurity is another area of concern. While there are calls for greater strategic autonomy and technological independence, the EU's cybersecurity sector is often overshadowed by non-EU providers, with much of Europe's innovative technology being bought by foreign companies.

This policy paper examines the bottlenecks preventing the completion of the DSM and outlines the concrete and practical recommendations that must be implemented to address these challenges. Special attention is given to the needs of the European tech startups and small and medium-sized enterprises (SMEs) to expand their businesses; the ways to boost private investments, which are essential to drive tech innovation; and the changes needed to boost the EU's cybersecurity posture.

1 European Commission, *A Digital Single Market Strategy for Europe*, Communication, COM (2015) 192 final (6 May 2015).

Key barriers to the EU's ambition for the DSM

The EU faces critical challenges to achieving a fully realised DSM, which is essential for global competitiveness. Three key issues require urgent policy action. First, market fragmentation and slow innovation hinder tech startups and SMEs. Second, a lack of private capital stifles growth in fintech and other sectors, driving high-potential firms to seek investment abroad and limiting domestic growth. Third, Europe struggles with cybersecurity due to expertise shortages, underinvestment and reliance on non-European providers. The following discussion elaborates on these challenges, highlighting how each presents distinct barriers to Europe's long-term competitiveness and digital leadership.

Europe's tech startups and SMEs in headwinds

European tech startups and SMEs face substantial barriers due to European market fragmentation, which severely limits their ability to scale and grow at the same pace as their counterparts in larger, more homogenous markets like the US. The European markets' regulatory fragmentation has been identified as a key impediment to cross-border scaling.[2] Unlike the unified US market, Europe is divided into multiple national ecosystems with distinct regulations, administrative frameworks and languages. This fragmentation hinders startups from scaling in a stable regulatory environment, slowing their growth.

Another significant challenge is the slow adoption of innovative technologies due to a conservative, risk-averse mindset among European buyers. Unlike in the US, where early adoption is encouraged, European businesses tend to favour established providers for comprehensive solutions. This preference makes it difficult for startups and SMEs to gain credibility and secure the essential market references needed for customer acquisition and growth.[3] Conversations with startups reveal that this risk aversion is further fuelled by a reliance on known brands, which are perceived as more reliable, with this putting European tech startups and SMEs at a substantial disadvantage when competing against large multinationals and foreign tech giants.

Small businesses face significant disadvantages compared to large international corporations due to limited access to essential data and data-gathering tools crucial for growth and operational success. In Europe, where small businesses account for over 99% of all companies, this issue is particularly pressing.[4] While SMEs dominate the European business landscape, over half of the net turnover in the EU comes from large enterprises, further emphasising the competitive disadvantage SMEs face.[5] Unlike large corporations with abundant resources, SMEs struggle to leverage data for decision-making, which is vital for scaling operations and expanding their customer base.

Europe's unwelcoming investment climate

A critical challenge facing the European innovation landscape is the lack of private financial capital, stemming from the fragmentation of the financial markets.[6] The absence of a fully integrated Capital Markets Union (CMU) hampers the free flow of venture capital and stifles fintech innovation. Varying regulations and procedures

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2 World Economic Forum, 'Uniting Europe's Markets', Davos Annual Meeting (19 January 2024); M. Gordiano, 'Accelerating Europe: Competitiveness for a New Era', *McKinsey Global Institute*, 16 January 2024).

3 L. Guk, 'Go to Market — Or Die', *Sifted*, 29 July 2020.

4 L. Di Bella et al., *Annual Report on European SMEs 2022/2023* (Luxembourg, 2023), 6.

5 Eurostat, 'Large Businesses Generated Half of EU's Net Turnover' (12 December 2023).

6 While the EU, alongside its member states, has made strides in establishing robust financing mechanisms for research, such as Horizon 2020, Horizon Europe and the Digital Europe programmes, the region remains reliant primarily on public funds, including grants and loans, to support innovation. These initiatives effectively foster early-stage research collaboration between startups, research centres and other stakeholders. However, once this initial funding phase concludes, many projects face the notorious 'valley of death', where startups, particularly in deep tech, fail to secure follow-on investment despite offering groundbreaking innovations and being seen as having high potential. Companies also need funding for initial commercialisation and market expansion phases, not just research.

across member states burden investors and deter cross-border investments. This lack of harmonisation is a major reason investors avoid reinvesting in Europe.[7] This limits startups' ability to access investment beyond their home markets and hinders their international exposure and advisory support for growth.

Another issue is the ineffective deployment of financial capital from European pension funds. European pension funds hold vast amounts of capital but remain largely inactive in investments. In 2022, just 0.024% of pension fund assets under management were invested in European venture capital firms.[8] Regulations limit diversification into higher-risk assets, pushing pension funds towards safer government bonds. Meanwhile, more agile non-European pension funds are stepping in to fill Europe's venture financing gap.[9] As a result, European venture capital firms primarily focus on early-stage investments, neglecting later stages like Series C[10] or pre–initial public offering[11] rounds.[12] The EU seeks to address this issue with governmental investment funds, but the strict conditions placed on the use of public money misalign with optimal investment opportunities.[13] Unlocking dormant European pension capital is key to building larger European venture capital funds.

Divergent insolvency regimes across the EU create uncertainty and complexity for cross-border investments, raising risks and costs for investors. These disparities limit investment recovery in case of failure, discouraging risk-taking. As a result, European startups struggle to secure funding and compete with US rivals, who work in a more mature, risk-tolerant ecosystem.[14] The EU Restructuring Directive of 2019 (Second Chance Directive) was a step towards harmonising restructuring laws.[15] However, insolvency proceedings still vary significantly, particularly in asset management, distribution and timely restructuring, highlighting the need for further harmonisation.

Europe's crippling cybersecurity stance

The cybersecurity skills gap is a global issue, and Europe is no exception as the sector rapidly expands. Recent reports from the OECD reveal that Europe currently faces a shortage of almost 350,000 cybersecurity professionals and forecast a significant increase in the need for cybersecurity skills in the coming years.[16] This gap underscores the urgent need for strategic efforts to develop and attract talent to secure EU digital systems. While European and international businesses are aware of this growing issue, there is still a lack of coordination between the public and private sectors to build a sustainable pipeline of cybersecurity experts.

Furthermore, the EU's cybersecurity posture is weakened by insufficient investment in cybersecurity innovation. A European Investment Bank study estimates an investment gap of around €1.75 billion per year in the EU cybersecurity market.[17] This funding gap has contributed to the frequent acquisition of European cybersecurity

7 Some very interesting first-hand insights and opinions by international investors who invest across Europe can be found on the European Accelerationism website, launched as a community movement by Andreas Klinger, an angel investor and serial entrepreneur, with a group of other founders. See European Accelerationism (website).

8 Atomico, *State of European Tech 2023* (London, 2023), 212.

9 F. Perticarari, 'Europe, America Is Coming for Your Startups', *Sifted,* 27 September 2023.

10 Series C funding is aimed at preparing a company for significant growth initiatives, such as being acquired, going public or expanding through acquisitions. The aim is to raise substantial capital to scale operations and enhance market presence.

11 Pre–initial public offering describes the period leading up to a company's first public offering of shares. This stage is vital for laying the groundwork for a successful transition to being a publicly traded entity.

12 A. Schwarzenbrunner, 'Report: Inside the Minds of European VCs', *SpeedInvest*, 6 June 2023.

13 J. Lerner, *Boulevard of Broken Dreams: Why Public Efforts to Boost Entrepreneurship and Venture Capital Have Failed and What to Do About It* (Princeton: Princeton University Press, 2012), 111–61.

14 *McKinsey & Company*, 'Europe's Start-up Ecosystem: Heating up, but Still Facing Challenges', 11 October 2020.

15 European Parliament and Council Directive (EU) 2019/1023 on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132 (Directive on restructuring and insolvency), OJ L172 (20 June 2019), 18.

16 OECD, *Building a Skilled Cyber Security Workforce in Europe: Insights From France, Germany and Poland* (Paris, 2024), 24.

17 European Investment Bank, *Report on European Cybersecurity Investment Platform* (Luxembourg, 22 October 2022), 36.

startups by non-European entities, leading to the relocation of these companies abroad. BforeAI and Enigmedia, now known as Opscura, are among the latest examples.[18] As a result, Europe loses both intellectual property and talent, increasing its reliance on non-European suppliers and raising risks in securing sensitive assets and critical infrastructure.

The EU's reliance on non-European cybersecurity suppliers is further aggravated by public procurement frameworks that disadvantage small providers. Existing rules often unintentionally exclude small cybersecurity providers from tenders, disproportionately favouring large multinationals, many based outside Europe. This widens cyber supply-chain risks, limits smaller European firms' access to clients and market references, and reduces the public sector's potential role as a strategic customer.[19] Fragmented procurement regulations across the EU further hinder small providers from participating in cross-border procurement processes.

Cracking the code: recommendations for the EU's digital future

Although these issues vary in nature, they are all central to Europe's ability to innovate and compete on the global stage. The EU must address these areas strategically. The following are concrete policy recommendations for the European Commission (2024–9) and the EU member states to effectively address the identified challenges in completing the digital single market.

On startups and SMEs

1. Establishing an 'EU Company' status as a standardised European entity should be a top priority for the next European Commission. The idea of an EU-wide legal status to reduce the administrative burden for startups and SMEs has been discussed since around 2011 but has remained unimplemented. Adopting a European entity standard would streamline market entry for startups and SMEs aiming to expand internationally, helping them to navigate and comply with the legal requirements of 27 different EU member states. Such alleviation of the administrative burden would greatly simplify cross-border operations and reduce market fragmentation in Europe. The success of this initiative will depend on ensuring the procedures and standards that have to be met to achieve EU Company status are business friendly. The EU needs to make sure that companies can acquire this status without facing unreasonable legal costs and onerous administrative requirements.

2. To boost market traction and credibility for small businesses, the EU could incentivise large companies to adopt innovative solutions from European startups and SMEs, countering the region's conservative innovation culture and preference for established firms. Some key measures to implement are the following:

    - Offer large firms a competitive advantage in public tenders for including SMEs in their supply chains or innovation.
    - Provide tax incentives for partnerships between large companies and European startups, especially in priority sectors such as the green transition and digitalisation.
    - Establish a fund to reduce risks for large firms adopting innovative, untested solutions from startups.
    - Update procurement rules to ensure a portion of contracts go to SMEs.

[18] Opscura, 'ICS Cybersecurity Firm Opscura Launches With $9.4 Million in Series A Funding', 7 February 2023; BforeAI, 'BforeAI Announces $15 Million in Series A Funding Led by SYN Ventures', 24 April 2024.

