

#FocusFuture

The **7Ds**
for Sustainability

- Debt
- Decarbonisation
- Defence
- Democracy
- Demography
- De-risking globalisation
- Digitalisation

IN DEPTH



Wilfried
Martens Centre
for European Studies

Preface

Dear friends,

This booklet represents the latest step in the '7Ds' project by the Wilfried Martens Centre for European Studies — the official political foundation of the EPP — and is the fruit of a collective effort led by Mr Klaus Welle, Chairman of the Martens Centre Academic Council and former Secretary General of the European Parliament.

In 2023, the Martens Centre published the strategy document *7Ds for Sustainability: 175 Proposals for the Next Legislature*, which contains concrete proposals aimed at future-proofing EU policy in seven crucial areas: Debt, Decarbonisation, Defence, Democracy, Demography, De-risking globalisation and Digitalisation.

Sustainability was chosen as the guiding principle to ensure that the policies reconcile the needs of both the present and the future, and systematically include the interests of the next generations.

This text has already inspired reflection on what to do over the next five years. The discussions leading to it were based on Christian Democrat and conservative thinking and the available in-house expertise of the Martens Centre.

For the next phase of intense discussions about the programme to be implemented during the 2024–9 legislature, the Martens Centre invited renowned external experts to put forward their own, more extensive proposals based on the original document, thereby deepening the available expertise.

This led to seven 'In Depth' publications which were launched last April. As the new legislature has just begun, we are now offering you a consolidated version of these seven papers, preceded by an article written by Chairman Welle in 2023 to explain the rationale behind the entire project.

We hope that these proposals will help to clarify the way forward at a critical juncture, when the European Parliament, the European Commission and the European Council are negotiating on and finalising their strategic priorities.

I wish you a pleasant read.

Mikuláš Dzurinda
President of the WMCES
Former Prime Minister of Slovakia

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

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 2014, 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
EIB	European Investment Bank
EMU	Economic and Monetary Union
EPBO	European Parliament Budget Office
ESM	European Stability Mechanism
ETS	Emissions Trading Scheme
MFF	Multi-Annual Financial Framework
NGEU	Next Generation EU
OECD	Organisation for Economic Cooperation and Development
SGP	Stability and Growth Pact
TPI	Transmission Protection Instrument

Introduction

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

Jürgen Matthes

Current debt levels in the eurozone are well above the 60% ceiling set out in the Treaty of Maastricht under the Stability and Growth Pact (SGP). Those member states that did not use the better times between 2015 and 2019 to build fiscal buffers for the next downturn are now burdened with rather high public debt levels. While public spending requirements are large in view of the green and digital transitions, economic growth will be slower in the coming years and interest rates are likely to remain higher for some time in the aftermath of the temporary surge in inflation. Under these circumstances, public debt levels could increase further into dangerous territory should an overly lax fiscal policy be adopted.

Ensuring the public debt sustainability of the EU and its member states is a prerequisite for the continued success of the wider European integration process. It is also a vitally important element in maintaining market confidence in the euro and in the ability of individual member states to meet their financial commitments. The return of a euro debt crisis would endanger not only macroeconomic stability but also the EU's aims of prosperity, the green transition and open strategic autonomy.

For the European People's Party, it is thus critical to ensure that debt sustainability is placed at the heart of the revised eurozone governance framework. Politically, the objectives should be to balance a credible, effective and consistent fiscal framework with a longer-term sense of ownership in the national capitals. The European People's Party must also draw clear lessons from the decade of economic crises. Most notably, increasing economic growth is a key pathway to reducing debt levels over the medium term.

The table opposite lists nine recommendations aimed at achieving a sound fiscal future for the EU. These are based on the following two observations. First, the (ongoing) reforms of the euro area fiscal governance framework and of the SGP offer new opportunities. However, depending on how these reforms are implemented, they could also pose new risks linked to debt sustainability. Green and digital spending must be weighed against risks to market confidence as higher expenditures tend to increase public debts. Second, to achieve the right balance and to strengthen incentives for sound fiscal policy management at the national level, adjustments need to be made in the way policymaking is shared between the member states and the EU, as well as among the EU's institutions. In particular, the European Central Bank (ECB) is overly exposed as a lender of last resort to governments. Its continuous presence in sovereign debt markets could reduce the willingness of member states to sufficiently take into account the need for a stability-oriented fiscal policy.

	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 ensure that governments can 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 to the European Fiscal Board. 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 a NextGenerationEU 2.0 or to establish 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 a 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 about 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 that governments often fail 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.

Ensuring Financial Stability

Fredrik N. G. Andersson and Lars Jonung

Following the Great Financial Crisis of 2008–9, financial stability has emerged as an important policy priority in the EU. New tools for enhancing financial stability have been devised, alongside the establishment of new institutions: in particular, the European Systemic Risk Board, which was founded in 2010. The ECB has assumed a major role in fostering financial stability. 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. These are coupled with enhanced oversight and assessment of micro-level risks and the conduct of individual financial institutions.

Despite notable improvements in the financial stability infrastructure since the Great Financial Crisis, potential vulnerabilities persist across three key dimensions: avoiding crises, preparing for crises and digitalising the financial system. Crisis avoidance is predicated on ensuring financial crises like the one which commenced in 2008 never occur again. Therefore, it is crucial to place more emphasis on fostering economic growth, that is, aligning the EU's growth performance with that of leading high-income economies. Merely regulating the volume of credit cannot single-handedly limit all aggregate macroeconomic financial risks. Growth reform that spurs future growth is an essential, albeit indirect, measure to prevent future financial crises.