[19] U. Horstmann, 'If Governments Want to Help Startups, They Should Stop Being Such Terrible Customers', *Sifted,* 7 November 2023.

- Develop standardised partnership templates to simplify legal and administrative barriers, encouraging collaboration and acceptance of the above-mentioned measures.

3. Promoting digital transformation and increasing digital intensity among European SMEs is critical for their competitiveness and the EU's digital economy. While the Open Data Directive[20] provides a framework for reusing public-sector information, its enforcement needs strengthening, and private-sector data sharing must be incentivised. As a first step, cross-border data flows should be ensured by harmonising data protection and sharing regulations across member states. The EU should support the development of shared data platforms in key industries, creating sector-specific data spaces that allow SMEs to access relevant information. Larger corporations should be incentivised to share anonymised data with smaller businesses in their value chains through tax breaks and a voluntary EU-wide data-sharing code of conduct, which would encourage businesses to participate in responsible data sharing.

On private investments

1. The CMU, proposed in 2014, has seen only incremental progress despite several action plans from the European Commission since 2015.[21] While many measures have been adopted, they have largely reinforced existing market fragmentation. A truly ambitious CMU reform must prioritise the implementation of standardised rules, tax laws and supervision for investors and financial firms across the EU. The current preferential tax treatment of debt over equity should be abolished to establish a more risk-friendly culture. A European safe asset should eventually be created as well, offering investors a liquid, risk-free reserve and a benchmark for financial products, separate from national bonds. Only then will the EU be able to attract investments in critical tech sectors and advance fintech innovation.

2. The 1974 US pension fund reform showed how directing pension funds into venture capital spurs innovation.[22] Enabling European pension funds to invest in venture capital could be transformative, empowering European venture capital firms to establish larger funds and offer more substantial investments, particularly for growth-stage companies. The UK has already started reforming pension funds to channel more private capital into startups[23] The EU must review regulatory barriers to encourage pension funds to diversify beyond traditional low-risk equities and bonds, allowing them to invest more freely in venture capital.

3. To create a more favourable investment environment, Europe must address the fragmentation of national insolvency laws. The 2022 Insolvency Law Proposal aims to harmonise key aspects of insolvency law which might not have been covered by the Second Chance Directive.[24] However, it still faces hurdles. First, the proposal has not yet been agreed upon due to criticism that it conflicts with national insolvency laws in some member states. Second, it requires updates to address missing elements. To eliminate discrepancies across countries, the EU should establish a unified definition of insolvency and specify the main parties involved in the insolvency proceedings. The conditions for triggering insolvency proceedings and harmonising avoidance rules must be standardised across member states. Regulations on financial collateral and securities settlement should be aligned. These changes would facilitate faster implementation of the 'second chance' policy, which is crucial for reducing the social stigma surrounding business failure—a

[20] European Parliament and Council Directive (EU) 2019/1024 on open data and the re-use of public sector information, OJ L172 (20 June 2019), 56.

[21] European Council, 'What the EU Is Doing to Deepen Its Capital Markets' (last reviewed on 9 October 2024).

[22] W. Gornall and I. A. Strebulaev, 'The Economic Impact of Venture Capital: Evidence From Public Companies', *S&P Market Intelligence* (June 2021), 2–4.

[23] UK Government, '£320 Million Plan to Usher Innovation and Deliver Mansion House Reforms', 21 November 2023.

[24] European Commission, 'Proposal for a Directive of the European Parliament and of the Council harmonising certain aspects of insolvency law', COM (2022) 702 final (7 December 2022).

stigma much more pronounced in Europe than in the US. The Directive itself needs certain revisions, as its introduced preventative restructuring framework is overly complex for smaller businesses to navigate effectively and should be simplified.

On cybersecurity posture

1. The launch of the Cybersecurity Skills Academy in 2023 represents a step towards bridging the cybersecurity skills gap by aiming to unite private and public initiatives. However, more coordinated action at the EU level is needed to address this gap in Europe. First, the EU should integrate cybersecurity education into primary and secondary school curricula to build foundational skills and raise early awareness, which should be followed by awareness campaigns promoting cybersecurity as a rewarding career path.[25] EU-wide vocational training and apprenticeship programmes for those without formal cybersecurity education should be put in place. Continuous upskilling for professionals should also be prioritised, given the rapid evolution of cyber threats. Effective implementation will require cooperation with the private sector, with the EU offering tax incentives for businesses participating in cybersecurity training and certification for their employees.

2. Building on models like the NATO Innovation Fund and the European Tech Champions initiative, the EU should establish a cybersecurity investment platform, with initial funding of €1 billion from the EU and member states. This would signal high-level political commitment and attract private investors. The need for such a platform has been echoed by cybersecurity stakeholders across Europe.[26] For success, the platform should be structured as a 'fund of funds' to enable rapid investment into cybersecurity venture capital funds. It must avoid market restrictions on investee companies and lengthy approval procedures, as these would hinder competitiveness with overseas investments that come with fewer conditions.

3. To boost SME participation in procurement, the EU and member states should align requirements to avoid excluding smaller cybersecurity providers. More procurement of homegrown solutions would help to reduce potential dependencies on non-European suppliers and security backdoors. While procurement is largely national, the European single procurement document has made bidding easier.[27] However, further reforms are needed to help European cybersecurity providers compete and reduce bias favouring well-known providers. These include:

   - limiting turnover thresholds to no more than twice the contract value, and prioritising team qualifications over market experience;
   - facilitating joint bidding, allowing small businesses to collaborate on larger contracts;
   - ensuring procurement criteria are proportionate to the size of the business; and
   - simplifying processes by reducing documentation, financial guarantees and compliance costs.

[25] Private initiatives carried out by the Women4Cyber Foundation (website) and by the European Cyber Security Organisation, such as *Youth4Cyber* (see European Cyber Security Organisation, 'Youth4Cyber' serve as exemplary models in tackling the cybersecurity skills gap. These existing programmes offer a solid foundation upon which the EU can build further.

[26] European Cyber Security Organisation, *The Letter of Intent to the European Commission on Creating a European Cybersecurity Investment Platform*, 20 September 2020 and 20 November 2020.

[27] European Commission, 'European Single Procurement Document and eCertis'.

Conclusion

The challenges outlined in this policy analysis hinder of the digital economy in Europe reaching its full potential. The various legal complexities that startups and investors must navigate stifle innovation and weaken the continent's competitiveness with the US and China. Addressing these barriers—particularly through regulatory harmonisation and capital market integration—is essential for completing the DSM. A truly integrated and functioning DSM cannot be achieved without a robust cybersecurity framework capable of tackling ever-evolving threats.

Implementing the identified recommendations would provide European startups and SMEs with a more conducive environment for scaling, would increase market access opportunities, and would provide better access to data sharing and pooling. A unified capital market would deepen integration, allowing European businesses to compete more effectively with global players. A fully developed CMU, the deployment of untapped capital from pension funds and harmonised insolvency would facilitate cross-border investments, providing clarity and revising the risk-averse culture that hinders innovation in the EU. Cultivating a steady pipeline of cybersecurity professionals, securing adequate funding for cybersecurity innovation and promoting the widespread adoption of homegrown technologies would strengthen Europe's cybersecurity posture.

Ultimately, these measures would foster a competitive landscape for European businesses, allowing them to scale and compete on an equal footing with international giants. To ensure the effectiveness and market relevance of these recommendations, close collaboration with industry representatives, startup and SME associations, investors and cybersecurity stakeholders will be essential.

	Programme 1	Programme 2	Programme 3
	Fostering Europe's tech startup and SME ecosystem	**Attracting private investment**	**Strengthening the European cybersecurity posture**
Project 1	Reduce fragmentation and administrative burdens for companies operating or aiming to expand in multiple countries. Establish an 'EU Company' status to simplify cross-border operations for businesses and streamline market entry by alleviating the administrative burden of setting up entities and complying with local regulations.	Complete the CMU to remove the fragmentation across national borders and allow the free flow of venture capital investments into the tech sector across the EU. Finalising the CMU is the precursor to an improved fintech innovation outlook. Only through improved market integration can the EU rise to the challenge of long-term competitiveness vis-à-vis China and the US.	Increase funding for cybersecurity training programmes (upskilling and reskilling) to address the skills gap and build a robust pipeline of cybersecurity professionals.
Project 2	Provide incentives for large businesses to adopt innovative European solutions. This would support homegrown companies in gaining market traction and establishing credibility among potential customers. A matchmaking platform could be established to co-create solutions tailored to specific needs. Incentives, such as tax breaks, could be introduced to help offset the perceived risks.	Create incentives for European pension funds to back European venture capital firms and growth companies. Aligning the interests of pension funds with the growth of European startups would unlock immense potential both for investors and for the broader European economy.	Establish a pan-European public–private fund of funds dedicated to cybersecurity to foster innovation and safeguard the EU's digital landscape. Given the pervasive and cross-sectoral nature of cybersecurity, collaborative investments must be promoted among both public and private entities across the EU, which would ensure robust protection against evolving cyber threats and advance Europe's digital agenda
Project 3	Strengthen European players' access to data and create opportunities for data pooling and sharing. Facilitating access to non-sensitive data is essential to empower smaller companies, thereby bolstering their competitiveness in the market. Promote the digital transformation and improve digital intensity among European SMEs.	Promote the harmonisation of insolvency proceedings across the EU to help promote cross-border investment. This would provide legal certainty across borders, ensuring investors can navigate insolvency proceedings with confidence. Adopt the 'second chance' rule across borders to provide more assurance among investors in early-stage companies, which are associated with higher risks.	Promote amendments to and harmonisation of public procurement rules across member states to support the growth of European cybersecurity solutions and enhance Europe's cybersecurity posture. Current regulations often disadvantage European cybersecurity providers, hindering innovation and creating potential dependencies on non-European suppliers.

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Enhancing European Technological Excellence

by Žiga Turk

Summary

This paper outlines the urgent need for Europe to enhance its technological prowess amidst increasing global competition from the US and China. It emphasises three key technological topics: information and communications technology, cleantech and defence. The first is critical as a productivity multiplier, cleantech is essential for the EU to achieve a net-zero economy while maintaining a competitive edge, and defence technology is crucial for the Union's strategic autonomy amid rising geopolitical tensions. Three horizontal methods are proposed: investing in talent and skills, fostering innovation and entrepreneurship, and creating a dependable playing field through regulatory reform and market integration. The urgency stems from Europe's current lag in digital and artificial intelligence investment, fragmented markets and slow adoption of transversal technologies. To secure its economic future and strategic autonomy, Europe must undertake sweeping reforms, prioritise technological resilience and build a robust ecosystem that supports technological advancement across all sectors.