The Great Financial Crisis exposed significant vulnerabilities in the euro area's crisis preparedness, particularly the absence of mechanisms for coordinating fiscal policy and for sharing fiscal costs. However, coordinating and sharing fiscal responsibilities alone are inadequate to prevent a sovereign debt crisis from causing financial turmoil. Maintaining a low debt burden before a crisis is vital since this allows governments to substantially increase debt to bolster the financial system and the real economy during and immediately after the crisis. Effective crisis preparedness necessitates reducing euro-area debt in the near future to levels that can accommodate such significant increases without triggering a fiscal crisis. Current debt levels should thus be reduced to create sufficient fiscal space to successfully counteract a future financial crisis.

In the near future the financial system is poised for significant transformation driven by new digital technologies, including artificial intelligence. This development will introduce novel methods for assessing risks and investment opportunities, as well as new financial products. Actors such as Big Tech companies and new fintech companies will enter and transform the financial system to an extent unknown today. With this, new risks will emerge that require vigilant monitoring by financial regulators. For example, there may be a shift towards a financial system that is increasingly reliant on peer-to-peer and peer-to-business lending, where new as well as old financial institutions act as intermediaries.

	Programme 1	Programme 2	Programme 3
	Avoiding crises	Preparing for crises	Digitalising the financial system
Project 1	Ensure that regulation and supervision are adequate to handle the new landscape that has emerged through recent 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 BRRD, are kept up to date with changes in the financial system brought about by technological advancements.	Ensure a 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	Deepen the EU’s single market in capital. Move ahead with the consolidation of the EU’s stock exchanges, clearing houses and national securities laws to unlock more liquid pools of capital. Growth reforms that spur future growth are an essential, albeit indirect, measure to prevent future financial crises.	Reduce current debt levels in the euro area to create fiscal space sufficient to successfully counteract 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 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	All EU legislative proposals should be fully costed by an independent, non-partisan EPBO. This office would produce a cost estimate for every bill to be approved by a full committee of the Parliament. This tool would allow policymakers to avoid future budgetary crises more successfully.	Implement the framework for the bank crisis management and national deposit guarantee schemes (the CMDI framework). The Banking Union aims to ensure that banks are robust and able to withstand any future financial crises. However, it remains incomplete, and this reduces the EU’s crisis preparedness.	Coordinate EU and US regulation to create a level playing field and to bring into alignment the frameworks for competition and control on both sides of the Atlantic. The remit of the Trade and Technology Council should be expanded to include the digitalisation of the financial system. Financial regulation requires international cooperation.

Growth and Fairness

Eoin Drea

The social market economic model is not just about growth statistics, debt levels and employment figures. At its heart, it is about people. It is about guaranteeing equal opportunities for everyone. Free competition, free enterprise and wealth creation are balanced with a guarantee of solidarity with those members of society who cannot help themselves or who find themselves in need of additional support. This is a pragmatic approach which positions personal choice and responsibility as key guiding principles.

However, events since the Great Financial Crisis in 2008 have highlighted that economic uncertainty can feed feelings of exclusion and disillusionment. As levels of economic growth slow more and more, Europeans are feeling insecure about their economic prospects. Digitalisation, the casualisation of employment and the increased cost of living are all contributing to this feeling of precariousness. These are widely held feelings, notwithstanding historically low levels of unemployment across the EU.

Such worries are exacerbating societal divides, particularly between younger people and the older generations, who possess the majority of European wealth. Increasingly, the EU's climate change ambitions are also widening tensions between many rural and urban areas.

Growth and fairness have always been mainstays of the social market economic model. To ensure that these principles remain at the forefront of policymaking, it is essential that the EU reinvigorates the single market as the most important driver of jobs and growth in Europe. Critical to this process is placing the single market at the core of EU policymaking. The creation of a first vice-president of the Commission for the single market and trade would underpin the EU's competitiveness and growth agendas.

In addition, the social market economy model must be modernised to reflect the realities of working life for tens of millions of European families. Taxation on earned income must not act as an impediment to innovation, social mobility and self-improvement. Issues such as childcare, mental health support and access to basic social security protections are essential in increasingly flexible societies. Access to critical public services—such as health and education—must never be determined by geographic location.

Underlying a modernised social market economic model is the concept of tax fairness for all. In an increasingly globalised world, this will ensure that every global business contributes its fair share, regardless of size or domicile.

	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 income 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.
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.	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, the EIB should significantly expand its existing social and affordable housing financing programmes.

Own Resources

Alain Lamassoure

The discrepancy between the responsibilities conferred upon the EU and its financial means has for too long been the black hole of the European debate. Treaty after treaty, crisis after crisis, the EU has grown into a formidable normative power. Worried by this development, experts from other continents lament the ‘Brussels effect’, whereby Europe’s competitors might be 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 giant sequoia with bonsai roots. For the last 30 years the common EU budget has been stuck at 1% of EU gross national income. As a result, the ambitions of the European Council have long been murkily funded by a tangle of various new intergovernmental funds that have escaped parliamentary control, resounding commitments deprived of specific timetables, the reselling of previous grandiloquent announcements, and often by inextricable blends of grants, loans, guarantees and promises.

In 2020 the great disruption caused by the virus-driven crisis was a game-changer. The European Recovery Programme, five times higher than the annual budget, was funded by European borrowing and fresh EU own resources to be specified at a later date. This programme was announced as being an exceptional response, and it was meant to save national budgets from a once-in-century crisis, not to fund EU policies. But a short while later the war in Ukraine intervened, with the prospect of a further, upending enlargement of the EU, while global warming was also getting worse. As a result, the gap between the sum of European commitments and the EU budget level has become abysmal and politically unaffordable.

Therefore, the time has come for a complete overhaul of the system, based on simple, clear and democratic principles. In particular, there are three principles which are at the core of the European People’s Party philosophy.

The first is that of democratic consistency: European decisions taken democratically must be funded democratically by European resources. The second is the principle of subsidiarity. This means that every public task must be entrusted at the most relevant level, not the lowest or the highest. Thus devised, the EU budget must not be a burden for national finances but rather represent a more efficient transfer of national tasks and costs to the EU level. The last is the principle of constancy. Whatever the choice in the distribution of roles, the transfer of competences and means to another level should not result in an increase in overall spending or overall taxation: all other things being equal, Europe must be built on constant costs.

	Programme 1	Programme 2	Programme 3
	Ensuring democratic consistency	Implementing real subsidiarity: EU policy = EU funding	Ensuring constancy and debt optimisation
Project 1	Measure <i>ex ante</i> net savings made at the national level in return for new action at the EU level. No European agencies should be created without comparing the advantages and costs of action at the national and European levels.	Adopt a fully transparent and democratic budget procedure: ‘no taxation without representation’ at the EU level.	Harmonise the key concepts and rules of public accounting in the EU to secure transparency and fairness between member states.
Project 2	Transfer national staff and financial means to the EU in line with transferred competences.	Create new EU own resources linked to the single market and EU competences: a value-added tax, an ETS and other ‘green’ taxes, and harmonised profit taxes that fully apply to multinational digital companies.	Reserve all projects financed by European loans for member states and guarantee such projects by means of existing taxes. As long as these guarantees are not established, every member state incorporates its share of the common debt in its national debt.
Project 3	Supervise spending by national parliaments and the European Parliament, alongside the national and European Courts of Auditors (including controlling existing duplications in procedures, red tape and staff).	Compensate for every tax rise or additional financial expenditure by a reduction in another tax or at another level.	Only policies that generate measurable financial, economic or environmental profits and that are duly specified in the MFF should qualify for EU borrowing.

Public Sector Reform

Adriaan Schout

The quality of our public sectors at the national and EU levels is a cornerstone of debt sustainability. It has an impact on the confidence of financial markets, economic growth, the ease of doing business and the quality of the rule of law (broadly defined). Moreover, it determines whether countries can deliver on EU agreements and maintain the confidence of other member states.

The public sector is continuously being reformed as new challenges emerge and as lessons are learned when new policies are implemented. These reforms are susceptible to prevailing trends. They have to be maintained so that quality standards are not sacrificed due to day-to-day socio-economic pressures or current fashions. Good governance requires stability—which, in turn, needs to be safeguarded by dedicated policy units and procedures at all levels of government. Complaints about ‘bureaucracy’ or ‘too much regulation’ miss the point that it is quality that matters.

The EU needs to prioritise the quality of institutions as an area of mutual concern with member states. The quality of the EU’s multilevel public sector is influenced by the cultures of the member states. Here lies one of the EU’s sensitive dilemmas: there is not merely one set of public-sector practices. Rather than agreeing common quality standards and mutual control, the EU Treaties assume loyal cooperation from the member states and underline respect for existing public-sector traditions.

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 generic standards include transparency, and the independence of information gathering and monitoring. These requirements create national ownership and public respect for (EU) policy.

Distinctions between the reform of the national public sectors and that of their European-level counterpart raise a typical EU dilemma: reforming the public sector at EU level alone is bound to have a limited effect.

Impact assessments and the implementation and enforcement of EU policies cannot be carried out by the member states on their own. It is necessary to have European networks and independent European management agencies that can work out both EU policies and procedures for independent inspections.

	Programme 1	Programme 2	Programme 3
	Building on the EU level: themes and experience	Developing multilevel interdependence	Establishing national-level preconditions
Project 1	Focus during the next Commission on core themes, including transparency, impact assessments and the role of EU agencies. In 2026 it will be 25 years since the White Paper <i>European Governance</i> was published after the fall of the Santer Commission.	The themes in the 2001 White Paper also demand parallel reconsiderations at the national level, for example, what is the state of transparency at the national level and how have independent agencies been accepted at the national level? A quick look at the European Semester and the functioning of the EU budget indicates that major gaps persist at the national level. Yet, much progress has been achieved in other areas. It is high time for cross-sectoral learning.	Develop and then make public a ranking of EU and national budgets based on the quality of spending. National reforms affect the functioning of the EU. In particular, it is important that the quality of spending, at both the EU and national levels, is understood.
Project 2	Re-examine the level of harmonisation with a view to allowing the member states more flexibility. Similarly, demands for new EU funds should acknowledge that limited fiscal space is left at the Union level.	Develop economic convergence, which is a key requirement for the sustainability of EMU. Some countries have had persistent problems with convergence; others have performed remarkably well. Yet, new worries over convergence have arisen since some countries are sliding back while others need to move beyond catch-up growth. The next Commission should carefully select the national institutions whose quality needs to be prioritised to ensure economic growth.	The material available displays wide differences in the quality of legislation at the national levels. This raises questions about the ability of national institutions to supervise the quality of national legislation (from impact assessments to quality control). The next Commission should add a general assessment of the quality of legislation to broaden awareness at national level.
Project 3	Give priority to enforcement, the required institution of checks and balances, and the delineation of appropriate roles for the Commission. These areas have been neglected for a long time.	Expand and strengthen the powers of the ECA and especially of its national counterparts to ensure that EU financial failures have meaningful consequences. EU spending as a shared responsibility has been the object of 25 years of frustration. Many reports by the ECA, among others, have pointed out the weaknesses in EU spending.	Subject deregulation to regular scrutiny. Some member states have had active deregulation policies. In light of new (EU) commitments, the viability of national quality needs to be revisited and experience gained from deregulation should be discussed.