Keywords Technology – Information technology – Green transition – Cleantech – Military technology – Regulatory simplification – Entrepreneurship – Skills

Introduction

The EU stands at a critical cross-roads and urgently needs a wake-up call regarding its technological policies as global competitors such as the US and China are surging ahead in key domains.

Without bold action, Europe's economic future is at stake, risking not only its competitive position but also its strategic autonomy in an increasingly interconnected and technologically driven world. The time for incremental changes has passed; Europe needs decisive, sweeping reforms to secure its place in the global technological landscape. Its social model depends on this.

There is no shortage of regulation, policy documents or strategies in this arena in the EU. These include the Digital Services Act and the Digital Markets Act, which aim to create a safer and more open digital space.[1] The EU has also advanced legislation including the Artificial Intelligence Act and the Cyber Resilience Act to govern the development and deployment of artificial intelligence (AI) technologies and to enhance the cybersecurity of digital products and services.[2] The European Chips Act is focused on bolstering the EU's semiconductor supply chain, while the European Data Act seeks to unlock industrial data and foster a competitive cloud market.[3] The EU's strategic approach is further supported by the Digital Decade initiative, the Europe Fit for the Digital Age initiative and research priorities in the Horizon Europe programme (2021–7).[4] Other relevant EU policies and initiatives that align with the ideas in this paper include the New European Innovation Agenda, the Research and Innovation Strategy 2020–2024, and Shaping Europe's Digital Future.[5]

1 European Commission, 'The Digital Services Act Package' (updated 4 October 2024); European Commission, 'The Digital Markets Act' (2024).
2 European Commission, 'AI Act' (updated 14 October 2024); European Commission, 'EU Cyber Resilience Act' (updated 8 July 2024).
3 European Commission, 'European Chips Act'; European Commission, 'Data Act' (updated 10 October 2024).
4 European Commission, 'Europe's Digital Decade: Digital Targets for 2030'; European Commission, 'A Europe Fit for the Digital Age' (2024); European Commission, 'Horizon Europe' (2024).
5 European Commission, 'The New European Innovation Agenda' (2024); European Commission, 'Research and Innovation Strategy 2020–2024'; European Commission, 'Shaping Europe's Digital Future (2024)'.

However, critical analyses paint a rather discomforting picture of the current state of affairs. As succinctly put in a *Financial Times* op-ed:[6]

> The US, at the turn of the millennium, did not 'plan' to outgrow Europe. It did not have a version of Mario Draghi's new competitiveness report. It did not produce an equivalent of the Lisbon Agenda, which in 2000 committed the EU to building the most 'dynamic knowledge-based economy in the world'. The US has been deplorably negligent on the report front. Yet here we are. The transatlantic divergence in material outcomes has been going on for two decades. And Europe was poorer to begin with.

The programmes suggested herein aim to build upon these efforts, focusing on ensuring the EU's technological resilience by empowering research and innovation across the EU, while also ensuring that European businesses are equipped to leverage these advancements for competitive advantage. Namely, the commercial exploitation of what is generally quite good European research has, to date, been lacking. This was identified decades ago in the Bangemann report:[7]

> Actions must be taken . . . to strike down entrenched positions which put Europe at a competitive disadvantage: it means fostering an entrepreneurial mentality to enable the emergence of new dynamic sectors of the economy; it means developing a common regulatory approach to bring forth a competitive, Europe- wide, market for information services; it does NOT mean more public money, financial assistance, subsidies, dirigisme, or protectionism.

State of play

European competitiveness, particularly in technology, has been a focal concern for policymakers and business leaders, as underscored in a report by the McKinsey Global Institute.[8] Over the past decade, there has been a growing divergence between Europe and leading global economies, particularly those of the US and China, in key technological and corporate performance metrics. Europe's ability to sustain growth, achieve strategic autonomy and maintain social welfare depends on bridging this gap. The report estimates that corporate value added of €2–€4 trillion a year could be at stake by 2040, which represents about one percentage point of growth annually or nearly 90% of current European social expenditure.[9]

The McKinsey report states that between 2014 and 2019, large European companies lagged behind their US counterparts by three percentage points in return on invested capital, grew 40% more slowly, and invested 40% less in research and development (R&D). This underperformance is particularly pronounced in technology-centric sectors but the weaknesses are not entirely sector-specific. Rather, there are issues with both the transversal technologies that permeate every industry and the ecosystem for doing business and innovating.

The report highlights 10 key transversal technologies: next-level automation, future of connectivity, distributed infrastructure, next-generation computing, applied AI, future of programming, trust architecture, bio-revolution, next-generation materials and future of cleantech. Of these, European performance is competitive only in cleantech and next-generation materials, and is particularly weak in information technology–related fields.

6 J. Ganesh, 'Why Europe Will Not Catch up With the US', *Financial Times*, 18 September 2024.

7 *Bulletin of the European Union*, 'Report on Europe and the Global Information Society', Supplement 2/94 (Brussels, 1994), 5–41.

8 McKinsey Global Institute, *Securing Europe's Competitiveness: Addressing its Technology Gap* (September 2022).

9 Ibid.

The evaluation of European technological excellence is summarised in the following table.

Table 1 Analysis of European technological excellence

Strengths	Weaknesses
• *Leadership in sustainability and cleantech*, • including political commitment. • *High-quality education systems*, particularly in life sciences and engineering. • *Regulatory leadership* influencing international norms and promoting consumer trust. • *Strong social and economic inclusion*.	• *Lag in digital and AI investment.* • *Fragmented market and regulation* hinder the scaling of technologies. • *Slow adoption of transversal technologies*. • *Lower R&D investment in general* and particularly in high-impact sectors such as information and communications technology (ICT) and pharmaceuticals.
Opportunities	**Threats**
• *Scaling successful initiatives*, firms and technologies through greater integration of markets and regulatory environments. • *Increased collaboration*, leveraging public–private partnerships, particularly in defence, healthcare and digital infrastructure. • *Focus on strategic autonomy* in critical sectors such as semiconductors, defence, cybersecurity and digital infrastructure to reduce external dependencies. • *Capitalise on cleantech political leadership*.	• *Competition from the US and China*, particularly in digital and AI, where these countries dominate investment and market share. • *Disruption of transversal technologies* threatens Europe’s traditional industrial strongholds, such as automotive and aerospace, if adaptation lags. • *Regulatory and bureaucratic hurdles* stifle innovation, slow market entry for new technologies and discourage investment. • *Risk of falling behind in critical technologies* such as AI, quantum computing and cybersecurity.

Priorities

As stated above, Europe risks being left behind, particularly in terms of transversal technologies such as AI, next-generation computing and advanced connectivity. These technologies are not confined to single industries; they shape entire sectors and economies, making Europe’s lag all the more perilous. This thinking guides the selection of priority topics.

However, the greatest potential for transformative change lies in structural reforms to Europe’s innovation and business ecosystem. The EU must dismantle regulatory barriers, foster cross-border collaboration and scale up successful initiatives to turn its fragmented market into a powerhouse of technological advancement. This focus guides the general horizontal mechanisms outlined in this paper.

Technological areas

Three technological topics have been selected:

1. *Digital*. ICT has been selected as it is a multiplier for productivity growth across the economy. Europe is currently behind in terms of R&D spending on ICT compared to the US, which invests about four times more. Bridging this gap is essential for fostering a dynamic and competitive technology ecosystem within the EU.

2. *Green*. Cleantech includes a range of technologies such as solar, wind, hydropower, nuclear fusion and hydrogen, all of which are crucial for the transition to a net-zero economy. It has been selected due to

the high political urgency of this transition and the support for it within the EU. The EU has the potential to lead in cleantech innovation, although it currently lags in production.

3. *Defence*. While one could select many other transversal technologies, the EU today does not have this luxury. Advanced defence technology is crucial for the EU amidst, on the one hand, the digitalisation of the battlefield and, on the other, the current global uncertainties. The use of such technology directly impacts the Union's ability to safeguard its strategic interests, ensure the security of its citizens, maintain stability within its borders and project strength beyond them. A robust and advanced defence technological base is essential for the EU to respond effectively and autonomously.

Structural horizontal mechanisms

Addressing the structural issues hindering Europe's technological competitiveness requires a comprehensive approach that focuses on three critical pillars: skills, innovation and entrepreneurial environment, and an integrated and dependable playing field.

The horizontal mechanisms and policies for the three pillars include the following:

- *Investing in talent and skills*. Everything starts with a focus on human capital, advocating for the enhanced development and attraction of talent, particularly in the science, technology, engineering and mathematics (STEM) fields and digital skills. This includes not only improving educational outcomes but also making Europe more attractive to top global talent, alongside policies that encourage innovation, creativity and entrepreneurship within the EU workforce.

- *Facilitating innovation and entrepreneurship*. This highlights the importance of fostering a more supportive regulatory environment that encourages disruption and innovation. This could involve streamlining regulatory processes, promoting risk-taking and entrepreneurship, and providing more substantial support for startups and scale-ups, including better access to finance and markets.

- *A dependable playing field*. Europe should achieve scale, increase efficiency and establish a dependable playing field to foster competitiveness and growth. This includes increasing and pooling resources within the EU and with other democracies to support cross-border scale-up and consolidation, balancing the precautionary principle with accelerated cost–benefit decision-making and ensuring fair competition for all market players, especially in the digital and tech sectors.

Policy recommendations

ICT in depth

The primary challenges stem from fragmented markets, lagging investment in key technologies, skills shortages, cybersecurity vulnerabilities and regulatory complexities. Addressing these challenges collaboratively offers the EU a path to enhancing its technological sovereignty, bolstering economic growth and ensuring its security in an increasingly interconnected world.

To catch up with global advancements in the digital domain, the EU must focus on several key areas. Deepening the digital market is essential, and requires the harmonisation of regulations across member states and support for initiatives such as the digital single market, which facilitates cross-border digital services. Alongside this, boosting investment in critical technologies such as AI, quantum computing and digital infrastructure should be prioritised, leveraging frameworks such as the European Innovation Council and the Digital Europe Programme to mobilise resources and foster public–private partnerships. Addressing the growing digital skills gap is equally important, necessitating substantial investment in education and training, particularly in emerging technologies. Programmes such as the European Year of Skills and the Talent for Growth Task Force, which promote collaboration among governments, businesses and educational institutions, should play a pivotal role. Furthermore, in response to increasing cybersecurity threats, especially from the east, the EU must strengthen its cyber-defence by standardising regulations and investing in advanced cybersecurity technologies. Finally, simplifying regulatory frameworks is crucial, particularly in fast-evolving fields such as AI, where a more flexible, risk-based approach could balance the need for oversight with the fostering of innovation.