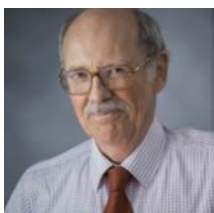
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▶ Decarbonisation

Table of Abbreviations

ACER	Agency for the Cooperation of Energy Regulators
CBAM	Carbon Border Adjustment Mechanism
CCfD	Carbon Contract for Difference
CfD	Contract for Difference
CRM	Critical Raw Materials
CSDD	Corporate Sustainability Due Diligence Directive
EEAS	European External Action Service
EFSD	European Fund for Sustainable Development
EIB	European Investment Bank
ENTSO – E	European Network of Transmission System Operators
ENTSO – G	European Network of Transmission System Operators for Gas
ESG	Environmental, Social and Governance
ETS	Emissions Trading System
H ₂	Hydrogen
MFF	Multiannual Financial Framework
PPA	Power Purchase Agreement
R&D	Research and Development
RES	Renewable Energy System
SME	Small and Medium-Sized Enterprise

Introduction

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 demands 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 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 each set of issues is inextricably bound up with the other. 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.

Given Europe's dwindling geopolitical and geo-economic weight, building regional and global alliances requires putting more effort into climate diplomacy, not least to open new markets for European companies in the fast-growing markets of developing countries and to support these companies' efforts in the area of sustainable development.

Energy Security and Energy Resilience in the EU

Bernd Weber and Sam Williams

Recent geopolitical upheavals, including Russia's war on Ukraine and the ensuing energy and supply chain crises, necessitate a re-evaluation of industrial and energy security strategies. Energy resilience emerges as a linchpin for protecting citizens and industries by ensuring a reliable supply of materials, fuels, technologies and skills, while meeting projected energy demand. European energy resilience will only become tangible if rooted in technological innovation and green business models. Hence, we need a holistic EU industrial policy framework for innovation that extends beyond the European Green Deal.

The EU's dependence on a limited number of third countries for energy imports, renewable energy deployment and manufacturing is becoming an increasing liability. Major economies such as the US and China are advancing clean energy development to assert dominance in the green industrial revolution. Energy-intensive industries need to diversify energy supply chains, adopt sustainable business models, and prioritise efficiency and innovation.

The single market is Europe's key asset to drive down costs for the transformation, but it needs to be strengthened to deploy strategic net-zero technologies for direct and indirect electrification. Rather than micro-managing and over-regulating, the EU should focus on creating a single market for innovation and supporting SMEs and cleantech start-ups, as pivotal agents of change. The electricity market should be improved and made future-proof, through reforms to lower electricity costs, provide investment incentives and optimise financing for renewable assets. The Net-Zero Industry Act effectively promotes the use of energy regulatory sandboxes, but these should be swiftly designed and implemented to expedite the adoption of new technologies and streamline regulatory frameworks to foster innovation across member states.

Member states should prioritise tax incentives, grants and public guarantees over subsidies to support clean technology. Efforts should be made to enhance the bankability of smaller companies. The EU should also transition towards sector coupling and sector integration.

On the international level, the EU should further diversify its partnerships with energy-exporting third countries to decrease its import vulnerabilities. Additional programmes under the Global Gateway Initiative should foster a greater diversification of the supply of the key clean technologies (e.g. hydrogen) and raw materials essential for the green transition. The EU should also advance the Climate Club, shaping it into a sectoral model, fostering knowledge exchange and enhancing climate finance mechanisms.

	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 for PPAs for SMEs to boost a market-driven renewable-energy expansion. Provide EU-wide guidelines for complementary double-sided 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 H ₂ -ready gas or nuclear power plants.	Establish innovation incentives to support startups, and signal that European CCfDs are temporary, offering predictability to companies, investors and the public sector. CCfDs should be linked to the EU ETS and initially have a term of 10 years, focused on applications where they provide a 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 derivatives that is aligned with EU requirements. The European Commission should locate key regions that are only taking their first steps in the hydrogen economy and should provide concrete support on the formulation of standards and certification.
Project 2	Improve long-term visibility for infrastructure planning and underpin it with binding political commitments that encourage financial commitment to ramping 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 MFF.	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, ENTSO-G and ENTSO-E 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 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.

Supporting EU Clean Technologies

Domien Vangenechten and Artur Patuleia

The European Green Deal is the world's first economy-wide decarbonisation framework and it has set the EU on an irreversible path away from volatile fossil fuels while sketching out a new growth model. Over the past four years, it has already delivered as a strategic compass in response to emerging crises, including the Covid-19 pandemic and Russia's invasion of Ukraine, enhancing energy security while simultaneously raising the EU's geopolitical profile. The EU has already started to reap the economic benefits of the transition, with clean energy accounting for around 30% of the bloc's GDP growth in 2023, and investments in clean energy manufacturing more than doubling between 2022 and 2023.

At the same time, concerns about energy security, competitiveness, climate preparedness, inequalities and geopolitics are simultaneously driving and putting European climate action to the test. Meanwhile, China and the US are moving ahead with industrial policies to capture key clean value chains, leading some to question the future of Europe's technological leadership. In this time of fundamental transition for the global economy, the EU needs to reshape its markets and institutions to make them fit for the future and to spur sustained investment into clean technologies. Recent examples have shown that regulatory inaction, instability or indecisiveness, and even ill-designed subsidies can have severe negative impacts on clean energy manufacturing and deployment—as, for example, was witnessed in the European heat-pump industry just last year.

Europe is still in a good position to maintain its leading position and to continue to spearhead this transformation. To support the scale-up of EU clean technologies, the incentive structure for economic actors needs to go beyond simply focusing on enabling conditions, such as access to critical raw materials. Rather, effective regulation, time-limited subsidies and other measures are needed to structurally alter investment decisions, business practices and consumer choices. Only through joint action that capitalises on Europe's diverse geographical conditions, comparative advantages and varied skill sets will it be possible to strengthen its economic resilience and reap the benefits of the transformation of the global economy. This will require the development of a regulatory and governance framework that enables the coherent, just and resilient development of clean technology industries, while strengthening and better coordinating delivery mechanisms at the national, regional and local levels.

As the EU's open economy relies heavily on global trade—more so than the economies of the US or China—its prosperity hinges on being embedded in open, diverse and resilient supply chains. In the changing geopolitical context, the EU will have to balance its desire to grow domestic clean industries with the need to strengthen partnerships while also pursuing a de-risking strategy. Crucially, these partnerships need to drive local added-value and support partner countries to navigate their own clean energy transition.

	Programme 1	Programme 2	Programme 3
	Creating an inducive environment for scaling 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 roll-out of demand-pull instruments such as 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 roll-out 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 leading market 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. This should include the exploration 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-efficient 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 clean technology investments.

Securing Europe's Independence in Obtaining Critical Raw Materials and Tech Components

Frank Umbach

The geo-economic and geopolitical importance of securing a future supply of critical raw materials (CRMs) has been severely neglected by governments and industries over the past decade. But experts have been sounding the alarm on this matter for years. CRMs are essential not only for renewable energies, electric batteries and digitalisation technologies but also for the defence and space industries. Until a few years ago, the discussion about the security of raw material supply had remained largely isolated from the issue of energy security. But in the future, energy security will be closely linked to the security of raw material supply and to new import dependencies that have geopolitical implications.

In addition, Europe's lack of semiconductors and world-class manufacturing companies also carries the risk that both the continent's overall economic future and the artificial intelligence revolution will make its critical supply chains heavily dependent on the US and China—on their companies, policies and technologies. This flies in the face of the EU's own goals: strategic autonomy, enhanced geopolitical resilience and becoming a worldwide geopolitical actor that can secure its own strategic interests across the globe.

With the Critical Raw Materials Act proposed by the European Commission in March 2023, the EU is attempting to respond appropriately to the numerous challenges related to the security of raw material supply, to electric mobility and to battery industries. The EU increasingly needs a stable, sustainable and sufficient supply of CRMs for its economy, the expansion of renewable energies, decarbonisation, digitalisation and the defence industry. This need will continue to grow significantly in the future.

In its wider economic security strategy, the EU has paid increasing attention to these geo-economic and geopolitical dependencies, its supply chain stability, the diversification of imports, de-risking strategies such as onshoring and friendshoring, and other instruments aimed at decreasing the potential for both future blackmail and the economic coercion of the EU. These de-risking strategies also highlight a paradigm shift in the long-prevailing assumptions on which Europe's industrial and foreign policies are based, such as the idea that the security of supply and entire critical supply chains should be entrusted to free markets and the industrial sector itself.

	Programme 1	Programme 2	Programme 3
	Enhancing the security of the supply of CRMs	Implementing a foreign policy on CRMs	Promoting a ‘de-risking’ supply chain concept for CRMs and the components needed for disruptive technologies
Project 1	Expand European projects involving mining, refining and processing capacities.	Expand CRM-related partnership agreements and shared projects with like-minded democratic countries with market economies (such as Norway, Canada and Australia).	Develop a strategy for balancing supply security with incentives for free trade and fair competition rules, whether bilateral or global in their application. These rules should not contain provisions for decoupling or protectionism.
Project 2	Promote the stockpiling of raw materials.	Promote and provide financial support to onshoring and friendshoring projects involving the mining, refining and processing of CRMs.	Prioritise and provide financial support for friendshoring projects aimed at developing and producing disruptive technologies and components for critical technologies
Project 3	Transfer more authority for security of the supply of CRMs from the member states to the European Commission, in line with what was done with the EU’s gas policies.	Develop new global regulatory frameworks for CRM mining by adjusting environmental, climate and technology standards.	Increase the exchange of information and best practices related to disruptive technologies and critical technology components among the G7 and other strategic partner countries.

Ensuring European Global Leadership in a Collective Decarbonisation Effort

Jarosław Pietras

As a global leader in climate policy, the EU must confront international trade competition from economies that are taking less ambitious climate actions. As the EU implements more stringent climate policies, this could seriously impact the competitiveness of European industries in the long run. Notably, the success of European decarbonisation has resulted in the diminishing significance of the EU's CO₂ emissions, as they represent a smaller fraction of the world's total emissions. If global climate goals are to be achieved, other countries should be incentivised to take significant steps to mitigate climate change. Therefore, Europe needs to actively encourage its trading partners in both well-developed and developing countries to reduce their greenhouse gas emissions to a similar extent.

Europe's significant normative power should be fully utilised for this purpose. This 'soft' power could prove to be one of the most effective means of encouraging others to move forward in the fight against climate change. The European External Action Service (EEAS) and the EU representations worldwide have a major role to play. To be fully effective, Europe's normative power should be employed together with traditional foreign-policy actions, legal measures and development aid targeted at encouraging the EU's trading partners to mitigate climate change.