Cleantech in depth

Europe's transition towards a green economy requires a balanced approach that supports industries while advancing sustainability goals. A pragmatic, market-driven strategy is essential to avoid the pitfalls of greenwashing and economic degrowth, instead focusing on innovation, competitiveness and preserving the industrial base that underpins Europe's prosperity.

A successful market-driven green transition should be centred on innovation and technological neutrality, empowering industries to adopt the most efficient solutions, from advanced nuclear options such as small modular reactors to carbon capture and utilisation technologies, alongside renewable sources such as wind and solar.

This approach would prevent an over-reliance on specific technologies and would foster a variety of emissions-reduction strategies tailored to different sectors. To ensure genuine impact, cleantech developments must meet rigorous standards, with transparent reporting key to directing financial and policy support towards innovations that truly contribute to sustainability, thereby avoiding greenwashing or superficial solutions. It is also essential to protect industrial competitiveness by implementing green policies that are designed to avoid imposing disproportionate costs on businesses, thus ensuring they remain competitive globally and are not driven to relocate outside of Europe.

Market-based mechanisms, such as uniform carbon pricing, should play a key role in creating incentives for companies to innovate and reduce emissions efficiently, aligning with a preference for fewer regulations and a reliance on market forces to drive real change. Additionally, energy security and supply-chain resilience are critical to a sustainable transition, and require the diversification of energy sources and a reduced reliance on non-EU countries for essential materials and technologies.

Fostering a fair transition is equally important, ensuring that all regions, industries and communities benefit, particularly through the reskilling of workers from traditional sectors and providing targeted support for small and medium-sized enterprises (SMEs). Finally, the focus should be on promoting sustainable growth rather than degrowth, emphasising the idea that economic expansion and environmental protection can coexist. By leveraging innovation and market dynamics, Europe can pursue a green future that supports both environmental goals and economic prosperity.

Military technology in depth

Investment in military technology is crucial for the EU as it will strengthen the bloc's strategic autonomy, enhance its defence capabilities and ensure the security of its member states in an increasingly complex global security environment. Such investment not only supports the development of cutting-edge defence systems and innovations but also fosters collaboration among member states, driving forward a more integrated and resilient European defence industry.[10] By bolstering its military technological edge, the EU aims to protect its interests, contribute to global stability and reduce its dependency on external powers for critical defence needs, aligning with its broader goals of strategic sovereignty and security self-reliance.

Collaborative actions to enhance the EU's defence capabilities require a unified approach across several dimensions. The EU must work towards a more coordinated defence procurement strategy by consolidating resources and reducing the duplication of efforts through the use of frameworks such as the European Defence Fund and the European Defence Industrial Development Programme. These initiatives facilitate joint investments in critical technologies, ensuring more impactful results.

Additionally, cybersecurity is a key focus, necessitating the development of a comprehensive EU strategy that enhances both offensive and defensive digital resilience. This involves greater investment in cyber-defence technologies, improved collaboration between member states and the integration of private-sector innovations into military operations.

Standardisation and interoperability efforts, such as expanding the High-Level Forum on European Standardisation to include dual-use technologies, are vital for enabling seamless joint operations and the rapid deployment of new technologies across borders. Moreover, prioritising investment in emerging technologies such as AI, quantum computing and autonomous systems is essential to maintaining the EU's competitiveness in future warfare landscapes.

Finally, achieving strategic autonomy through technological development requires reducing reliance on external suppliers by strengthening the European defence technological and industrial base through targeted funding and policy support, thus ensuring the EU's long-term security and sovereignty in critical areas such as advanced semiconductors and AI.

Conclusion

Europe stands at a pivotal moment where its technological future will determine not only its economic competitiveness but also its strategic autonomy and societal welfare. The technological landscape is rapidly evolving, with critical areas such as AI, next-generation computing and advanced connectivity defining the contours of global power and influence. Europe must act decisively, leveraging its strengths in sustainability and education, while addressing weaknesses in digital investment and market fragmentation. Structural reforms that foster a unified market, enhance cross-border collaboration and scale up successful initiatives are not optional but essential. Without a bold, integrated approach, Europe risks falling behind in key technological domains, imperilling its economic resilience and strategic influence in an increasingly interconnected world.

The EU's success in closing the competitiveness gap depends on its ability to create a conducive environment for innovation and entrepreneurship. Prioritising strategic autonomy in critical sectors, investing in talent and skills, and fostering a supportive regulatory landscape will be crucial. Europe's leadership in cleantech and sustainability offers a strong foundation, but it must expand this success to other critical technologies. The time for incremental change has passed; what is required now is a transformative vision that galvanises Europe's technological potential, securing its place as a leader in the global economy.

10 S. Lorenzo Perez, L. Lazaro Cabrera and A. Duprat-Macabies, 'EU Tech Policy Brief: July 2024', *Center for Democracy and Technology*, 5 July 2024.

	Programme 1	Programme 2	Programme 3
	Growing ICT	**Making cleantech competitive**	**Bolstering defence**
Project 1	Enhance STEM education with a focus on integrating ICT competences. This could involve updating curricula, providing teacher training and investing in ICT resources within educational institutions to foster a tech-savvy generation. Create centres of excellence for higher education in STEM across Europe to attract talent from abroad.	Establish programmes that will approach sustainable development from a rational viewpoint—focusing on development and growth that can sustain itself and approach the climate-change problem from the perspective of mitigating the effects and reducing greenhouse gases where it is least expensive. In particular, focus on knowledge related to the circular economy and the regenerative economy.	Collaboration should be established between the defence sector and educational institutions. This includes promoting STEM education, as well as specialist training in emerging technologies relevant to defence. Moreover, providing continuous education and upskilling opportunities is critical as the defence sector evolves with new technologies such as quantum computing and digital twins.
Project 2	Establish low-red-tape incubation programmes that provide resources, mentorship and funding to ICT startups. These programmes should catalyse innovation by supporting entrepreneurs in developing and scaling viable technology solutions. Create a platform for best-practice sharing among member states.	Support the establishment of cleantech innovation hubs that bring together researchers, startups and investors to accelerate development. These hubs can provide essential resources, mentorship and networking opportunities to foster innovation and commercialise sustainable technologies, as seen in the Cleantech for UK initiative.	Create a robust ecosystem that integrates advanced technologies and entrepreneurial ventures into the defence sector. Promote dual-use technologies that have both civilian and military applications. Strengthen public–private partnerships including the European Defence Fund. Encourage startups and SMEs. Expand funding opportunities through initiatives such as the NATO Innovation Fund and the European Defence Industrial Development Programme, which supports early-stage innovators in developing new technologies relevant to defence.
Project 3	Carry out a review with the aim of reducing the regulatory burden on the EU's digital industry and making it comparable to those of competitors. Ensure fair market access for emerging ICT companies, prevent monopolistic practices and encourage competition.	Revise and institute new trade policies to deter EU businesses from offshoring their energy-intensive operations—a practice that, while diminishing the EU's apparent environmental footprint, undermines its industrial foundation without yielding global benefits. Existing initiatives such as the European Sovereignty Fund and the Green Deal Industrial Plan should evolve in this direction.	The EU defence industry should be bolstered through a combination of government procurement, regulatory modernisation and market-driven approaches. A common defence market, common procurement practices and common standards should be established. Interoperability standards should be set up. Targeted incentives, such as tax breaks and funding for R&D, could attract private-sector investment and encourage the participation of SMEs in the defence sector.

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NATO Science & Technology Organization, *Science & Technology Trends: 2023- 2043, Volume 2: Analysis* (2023), accessed at https://www.nato.int/nato_static_fl2014/assets/pdf/2023/3/pdf/stt23-vol2.pdf on 1 November 2024.

Implementing the EU AI Act: How Soon Is Now?

by Anastas Punev

Summary

This paper reflects on the future implementation of the EU Artificial Intelligence (AI) Act and mainly focuses on its possible drawbacks, which could undermine the visionary idea of instituting the first comprehensive regulation on AI. Drawing on comparisons between the AI Act and similar legislative attempts at regulating global phenomena, recommendations are made as to how to adapt the AI Act to foster EU leadership.

Keywords AI Act – AI liability – GPAI

The future of the AI Act: GDPR déjà vu?

The Artificial Intelligence (AI) Act was a result of 3 years of discussion and exactly 3,312 proposed amendments. In the proud words of Thierry Breton, the former European Commissioner for Internal Market, the political deal that produced the Act made the EU 'the first continent to set clear rules for the use of AI'.[1] Some of the key messages used to portray the novelty of the AI Act, however, are instantly reminiscent of a similar 'global first' model legislation—the General Data Protection Regulation (GDPR). Among the main features of the AI Act are the 'robust enforcement framework', the tough penalties for non-compliant businesses and the establishment of a new institution: the EU AI Office at the European Commission. All these measures are instantly comparable to the GDPR, which was also aimed at balancing fundamental rights and innovation, thus fostering the EU's global role. Unfortunately, the GDPR's goals have been undermined to a large extent by poor enforcement. Therefore, comparing the two seems appropriate, as the enactment of the AI Act, in its definitional, substantive and institutional aspects, has already been labelled as 'GDPR mimesis'.[2]

Extensive research shows that millions of European small and medium-sized enterprises (SMEs) have not complied with the excessive burdens provided by the GDPR, and this has thrown into question the purpose and future impact of the regulation.[3] Additionally, there was a considerable lack of consistency among the member states in implementing the GDPR, which only exacerbated the bureaucracy and created the impression that the regulation was forcing numerous extraneous duties on companies. Such risks are, unfortunately, also attributable to the AI Act. Not only does it lack a preliminary analysis of its future implementation, but the whole design of the Act appears comparable to the GDPR. That is, it treats technology as something that merely needs better organisation: AI systems must be labelled and then monitored to reduce their negative effects.[4] This is confirmed by the lack of calculation of the financial burden companies face to comply with the legislation. This issue has already been raised by trade associations such as Digital Europe, which referred to the AI Act as 'uncharted territory'.[5]

[1] T. Breton, 'The European AI Act Is Here!', *LinkedIn*, 9 December 2023.
[2] V. Papakonstantinou and P. de Hert, 'Post GDPR EU Laws and Their GDPR Mimesis. DGA, DSA, DMA and the EU Regulation of AI', *European Law Blog*, 1 April 2024.
[3] GDPR.EU, *2019 GDPR Small Business Survey* (May 2019).
[4] V. Papakonstantinou, 'The AI Act and a (Sorely Missing!) Right to AI Individualization; Why Are We Building Skynet?', *European Law Blog*, 16 July 2024.
[5] G. Kaur, 'Concerns Remain Even as the EU Reaches a Landmark Deal to Govern AI', *CIO*, 11 December 2023.