The Union's foreign policy should aim to expand dialogue on climate with major partners, not only explaining internal EU climate instruments but also proposing common actions. The EU is already leading by example in greening international trade by promoting sustainable practices within its own borders. It also has the Carbon Border Adjustment Mechanism (CBAM) to prevent carbon leakage—the first and only mechanism of its kind. The EU should incentivise the adoption of green trade practices through agreements and partnerships with other countries. However, it should start with a reform of the WTO aimed at incorporating a green agenda in trading rules. Efforts should be made to reach agreement by the next ministerial conference of the WTO.

Steps should be taken to facilitate trade in green products. These measures should focus on eliminating tariffs and other trade barriers. In particular, evaluating global value chains on the basis of how well they promote sustainability can help to identify places where more effort is needed. This would help to create a global green marketplace, which could be based on common environmental standards. The creation of such a green marketplace should be a guiding principle both for the WTO and in Europe's trade agreements. It should be a component of the EU Global Gateway, EU–US trade arrangements and bilateral agreements with all EU partners. To accomplish this, climate diplomacy must be intensified. This could include offering preferential trade terms to countries that meet certain environmental criteria or providing financial assistance for green initiatives.

	Programme 1	Programme 2	Programme 3
	Greening the EU's international trade	Ensuring international cooperation on climate and intensifying climate diplomacy	Mobilising private finance for sustainable development aid
Project 1	Engage in WTO negotiations to facilitate trade in green goods and services. Support a reform of WTO rules that would make them indisputably consistent with climate objectives.	Fully apply Europe's normative power to promote international climate actions by coordinating between EU representations and the embassies of EU member states. Create synergy between the hard and soft external policy instruments used by the European Commission and the EEAS.	Ensure that European companies which invest abroad do this in a sustainable and environmentally responsible manner. The EU can accomplish this objective by implementing the CSDD.
Project 2	Urgently initiate measures to promote European exports of products covered by CBAM. Review, analyse and prevent any circumvention of CBAM rules. Make use of the 'CBAM international effect' on trading partners by enhancing relations with countries introducing carbon pricing.	Facilitate the development of a G7 Climate Club that has an agenda to cooperate on climate actions.	Finance an international just transition with resources from European development assistance. Blend official EU development aid with private financial sources to ensure additional financing.
Project 3	Expand the network of EU free-trade agreements with like-minded countries.	Find common ground with the US, China, India and other countries in the fight against climate change. This could be done by initiating comparisons of decarbonisation outcomes.	Green European development aid by focusing on the EFSD. Make sure that the Global Gateway includes major climate components supported by EU funds.

Financing the Sustainability Agenda

Markus Demary and Adriana Neligan

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 to 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, it is estimated that the EU will have to invest between €758 and €1055 billion per year until 2050 in the industry, energy, transportation and building sectors. Financing the necessary innovations and investment volumes will be challenging due to tighter banking regulations, increased bureaucracy for loan applications and portfolio reallocations away from certain 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 these structural changes. But while the EU has developed a green bond framework for the financing of decarbonisation, a large part of the corporate sector has no access to this financial instrument. SMEs lack access to bond market investors since the issuing limits are too large for these businesses and bond investors are not interested in trading in small lot sizes. SMEs therefore depend on bank financing. However, bank financing will become more restrictive, as banks are having to raise their equity capital to meet the requirements of the newest bank regulation package, known as Basel 4. McKinsey & Company estimates that banks will require €120 billion in additional capital to be ready for the implementation of the new bank regulations, while the German Economic Institute estimates that EU banks will need to expand their capital base by a further €276 to €384 billion by 2030 to finance decarbonisation. Thus, freeing up bank equity capital for new SME loans is important, as is capital market investors embracing SME finance.

The administrative burdens for SMEs when applying for finance have increased due to sustainability reporting, which may discourage enterprises from applying for loans. Moreover, banks and investment companies have already started to decarbonise their loan and asset portfolios, that is, they are reallocating their 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. For successful structural change that promotes the decarbonisation of companies and prevents SMEs from leaving the market, the ability to match SMEs with appropriate funding banks has to be preserved during the transition. The right framework conditions are therefore needed for the financial sector and the real economy so that investments and innovations can be financed. Keeping corporate and government debt at a sustainable level is important during the decarbonisation process, since a large volume of the needed investments will have to be financed by debt instruments.

	Programme 1	Programme 2	Programme 3
	Strengthening and auditing EU funds	Strengthening incentives for the transformation	Supporting European SMEs
Project 1	<p>Improve the match between companies, banks and investors by auditing and by rethinking how EU funds can be allocated to support innovations and investments in decarbonisation (e.g. guarantees for SME loans, investment funds). Use own resources (CBAM) for the transition by allocating these to the EIB.</p>	<p>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, by including CO₂ content, and by strengthening tax incentives for R&D in low-carbon technologies and the early depreciation of carbon-intensive equipment. Ensure consistency of the EU ETS with other regulations.</p>	<p>Reduce bureaucratic costs for SMEs arising from non-financial reporting requirements by standardising the 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.</p>
Project 2	<p>Strengthen the EIB's ability to finance the transition. Risks for investors can be reduced if the EIB acts as the anchor investor for infrastructure investment funds or initial public offerings.</p>	<p>Assess the impact of the EU taxonomy on the basic materials industry as an enabling activity for other industries, and on the defence industry. Reform the EU taxonomy in case of conflicts with other policy goals, for example, defence and security.</p>	<p>Eliminate financing obstacles for innovative SMEs during their transition and during the innovation life cycle by freeing up bank equity capital by 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 transition (e.g. capital requirements for unrated companies).</p>
Project 3	<p>Develop a special investment fund targeted at the financing of carbon capture companies. Overcome market failures at the various stages of the innovation cycle by using instruments such as development grants and early- and late-stage venture capital.</p>	<p>Enable the monitoring of risks from climate change and the transition by developing frameworks for supervisory agencies on how to measure climate risks and the transitional risks for companies at the macroprudential level (e.g. concentrated exposures to carbon-intensive sectors, non-performing loans due to company indebtedness during the transition).</p>	<p>Promote local investment funds for SMEs backed by EU funds. SMEs need silent participation equity capital 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 more incremental innovations from existing SMEs.</p>

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 **Defence**

Table of Abbreviations

AFET	Committee on Foreign Affairs
AI	Artificial Intelligence
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	Committee on Security and Defence
CJEU	Court of Justice of the European Union
DARPA	Defense Advanced Research Projects Agency
DG	Directorate-General
DG DEFIS	Directorate-General for Defence Industry and Space
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
EEAS	European External Action Service
EIB	European Investment Bank
EP	European Parliament
GDP	Gross Domestic Product
HQ	Headquarters
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
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
NDPP	NATO Defence Planning Process
PESCO	Permanent Structured Cooperation
QUAD	Quadrilateral Security Dialogue between Australia, India, Japan and the United States
SECDEFPOL	Security and Defence Directorate
SEDE	Sub-Committee on Security and Defence

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

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 of 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

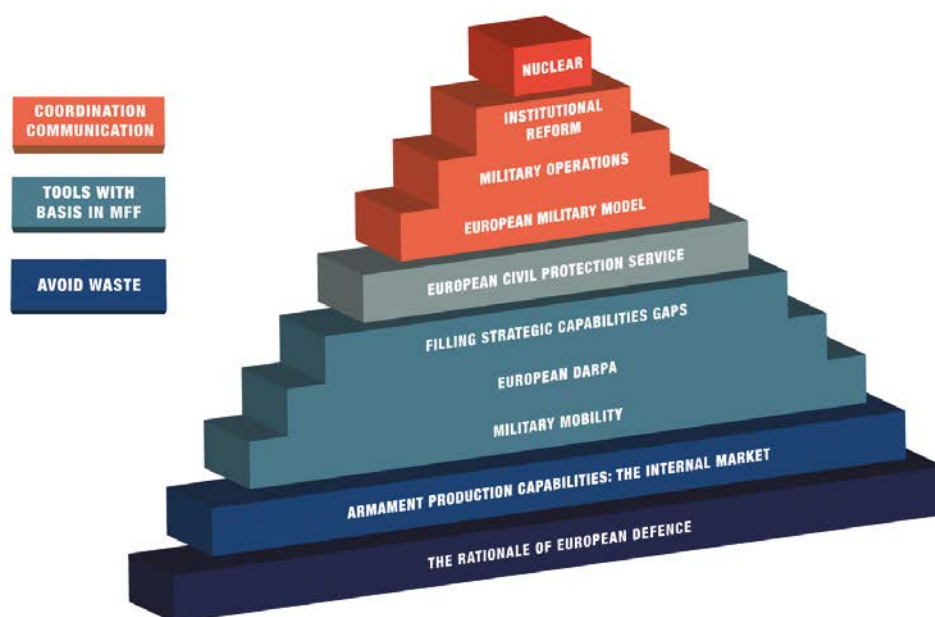
Since the Second World War, the US has decreased its defence spending considerably. It is no longer able to manage two major confrontations in different parts of the world at the same time. Its main focus will have to shift increasingly to Asia, where its status as the leading global power is being challenged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

Armament Production Capabilities: The Internal Market

Christian Mölling

In response to Russia's war of aggression, the EU is showing a very high level of commitment and has been taking extraordinary measures. There is a good reason for this. The Union is facing the largest war to take place on European soil in the last 75 years. The conflict threatens to shape the security order like none other in the last decades—and not to the benefit of Europeans. Only the EU area of security and defence remains a largely unaffected island in this storm. Key guidelines of the EU in defence have not been impacted, and the EU has done little to change its industries or armed forces. At the same time, the longer-term outcomes of cooperation on EU defence show that paradigms and promises have failed to deliver.

Two decades of trying to treat defence as a market, with consolidation as a prime objective, show that things are not that simple. EU regulations, money and other incentives do not appeal to member states. The only European security actor generating economies of scale in Europe's arms sector is the US defence industry. The governments of the member states channel more resources around the EU than through it. While the number of Permanent Structured Cooperation (PESCO) projects is growing, the overall level of cooperation is decreasing.

The time for testing/applying abstract concepts like simple market approaches is over. War is back on European soil, and US support for Europe has been thrown into question. According to recent estimates, after the fighting in Ukraine stops, Europe has three to five years to prepare before Russia might launch another attack, perhaps on EU territory. This gives clear indications about the direction that has to be taken, the magnitude of what has to be done and timeline for completion. Military effectiveness and timeliness are top priorities. Europeans are rediscovering that tackling redundancies in industrial capacity and production is essential to fighting wars. This means that the future business model for industries must change. It is already clear that the following capability areas are priorities for collective defence: land warfare equipment, 24/7 warfare, digitalisation and electronic warfare, integrated air and missile defence, logistics (including special vehicles), long-range missiles and deep precision strike weaponry.