The future simultaneous application of the AI Act and the GDPR has also caused controversy even before the entry into force of the new regulation. The requirements of both acts can be interpreted in a mutually contradictory manner because their goals cannot be entirely reconciled. While the AI Act presupposes that AI systems need large amounts of data, it also allows limitless data processing, which can contravene the explicit consent required under Article 9 of the GDPR. And the Act does not contain any clear instructions on how personal data from publicly available sources will be collected for the mandatory self-training, validation and testing of AI systems, which are the main ways in which these systems can be improved.[6]

Furthermore, Article 6 of the AI Act expressly grants the Commission the power to classify AI systems as high-risk by providing a 'comprehensive list of practical examples'. Such an extensive power, without any further narrowing of its scope, could hinder the enforcement of the Act, considering the Commission's lack of sufficient technical expertise. Here the GDPR is once again a useful reference as its implementation has already shown that safeguarding the rationale of the law without straying into over-regulation is better achieved by activists with sector expertise. Yet, the voice of individual users is not heard in the Act. The legislation could provide, among other things, an ombudsperson or a similar body entrusted with directly representing users in situations involving enforcement.[7] No less important is that the AI office's powers could lead to a duplication of roles and, as a result, to inefficiency and a lack of clarity regarding responsibilities. The recent controversy related to the investigation into how X handled the Israel–Hamas conflict revealed how significant misapprehension arose out of the confusion over which body had authority for what: the Commission team overseeing the Digital Services Act or the separate unit in charge of a voluntary EU code to guard against disinformation.[8]

Balance of responsibilities, foundation models and fundamental rights

Another widely disputed issue surrounding the entry into force of the AI Act is that of responsibility, since the Act is intended as product safety legislation whose main aim is to reduce the risk of the potentially dangerous use of AI. In this regard the AI Act focuses mainly on the prohibitions and limitations to be applied to AI. It proceeds by adopting a detailed risk-based approach, placing AI systems into four risk categories depending on their use: unacceptable-risk, high-risk, limited-risk, and minimal- or no-risk. Conversely, there are specific requirements for foundation AI models[9] capable of performing a wide range of distinct tasks, irrespective of their risk categorisation.

According to the European Council's official statement, mirrored in the AI Act, the rules on high-risk systems apply to general purpose AI (GPAI) models that can be used in contexts involving significant risk unless such uses are explicitly excluded. This is further reflected in the vague language of the law, according to which a GPAI model can be classified as containing 'systemic risk' on the basis of criteria such as 'high-impact capabilities'. Therein lies the main challenge in implementing the AI Act without hindering innovation. One and the same AI model can simultaneously enable care robots and lethal weapons. Thus, many models can be placed in the high-risk category even if only one of their general uses turns out to involve a high degree of risk.[10] This seems even more dangerous for open-source foundation models as the description of their requirements is very generic compared to the intricate descriptions of the (various) risks set out in the AI Act. This could easily lead to ambiguous interpretations. For this reason, it has rightly been proposed that mitigation measures should focus solely on the potential future uses of the technologies so that continuous adaptation is allowed.[11]

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6 S. Wadhwani, 'Last Mile Trouble: What Needs to Be Sorted in EU AI Act Before Next Week's Trilogue Talks', *Spiceworks*, 29 November 2023.

7 L. Edwards, *Regulating AI in Europe: Four Problems and Four Solutions*, Ada Lovelace Institute (March 2022), 11.

8 M. Scott, 'The EU's Online Content Rulebook Isn't Ready for Primetime', *Politico*, 14 February 2024.

9 A foundation model (also known as general-purpose AI or GPAI) is an AI model designed to produce a wide and general variety of outputs. As such, it differs from narrow AI systems which focus on a specific task.

10 C. Djeffal, 'The EU AI Act at a Crossroads: Generative AI as a Challenge for Regulation', *European Law Blog*, 24 July 2023.

11 Ibid.

Concerning innovation and liability, the one-size-fits-all approach of the AI Act is particularly impractical for providers of mostly decentralised open-source AI systems. This is especially true given the excessive regulatory burden, which could be difficult to comply with. For example, the requirement to maintain 10 years of documentation is practically impossible to implement as open-source systems by definition allow other agents to modify the software and thus break the chain of liability. A more reasonable approach would be to regulate specific high-risk AI applications and not the underlying GPAI models. This could balance the AI Act's goals with the threats and would not discourage new possible fields for the application of AI, especially for SMEs, which should not be faced with excessive costs and obstacles.[12] Furthermore, while the levels of risk are defined in the Act, the allocation of responsibility among the different providers throughout the various stages involved in the use of AI remains vague and thus unpredictable for businesses from the outset. In fact, 'AI' is even disputed as a meaningful term because it is neither a product in the traditional sense of the word (as expressly recognised by the AI Act) nor a one-off service but a dynamic system that moves through a series of stages which make up the AI life cycle.[13]

Even more importantly, there are large groups of people that are not sufficiently addressed in the Act, such as those mostly impacted by the AI models: consumers, data subjects and end users. They have been left in the dark as their role as rights-holders is not expressly guaranteed and protected. For example, users buying a system off the shelf will most certainly not regard themselves as responsible for the 'substantial modification' necessary for them to become regarded legally as providers, and so they could fall under the scope of the Act even without realising it.[14] Precisely for this reason, the product safety framework of the Act is not suitable for the possible violations of fundamental rights in an AI context. In product safety legislation any adverse risk can supposedly be calculated by measuring the likelihood of an event and its effects, but this is largely impossible when it comes to AI. A braver step in guaranteeing fundamental rights would have been, for example, to declare that every human being has property rights to their genetic data and personal identifiable information.[15]

Even if such ideas are not implemented in the future, some of the carve-outs and the broad definitions of the AI Act should at least be clarified as they constitute a clear threat to individual rights. For example, emotional recognition or biometric categorisation could still be used in law enforcement under somewhat murky circumstances.[16] Similarly, the EU AI Office will be empowered to explain fundamental categories such as transparency obligations 'when deemed necessary'—a dangerous and possibly far-reaching notion that only expands the regulatory space at the expense of individual rights.[17] Even organisations such as the Office of the United Nations High Commissioner for Human Rights have already underlined that the risk-dependent formula of the AI Act must be related to adverse impacts on human rights and not to mere technical specifications.[18]

12 A. Prabhakar, 'The EU AI Act Is a Cautionary Tale in Open-Source AI Regulation', *Center for Data Innovation*, 20 November 2023.
13 Edwards, *Regulating AI in Europe*, 6.
14 Ibid., 7.
15 Kaur, 'Concerns Remain'.
16 M. V. Bravo, 'What U.S. Regulators Can Learn From the EU AI Act', *Electronic Privacy Information Center*, 22 March 2024.
17 B. Martens, 'The European Union AI Act: Premature or Precocious Regulation?', *Bruegel*, 7 March 2024.
18 V. Türk, 'Open Letter From the United Nations High Commissioner for Human Rights to European Union Institutions on the European Union Artificial Intelligence Act', Office of the United Nations High Commissioner for Human Rights, 8 November 2023.

The political impact of the AI Act

As is evident from the above considerations, AI is another battlefield where the clash between market forces will have very clear implications for the overall exercise of power, especially in a geopolitical sense. From this perspective, the AI Act has a key role in establishing the EU's position as a pioneer in AI legislation. The Act is being adopted at a very critical point in time because China has already introduced its AI legislation, and the US is still considering its own approach. If two models have already been established, it is hard to imagine that US companies will opt for a third one that would differ considerably and increase the risk of non-compliance.[19] Thus, the EU AI Act represents one of the few opportunities for the Union to demonstrate the 'Brussels effect' and achieve a global first. Moreover, the nature of AI is decentralised and universal, so the area of impact of the AI Act is wider than the EU single market, thus leading to a possible first-mover advantage.[20] In this regard, the EU has a unique role, as the Sino-US tech rivalry is igniting, and the Union act as a bridge between the two superpowers since AI is a matter of global governance. An already established principle is that AI governance is only as good as the worst-governed country.[21]

However, the EU seems to rely on this 'universal' character of the EU AI Act too much, as if that renders the Act unavoidable for its global competitors, while stakeholders have already expressed their doubts about the Act, even before its entry into force. For instance, Sam Altman, OpenAI's CEO, admitted that if compliance proves unfeasible, OpenAI might cease its operations in the EU.[22] In light of this, the Brussels effect bears the parallel risk of a 'Brussels side effect': the shortcomings related to the EU regulatory approach might be accepted outside the EU but at the cost of their negative spread across the globe.[23] Thus, the AI Act model might be successful in imposing widely accepted standards, but the result would be a non-stringent regulation ill-suited to defend fundamental rights.

The Chinese model, on the other hand, does not aim for global supremacy but is mostly pragmatic in its aims, adhering to a 'vertical strategy' in which regulations are tailored to certain AI applications. Its main short-term advantage would be the more relaxed regulatory environment.[24] This is the opposite of the AI Act's horizontal model whereby a wide range of technological applications is encompassed under a single legislative framework. OpenAI's product ChatGPT offers a good illustration of the possible advantages of a vertical model of legislation—it has already demonstrated the promise of large language models and made many of the EU's earlier legislative efforts obsolete.[25] It would be a missed opportunity if the EU were to decide not to include more agility in its quest for future-proof regulation. This is even more concerning from a political standpoint because it is hardly imaginable that the Commission would reopen the AI Act for revision soon after its adoption. In sum, the EU should be strict only when it comes to measures that (1) offer real regulatory advantages over the Chinese model (or any other framework that may be developed in the future); and (2), if compliance with them cannot be guaranteed, at least cannot be easily circumvented.

19 G. S. Özdemir, 'Navigating the EU AI Act: Exploring Challenges Amidst the Evolving Global Regulatory Landscape', *SETA*, December 2023.
20 Edwards, Regulating AI in Europe, 2.
21 A. Zhang, 'The Promise and Perils of China's Regulation of Artificial Intelligence', *Columbia Journal of Transnational Law* (forthcoming), 36.
22 Özdemir, 'Navigating the EU AI Act'.
23 M. Almada and A. Radu, 'The Brussels Side-Effect: How the AI Act Can Reduce the Global Reach of EU Policy', *German Law Journal 25/4 (2024), 647.*
24 Zhang, 'The Promise and Perils of China's Regulation', 7.
25 M. Mema, 'The EU AI Act: Two Steps Forward, One Step Back', *Global Governance Institute*, 19 March 2024.

Policy recommendations

The above considerations show that the EU AI Act should be treated cautiously at this initial stage of implementation. Although comprehensive regulation is needed, AI policy should be more concise and angled slightly differently. Whether these adjustments will happen depends largely not only on the Act's future application and interpretation by courts and the executive, but also on the interaction between it and its US and Chinese counterparts, and the upcoming supplementary acts detailing important aspects of the regulation. This is why there is still room for progress if the EU can demonstrate that the AI regulation will be adopted not against but in support of innovation.

The most important point is that the use of AI demands not only detailed regulation but also a workable solution that can be reasonably implemented. Therefore, the AI Act should address the capacity of SMEs to comply with the Act in terms of costs and organisational measures. This needs to be done before it is too late, because otherwise these companies will be forced to reckon with its far-reaching requirements. This necessitates minimal political intrusion from the EU authorities, mostly in labelling the risks posed by the various AI models, but also in avoiding making sudden and abrupt amendments to the regulatory framework. Here responsibility should be distributed between institutions at the EU and national levels after researching their potential interplay.

Considering the predictability of the AI Act, which is key to its success, the issue of liability should be treated more clearly, and the main strategy should be to shift the risk profile of an AI system away from its intended application. The distribution of liability between the service providers should be delineated so that there are no doubts about who is responsible for what during the AI life cycle. The most important reference point is that liability will be related to the use of the AI product and not to its foundation model. This implies that the focus of the AI Act will be shifted away from threatening and imposing large sanctions on companies and to consumers and their fundamental rights.

AI will in any case play an important part in the global role of the EU and its relationship with the US and China. Therefore, the AI Act is a matter not only of law but also diplomacy and leadership, which are even more important when it comes to global topics such as AI. For this reason, the enforcement of the AI Act should be supplemented by deepening EU–US cooperation and should use all the necessary instruments, including the transatlantic Trade and Technology Council and the G7 Hiroshima AI Process on priority risks.

Conclusion

The future is never certain. Nobody can be entirely prepared for the rapid technological progress of AI models and the unimaginable risks arising from their use. However, a good first step is to consider AI in its ever-changing nature: not as a danger to be reckoned with but as a necessary step in technological development. This step should be guided less by inflexible institutions than by free-market initiative and guarantees for individual rights. In any case, the EU AI Act might be one of the last chances for the Union to lead the way, and its success or failure will most certainly have a major impact on European policy.

	Programme 1	Programme 2	Programme 3
	Enforcing the EU AI Act	**Reducing unpredictability and the excessive burden for businesses**	**Ensuring Europe's leading role globally**
Project 1	Evaluate the capacity of SMEs to comply with the Act before its entry into force. Limit the political intrusion of EU authorities into approving which organisations will review and certify high-risk AI systems.	Consider exempting from certain obligations open-source models which are decentralised and can vary in their purposes. Evaluate the fines imposed by the AI Act. Focus on how adequate they are and whether they might have a stifling effect, taking into account the amount of money involved and the stringency with which they are to be imposed.	Deepen EU–US cooperation on mitigating the global risks of AI proliferation and the nefarious use of advanced biotechnologies. Make use of the transatlantic Trade and Technology Council to expand joint work on risk taxonomies, common standards and aligning key policies. Reinforce the EU's role in expanding the G7 Hiroshima AI Process on priority risks, guiding principles for AI systems and responsible AI tools.
Project 2	Analyse the interplay between the AI Act and the GDPR so that they can be applied systematically to the collection of data by AI systems.	Promote legislation which outlines the distribution of liability between different service providers. Develop a genuine assessment of risk which is grounded in clear renewable criteria that mirror technological developments. Analyse the established case law on the GDPR concerning the allocation of responsibility and adapt it to the needs of AI providers.	Promote the EU model as a 'global first' by emphasising the AI Act's advantages, without highlighting the tough penalties to businesses as the major selling point. Expand international agreements on data and digital cooperation with like-minded countries and attempt to 'export' some of the main provisions of the AI Act.
Project 3	Evaluate the scope of powers of the EU-level authority in light of the budget required and the distribution of responsibility between the EU and the national institutions.	Safeguard the fundamental rights of users by focusing on their freedoms (e.g. from property rights to genetic data) instead of treating AI only in terms of product safety. Provide inviolable individual rights and efficient procedures for the protection of consumer rights, e.g. by consolidating patterns of complaints.	Adopt a more vertical approach to AI applications and groups, especially in comparison to the pragmatic Chinese model.

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European Digital Leadership on the Global Stage

by Dimitar Lilkov

Summary

In recent years the EU has tried to solve some of the most complex challenges when it comes to protecting user privacy, fighting disinformation and regulating complex artificial intelligence systems. However, being the first to draft the rule book does not imply international digital leadership by default. If the EU wants to truly safeguard its values and social market economy principles in the online domain, it needs to leverage its cross-continental potential and engage in a proactive agenda with allies and international partners. Importantly, our Union also needs to develop novel policy tools to fortify its own resilience and to be able to respond to external threats from both state and non-state actors. An expanded strategic agenda for international engagement, digital partnerships and tangible European investment in digital infrastructure abroad needs to be a priority concern. This paper sketches the three main avenues for ensuring European leadership on digital matters internationally.

Keywords Digital deterrence – Cybersecurity – Digital infrastructure – Technical standardisation – China – Data – Privacy

Introduction

There is a spectre haunting Europe's digital ambitions—that of complacency. European member states are quite aware that the continent is not the global front-runner in venture capital and breakthrough innovation. As the story goes, our European pastures do not have as many digital unicorns as those in the US, as a risk-averse entrepreneurial culture and a fragmented single market remain persistent handicaps. There have been a series of high-level reports dealing with these and related issues in sufficient detail.[1] These problems are well recognised, even if the policy prescriptions vary.

Complacency comes in a different form. For almost a decade, the EU has positioned itself as the engine of model regulation for the digital realm—a trend-setter in shaping laws fit for the digital age. How do we safeguard personal privacy? Are there legal safeguards for consumer protection and fundamental rights online? Do we have a blatant economic cartel of several California-based technological companies monopolising online search, retail and social media, and how should we to respond to that? These are all valid concerns which have engendered a whole gamut of EU-led initiatives and binding legislation. Acronyms such as GDPR, DSA, DMA and the AI Act[2] have become household names in the policy circles of Brussels, Washington and Beijing. The ambition was there and the product is already here.

However, EU institutions continue to cling to the narrative that they have put in place the gold standard for digital legislation, a product ready for export. Through soft power and the 'Brussels effect',[3] these rules and norms are said to positively influence other markets and peoples globally. The EU's track record and ambition is undeniable. But it would be premature to assume that European leadership on the global stage is guaranteed. In the upcoming legislature Brussels should not rest on its laurels if it actually wants to project influence and ensure mutual gain in the digital economy.

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[1] European Commission, *The Future of European Competitiveness: Part A – A Competitiveness Strategy for Europe* (Brussels, 2024); E. Letta, *Much More Than a Market, Empowering the Single Market to Deliver a Sustainable Future and Prosperity for All EU Citizens* (Brussels, 2024).

[2] Respectively, the General Data Protection Regulation (2016), the Digital Services Act (2022), the Digital Markets Act (2022) and the Artificial Intelligence Act (2024).

[3] A. Bradford, *The Brussels Effect: How the European Union Rules the World* (New York: Oxford University Press, 2020).

This paper focuses on the new political mandate (2024–9) held by the EU institutions and provides a blueprint for strengthening Europe's global leadership in the digital arena. If the EU wants to truly safeguard its values and social market economy principles in the online domain, it needs to leverage its cross-continental potential and engage in a proactive agenda with its allies and international partners. Importantly, our Union needs to develop novel policy tools to fortify its own resilience and to be able to respond to external threats from both state and non-state actors. The international appeal of Europe's digital profile needs to come from a position of strength and accomplishment, not just from regulatory ambition and bureaucratic wit.

Digital deterrence and economic security

This concept has three pillars. First, the EU must upgrade its blueprint for digital deterrence. The EU has a limited number of supranational tools for responding to external trade or economic coercion, and an underdeveloped defensive arsenal for dealing with malign digital threats. This situation is explained by the history and dynamics of European integration over the last several decades, during which the EU positioned itself as one of the champions of multilateralism and free trade in times of relative peace, liberalised global trade and shared optimism about the benefits of globalisation. Moreover, unlike the US, the EU has never shaped or enforced its economic and international policies through the prism of safeguarding 'national security'.

The European Commission needs an improved mandate to implement security standards for critical digital infrastructure and to prohibit high-risk vendors from penetrating sensitive networks. The Commission initiative on secure 5G networks[4] across the EU aimed to lay the foundations for a coordinated European approach based on a common set of measures to mitigate the main cybersecurity risks posed by such networks. Standardisation, certification schemes, network security and scrutiny of untrusted suppliers were considered in detail. In 2023 the Commission went the extra mile and even labelled Chinese companies Huawei and ZTE 'untrusted vendors',[5] recommending their restriction and prohibition across the EU. Problematically, as of late 2024, only 11 EU member states have taken prohibitive measures against untrusted Chinese infrastructure.[6]

Network security and cyber deterrence cannot be determined only by economic justification or political favouritism. Having 'clean' networks, or as limited hostile access to internal communications infrastructure as possible, is of both national and supranational concern. Having an appealing international model for online governance presupposes control over critical infrastructure and communication flows. Neither of these is currently guaranteed. With its new mandate, the European Commission should create an expanded toolkit to limit the threats from compromised information and communications technology infrastructure and products/services which serve the purposes of foreign adversaries. In this case, the enhancement of supranational tools would not be driven by federalist zeal but rather by practical necessity.

The legislative backbone for this is actually in place, but it has not been implemented accordingly. The GDPR offers a case study of good intentions and comprehensive norm-setting, but with restricted options for pan-European implementation. From the limited staffing or administrative resources given to national authorities to the fact that certain data protection authorities are handling a disproportionate number of cases,[7] much is left to be desired on enforcement. Ireland has made a mockery of the rules by disregarding or postponing dozens of pertinent cases against American multinational companies,[8] which have directly benefited from the Irish regulator's negligence.

4 European Commission, 'EU Toolbox for 5G Security', Cybersecurity Toolbox Factsheet (Brussels, 2021).
5 T. Breton, '5G Security: The EU Case for Banning High-Risk Suppliers', European Commission, Press Release, 15 June 2023.
6 C. Kroet, 'Eleven EU Countries Took 5G Security Measures to Ban Huawei, ZTE', *Euronews*, 12 August 2024.
7 J. Ryan and A. Toner, *Europe's Governments Are Failing the GDPR*, Brave (May 2020).
8 V. Manacourt, 'Ireland Frets as Criticism Over Big Tech Links Goes Mainstream', *Politico*, 16 December 2021.

The novel DSA provides an 'upgraded' toolkit but much remains to be seen in terms of its effectiveness in practice. The attempt to expand the Commission's mandate and create true supranational supervision of issues related to online platform governance is an important improvement. However, it is down to the national capitals to allocate the qualified administrative staff and coordination capacity to oversee the extremely complicated technical and legal compliance cases. Legislation such as the DSA needs to have enforcement muscle. For example, online services or digital applications that are deemed to act on behalf of a foreign adversary or secretly condone its malign operations should be subject to supranational review and a potential ban. Overall, the EU needs to provide workable solutions for transforming its legally established values into verifiably testable criteria for technology.[9]

The mass-market penetration of affordable foreign (often Chinese) interconnected Internet-of-Things devices may be beneficial for European users, but carries many risks. The EU needs to finalise progress on the Cyber Resilience Act and expand its efforts on the bolstered cybersecurity requirements for software and hardware products. In 2020 the EU invoked its cyber-diplomacy tools for the first time and imposed sanctions against Russian and Chinese individuals for conducting malicious cyber-attacks. The EU must stand ready to counter such malicious behaviour in cyberspace and have the necessary mechanisms in place to prevent, deter and respond to external threats in the digital domain. Closer transatlantic cooperation is needed to meet these challenges, together with an extension of NATO's capabilities to defend Allies in cyberspace.

Lastly, the EU needs to improve its cross-sectoral coordination and follow up on its own agenda for economic security. In late 2023 the Commission mapped the path forward with a series of new initiatives that aim to reinforce European economic security while also preserving high trade and investment flows.[10]

Improving the screening of foreign direct investment (FDI) and ensuring better alignment between member states on export control policies should be the basis for any serious attempt to introduce (quasi-)federal economic security guardrails. The upcoming review of the current regulation on FDI screening[11] offers the possibility of ensuring that European institutions have the competence to intervene if certain external investments affect joint security interests or concern critical infrastructure. The new political legislature should also explore various avenues for scaling technological research and create opportunities for funding European programmes that could have defence or military applications, not only civil ones. The EU should acknowledge that other global actors such as the US and China are pursuing their own strategies of military–civil fusion, whereby defence companies, universities and research institutions are collaborating on breakthrough innovation.

International engagement

As a second pillar, the EU needs to expand its digital outreach internationally. Within this decade, the European institutions need to deepen strategic engagement on technology and multiply the number of agreements in place. In 2021 the EU and the US officially launched a Trade and Technology Council (TTC) with the aim of coordinating approaches to key global trade, economic and technology issues, as well as deepening transatlantic trade ties.[12] The overall setup and technical modus operandi of the TTC has provided a model that could be replicated with other global actors. In 2023 Brussels hosted the first EU–India Trade and Technology Council,

[9] A. Andersdotter, 'Rolling Out Secure Digital Infrastructure and Hardware', in P. Hefele, K. Welle et al. (eds.), *The 7Ds for Sustainability: In Depth,* Wilfried Martens Centre for European Studies (Brussels, June 2024), 122.

[10] European Commission, *Advancing European Economic Security: An Introduction to Five New Initiatives*, Communication, COM (2024) 22 final (24 January 2024).

[11] European Parliament and Council Regulation (EU) 2019/452 establishing a framework for the screening of foreign direct investments into the Union, OJ L791 (19 March 2019), 1.

[12] The next section of this paper deals more specifically with the transatlantic partnership and the EU–US TTC in particular.

which focused on deepening strategic engagement on trade and technology with the Asian country.[13] The expanded digital dialogue with New Delhi focuses on strategic technologies, clean tech, trade and resilient value chains. This effort is seen as an attempt to explore topics of mutual concern in digital areas, as well as expanding the strategic autonomy of both countries and reducing dependencies on external actors, such as China and Russia.[14]

Within the next political legislature, the European institutions need to deepen and expand such dialogues and ensure they provide tangible outcomes on an annual basis. Issues related to quantum technology, artificial intelligence (AI) governance or advanced semiconductor supply chains cannot be tackled by individual member states in isolation. The EU has already taken the first steps by holding a Digital Partnership Council with Canada, Japan, South Korea and Singapore. These initiatives need to be maintained and expanded. Such a proactive international agenda will produce positive spillovers, enhancing bilateral trade, reinforcing strategic supply chains and opening up new market opportunities for European companies. The conventional tools of diplomacy will bring fewer and fewer returns unless coupled with digital dialogues and expanded synergies on international tech cooperation. Brussels prides itself on exporting digital legislation, but let us not forget the importance of actually exporting European digital goods and services internationally.

Similar ambitious and transparent initiatives should urgently be developed and implemented in Africa with specific partner countries. Investment in connectivity and European support for the rollout of secure digital infrastructure and societal digital transformation form one of the main pillars of the EU–African Union Joint Vision for 2030.[15] European member states need to keep the momentum going and meet the current pledges in order to fully commit to the renewed partnership with the African continent.

On a parallel (and more niche, technical) front, EU member states need to allocate sufficient time and resources to promoting European technical standards internationally. A proactive agenda for a ‘race to the top’ on technology entails that the EU‘s partners have a viable strategy on this level. This is especially pertinent given the People’s Republic of China’s targeted agenda to influence international standards-setting bodies such as the International Organization for Standardization, the International Electrotechnical Commission and the UN’s International Telecommunications Union. For years now, China has pursued a strategy of exporting its own digital standards, ranging from facial-recognition software to 5G, through bi- and multilateral agreements and initiatives.[16] This seemingly technical approach is part of China’s wider agenda to promote digital sovereignty and the export of its digital authoritarianism toolkit globally.[17] European partners needs to buttress their representation, financing and strategic interests in the above-mentioned standards-setting bodies. Global democracies need to be working in close cooperation to provide a true liberal, multi-stakeholder approach to online governance and standardisation.

Last but not least, the EU needs to build. Global partnerships should not only be about norms and regulations, but should also leave a tangible mark. In the upcoming political legislature, European policymakers need to deliver on their ambitious pledge to support developing countries with the rollout of secure digital infrastructure, clean energy and improved connectivity. The EU is the biggest global donor of development aid, contributing

13 European Commission, ‘First EU–India Trade and Technology Council Focused on Deepening Strategic Engagement on Trade and Technology’, Press Release, 16 May 2023.

14 P. Moralez and R. Ricart, *The EU–India Trade and Technology Council: Opportunities and Challenges Ahead,* Elcano Royal Institute (Madrid, February 2023).

15 European Council, ‘6th European Union—African Union Summit: A Joint Vision for 2030’, Joint statement (Brussels, February 2022).

16 C. Amon and O. Wientzek, *China’s Growing Importance in International Standardisation Organisations*, Konrad Adenauer Stiftung (Geneva, April 2022).

17 D. Lilkov, *Made in China: Tackling Digital Authoritarianism*, Wilfried Martens Centre for European Studies (Brussels, February 2020), 47–52.

approximately 50% of the world's total, but it needs to be more focused and strategic in its allocations.[18] The much anticipated Global Gateway initiative has pledged up to €300 billion to 2027 for connectivity projects on various continents. This is an opportunity not only to improve infrastructure projects but also to respond to the growing investment gap in climate action and clean energy in Africa, Latin America and Asia. There is also an opening for the EU to reform its own approach to development policy and to explore novel approaches to transparent and efficient project funding.[19]

This is particularly pertinent as China's own global development initiative, the Digital Silk Road, part of its larger Belt and Road Initiative, has gained traction (and notoriety) in the last half decade.[20] The Belt and Road Initiative and its spillover projects span Asia and even reach Europe, aiming to provide fresh funding for digital, energy, maritime and railway infrastructure. Recent studies have shown that this approach aims to provide fast-track (i.e. easy) funding to low-income countries in return for political concessions, debt dependencies, or outright Chinese ownership of assets or strategic infrastructure.[21]

A healthy dose of realism and focus on strategic interests are desperately needed to outweigh policy inertia. The sincere expectation that European soft power and good intentions alone will suffice in the international digital arena is nothing but a false promise.

Escalating risks and challenges require transatlantic solutions

When it comes to the international dimension, the transatlantic alliance remains a key pillar for Europe's digital agenda. Some of the most pressing international issues, such as developing international technological standards, securing supply chains for advanced technology, curbing devastating cyber-attacks and implementing export controls on dual-use technological items with military applications, can only be tackled if Brussels and Washington maintain and enhance their ambitious partnership. In this regard the expanded EU–US TTC could be a vital tool for pursuing an ambitious joint agenda while also expanding bilateral trade. The current trade patterns surpass €100 billion annually in digital goods and services. The TTC has already made progress on items such as trustworthy AI, supply-chain monitoring and joint standards for electric vehicles (EVs). An additional effort is needed to grow this joint agenda and turn the TTC into an expanded supranational mechanism for transatlantic deliberation and decision-making.

In its three years of existence, the TTC's concrete outputs remain minimal, consisting mostly of a plethora of dialogues, principles and roadmaps. It has published a Joint AI Roadmap, a set of Principles for Child and Youth Protection Online, a Declaration on the Future of the Internet and a stakeholder dialogue on green tech. An agreement on a common standard for EV charging ports represents one of the few concrete deals. The EU should attempt to deepen and streamline the EU–US TTC and increase its institutional leverage. Improved working groups and increased stakeholder engagement are needed to boost the overall format. This also entails the expansion of joint work on early warnings with regard to the security of semiconductor supply chains.

Cooperation on export controls on dual-use items with advanced military applications is a long-term joint priority. This is urgent, especially in the wake of the unilateral, extraterritorial export controls regime imposed on exports of advanced computing components and semiconductors to China in October 2022 by the US

[18] S. Tagliapietra, 'The European Union's Global Gateway: An Institutional and Economic Overview', *The World Economy* 47/4 (April 2024).

[19] P. Hefele and S. Crooks, *The Future of European Development Cooperation: A Centre–Right Perspective*, Wilfried Martens Centre for European Studies (Brussels, 2024).

[20] J. Hillman, *The Digital Silk Road: China's Quest to Wire the World and Win the Future* (New York: Harper Business, 2021).

[21] N. Clark, *The Rise and Fall of the BRI*, Council on Foreign Relations (April 2023).

Bureau of Industry and Security. This unilateral act by the US had direct implications for EU member states as the Netherlands was under heavy political pressure to join the control regime and limit Dutch exports of specific lithographic equipment.

Transatlantic efforts on intelligence cooperation and preventing the grave misuse of technology which threatens joint security should be streamlined, regardless of who is running the future US presidential administration. Within the next legislature, Brussels and Washington need to upgrade EU–US coordination on handling the potential risks of the proliferation of AI and biotechnologies. Both economic blocs need to align better on terminology and risk mitigation, even if they pursue their own domestic regulatory agendas on digital governance. Both need to continue their efforts and expand the current G7 Hiroshima Process on AI in order to work towards a multilateral framework which provides sufficient guardrails against the misuse of foundational models and the weaponisation of advanced technology.

The transatlantic relationship remains key to maintaining robust international alliances on securing strategic supply chains and streamlining the exchange of critical raw materials and rare earth elements, which are of great importance for the clean energy transition. In this regard, Brussels and Washington need to make progress on finalising a joint agreement on critical raw materials, similar to the one concluded between the US and Japan in 2023. In pursuit of the joint commitment to free trade, the transatlantic alliance also needs to set up a green marketplace[22] by eliminating tariffs and non-tariff barriers to the expanded free trade of clean-energy technologies, batteries, EVs and related hardware.

It is important to note that even though there are huge overlaps in EU–US interests in the digital sector, Europe pursues a different philosophy when it comes to privacy protection and digital market setup. None of these above-mentioned positive initiatives should be used as a pressure point to water down European tech regulation and data governance. EU–US tech relations have been hampered by a lack of trust when it comes to data sharing since the European Court of Justice stated in 2020 that the US does not provide sufficient guarantees for the protection of personal data coming from the EU.[23] Thus the US needs to provide a viable and trusted mechanism that ensures that Europe's provisions are being met, and not just vague reassurances that this is the case.

Unfortunately, for a long time now, many European capitals have been resigned to the idea that a few American digital companies will continue to dominate search, direct messaging, social media and retail across the EU. The European member states should commit to a stricter approach to curbing the monopolistic practices of many of these platforms, which have been confirmed as such by several cases brought before the European Court of Justice and the US Department of Justice.

22 A. Mettler, 'Europe Lost to China on Solar—Now It's About to Do the Same With Wind', *Politico*, 11 August 2023.
23 A. Lee, 'The European Court of Justice Has Ruled That Privacy Shield Is Invalid, *WIRED,* July 2020.

	Programme 1	Programme 2	Programme 3
	Ensuring the digital deterrence of external threats	**Engaging internationally**	**Enhancing the transatlantic tech partnership**
Project 1	Exclude high-risk vendors from building and servicing Europe's critical digital infrastructure (e.g. 5G). Expand the Commission's mandate to implement a common strategy on network security and mitigation measures.	Expand cross-border data agreements and technology dialogues with allies and international partners. Deepen strategic engagement on safeguarding technological supply chains, joint research and development in advanced technologies, and boosting trade.	Finalise the EU–US agreement on critical raw materials. This will limit supply-chain risks and open up the US market to EU clean-energy components and EVs. Establish a transatlantic green marketplace by eliminating tariffs and non-tariff barriers to the expanded free trade of clean-energy technologies, batteries, EVs and related hardware.
Project 2	Coordinate action between member states and the Commission on strictly enforcing the DSA and its provisions on fighting disinformation and the dissemination of illegal content. Expand the DSA to include harmonised standards for software/app security. Include the option for the Commission to flag certain applications or software services as 'malign' or as going against predefined European standards.	Engage with international standards-setting bodies (i.e. the International Organization for Standardization, the International Electrotechnical Commission) and the UN (i.e. the International Telecommunications Union) to promote European digital standards. Oppose China's agenda to influence these standards-setting bodies. Through partnership and international influence, the EU needs to actively oppose the spread of digital authoritarianism, unlawful online surveillance and digital profiling. European legislative frameworks such as the GDPR, DSA and AI Act need to serve as global templates.	Deepen and streamline the EU–US TTC. Improved working groups and increased stakeholder engagement are needed to boost the overall format. Expand work on early warnings with regard to the security of semiconductor supply chains. Adopt joint standards on EVs and clean technologies.
Project 3	Strengthen FDI screening with improved, harmonised national rules. Expand the Commission's competence to intervene if certain external investments affect joint security interests or concern critical infrastructure.	Leverage the EU Global Gateway Initiative through enhanced investment packages for Africa, Latin America and the Caribbean which include strategic projects on advanced and secure digital infrastructure. Open up new market opportunities for European businesses to build, support and maintain secure infrastructure and provide digital services abroad.	Cooperate on export controls on dual-use items with advanced military applications. Improve transatlantic efforts on intelligence cooperation and preventing the grave misuse of technology which threatens joint security. Improve EU–US coordination on handling the potential risks of the proliferation of AI and biotechnologies. Both economic blocs need to align better on terminology and risk mitigation, even if pursuing their own domestic regulatory agendas.

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The 7

Conclusion

Conclusion

by Peter Hefele

This 7Ds extended volume combines sharp analysis and focused policy recommendations in seven strategic policy fields which are of key importance for the future of the EU. The contributions provide a state-of-the-art overview of the challenges European politics and societies are facing in the rapidly changing and deteriorating geopolitical environment. The European elections, the constitution of a new European Parliament and the nomination of a new European Commission in 2024 provided the Wilfried Martens Centre for European Studies with a unique opportunity to bring together an impressive network of leading European experts to shape the debate on the medium-term development of the EU.

The seven policy fields cover major challenges for European policymakers. The answers will largely shape the capabilities, but also the identity and the role, of the EU as one of the world's major geopolitical and geo-economic actors. The proposals aim to lay new foundations for unleashing Europe's political and economic potential in the new world (dis)order, which is rejecting the existing rules-based order and simultaneously undergoing a radical dual transformation towards climate neutrality and digitalisation.

While there is no shortage of policy proposals, the Martens Centre wanted to combine specific recommendations with an overarching perspective, to address the need felt by many for a master narrative and vision in politics. The idea of sustainability helped us and the authors to develop a common perspective and realistic outlook. We understood sustainability in a broad sense, based on the notion of an inter-temporal and intergenerational responsibility. It should be understood as a core concept of modern conservative and Christian Democratic thinking, going beyond its often narrow definition which mainly relates to ecological matters.

This volume serves as a guideline for the next steps in the transformation of European politics, economies and societies. The majority of the proposals can be realised without changing the existing constitutional framework of the European treaties—which provide, contrary to what is often thought, a remarkable flexibility to move ahead with new forms of cooperation, policy designs and instruments.

Novel approaches and responses to existential threats, such as the violent revision of the post-war European order or lack of innovation capacity, occupy an important place in this collection. And it gives equal weight to various issues crucial to the very fabric of European societies in terms of demography, social cohesion and democratic representation.

The almost unhindered rise of public and private *debt* is seeping through modern and modernising societies, creating the illusion of prosperity and violating the principle of intergenerational solidarity. It is an often-unnoticed major source of social inequality, threatening the legitimacy of democratic societies. The proposals address the overdue debate on revising the size and quality of the public sector. This includes a thorough reflection on the specific contribution of the EU as part of the multilayered governance system.

With the promises of enlargement, the slow progress made in the reform of the current system of representation and decision-making inside the Union weakens the attractiveness of the EU as the largest *democratic* space globally. Guided by the constitutional principle of subsidiarity, our proposals call for a stronger role for the European parties as the major actors in a true European democracy.

From the very beginning, the idea of the single market was considered a step towards further global economic integration. The rise of protectionist, state-backed competitors and the weaponisation of economic dependencies, however, have shown the other, unpleasant and ugly, side of globalisation and openness. The actions of *de-risking* and ensuring economic security are now substantially determining the design of European trade and industrial policy. Transatlantic relations remain Europe's economic backbone and need much more political investment to avoid further alienation and a spiral towards protectionism. The decades-long weakness of global regulatory bodies, such as the WTO, calls for alternative forms of coordination with like-minded countries. Furthermore, we place special emphasis on the requirements of small and medium-sized enterprises, which form the economic backbone of Europe.

With the Russian war on Ukraine, the *defence* of the territory and societal integrity has become a top priority for the EU, no longer a matter to be left solely to NATO. But the modern concept of security has to go further and reflect the changing nature of threats in these times of hybrid warfare. To complement national efforts, we propose a 'defence pyramid' formed of those elements to which a common European approach provides a comparative advantage, not only by building on existing structures but also by becoming a source of innovation. This can be seen, for instance, in the proposal to enhance the single market for procurement or research and development. The nomination of the new European commissioner for defence is a strong step towards this idea of a Europe taking security into its own hands.

While low fertility and migration shape public perceptions of *demography*, our contributions offer a much wider perspective on the challenges European societies are facing due to their ageing and increasingly ethnically heterogenous populations. The dangers of further urban–rural division, backsliding in productivity and brain-drain in large parts of Europe are only a few of the developments that national and European policymakers need to address.

Despite remarkable efforts to become a normative front-runner in *digitalisation*, Europe's global position in shaping the digital future remains uncertain. Contradictory systems of regulation, combined with powerful private (US) and state-driven (China) economic models and financial resources, have limited European competitiveness, despite the still-impressive landscape of innovative ecosystems in Europe. Our proposals, therefore, address both the unfinished business of creating a true single digital market as well as how to better unfold the options created by artificial intelligence.

With the European Green Deal, Europe has committed itself to a fundamental transformation of its energy systems and material cycles. *Decarbonising* remains imperative but will be sustainable and socially acceptable only when it becomes the source of innovation. Our proposals are therefore focused on the intersection of innovation, enhanced resilience and internationally coordinated action, taking into account that Europe's leverage increasingly lies in its engagement with partners abroad.

This publication provides the conceptual framework for the work of the Wilfried Martens Centre for European Studies during the 2024–9 legislature. It is also an invitation to join our efforts in supporting and strengthening the European way of life.

The Wilfried Martens Centre would like to thank all the contributors for their ideas and fruitful contributions.

Credits

The Wilfried Martens Centre for European Studies is the political foundation and think tank of the European People's Party, dedicated to the promotion of Christian Democrat, conservative and like-minded political values.

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Assistant Editors: Sara Pini, Senior Research Officer & Theo Larue, Editorial and Publications Officer
Cover design: Gëzim Lezha, Brand and Visual Communications Officer
External editing: Communicative English bv
Typesetting: Victoria Agency
Printed in Belgium by INNI Group

This publication receives funding from the European Parliament.

Wilfried
Martens Centre
for European Studies

The 7Ds for Sustainability

Debt
Decarbonisation
Defence
Democracy
Demography
De-risking globalisation
Digitalisation

EXTENDED