	Programme 1	Programme 2	Programme 3
	Declaring a decade of defence with more investment and fewer regulations	Giving shape to the industrial base with quantity as the top priority	Becoming a European buyer and lender by going where no one else can go
Project 1	Use NATO defence planning as the European level of ambition (NATO as the Gold Standard), and establish what the contribution of the EU and its member states will be. This will make it possible to tap into the member states' defence planning and will make cooperation more relevant.	Integrate Ukraine into European defence, including into the defence industrial base. Learn from their experience.	Amazon for defence: offer an electronic marketplace for defence commodities such as fuel and oil.
Project 2	Use regulation as an enabler. The EU has to consider which regulations it could strengthen and which it could make more flexible to unleash industrial and technological potential. Such moves have to be scalable and well planned.	The new Commission has to balance innovation and short-term industrial capacity. Demand may explode in 2024–2025. To meet this demand, identify options for European regulations and minimum standards.	Enable and sustain critical infrastructure: this must be seen as a public good. Let the EU engage in making the defence infrastructure more sustainable and resilient by reviewing the priorities of the common budget.
Project 3	Rebalance economic efficiency and military effectiveness. Take the economic risk of investing heavily in sub-optimal products. Should we find ourselves in a situation where time is short, having to improve what is imperfect will be better than having to start at the beginning.	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 carries a fixed price for all buyers.	Become both buyer and lender. The EU should buy the equipment needed for logistics, and then either operate it or rent it out.

Military Mobility (Transport and Logistics)

Mihai Chihai

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.

While the importance the EU has given to military mobility has constantly grown over the past years, the alarm bells rang after Russia invaded Ukraine. The war underlined the urgent necessity of tackling existing weaknesses. 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 Action Plan 2.0 for military mobility, which was delivered in November 2022. A year later EU defence ministers approved the EU Capability Development Priorities, which 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. Military mobility is also a flagship project for EU–NATO cooperation, making clear the complementary nature of the two organisations.

To enhance military mobility, the EU needs to overcome various challenges. In many places 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) is very low compared to the overall needs. Finally, the administrative procedures for crossing borders involve heavy bureaucratic processes that significantly slow down the movement of equipment and forces.

Addressing these challenges and enhancing military mobility is a long-term project. There is no single solution; rather, the EU and the 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 the resources needed to develop military mobility. 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.

Funding at the EU level for dual-use transport infrastructure is critical and should be increased, as should national-level funding to enhance military mobility. Furthermore, multi-stakeholder engagement platforms are required at both European and national levels to create a whole-of-government approach to advancing military mobility goals. These platforms should bring together all relevant actors, including those from ministries of defence, transport and finance; from civilian organisations; and from the private sector.

	Programme 1	Programme 2	Programme 3
	Enhancing high-level political support and funding for military mobility	Creating multi-stakeholder engagement platforms	Strengthening cooperation with partners
Project 1	Keep military mobility high on the EU political agenda in view of the European elections, the EU strategic agenda for 2024–2029 and the priorities of the next European Commission.	Establish an EU–NATO centre of excellence for military mobility.	Develop a lessons-learned process aimed at helping both the EU and NATO benefit from what the war in Ukraine demonstrates in terms of military mobility.
Project 2	EU member states should commit to a new and more ambitious military mobility pledge with clear commitments.	Share best practices for enhancing military mobility in regional platforms such as Bucharest 9 and the Three Seas Initiative.	Set up exchanges on military mobility between senior leaders of the EU and NATO to assess progress made and explore ways of advancing cooperation.
Project 3	Include significant funds for military mobility in the next EU MFF.	Establish a dialogue platform to explore the role and contribution of the private sector to enhancing military mobility.	Prioritise military mobility in the security and defence dialogues with partners, such as the US, the UK and Norway.

The Case for a European DARPA

Ionela Maria Ciolan

Leadership in technological innovation has become a crucial aspect of geopolitical power, with the US and China at the forefront. The EU is currently lagging behind in this area. Being part of the technological race does not just mean striving for technological and innovative superiority: it also has crucial implications for political order, economic competitiveness and national security. As we have learned from the past two years of war in Ukraine, defence innovation can play an important role on the battlefield. The integration of drones, cyberspace, satellites, data and digitisation on the battlefields of Ukraine has proved to be essential in the fight against a larger and more powerful opponent. The integration of emerging and disruptive technologies in this conflict provides a glimpse of how they will be an important element of future capabilities and warfare. Future wars will depend on technological defence as military capabilities are transformed by rapid developments and disruptive innovations. This trend will revolutionise the ability to wage war and pose significant challenges to the security and defence of the EU. Developments in human enhancement and new materials promise to increase the effectiveness and survivability of military units, while disruptive technologies such as hypersonic and directed energy weapons will bring new dynamics to a combat zone. Furthermore, advances in artificial intelligence (AI), space technologies, quantum technologies, nanomaterials and additive manufacturing will dramatically change the whole process of planning and conducting both military missions and support components: communications, intelligence, and force and logistics capabilities.

If one compares the EU's defence innovation with that of the world's major powers, it becomes clear that Europeans have a long way to go. Recent data from the European Defence Agency (EDA) shows that in 2022 its member states spent only €3.5 billion on research and technology, which is merely 1.4% of their total defence spending. By contrast, the US Department of Defense spent \$34 billion on defence technology innovation in 2022, or 4% of its defence budget. DARPA, a US agency responsible for defence innovation, alone had a budget of \$3.8 billion in 2022. At the EU level, however, the sums allocated to defence innovation—at the EDA, the Directorate-General for Defence Industry and Space (DG DEFIS) or other DGs—are in the range of a few hundred million euros, significantly less than other technologically advanced countries. Due to the lack of transparency in China, it is difficult to find data for that country that could be used to make comparisons. Nevertheless, military developments in China show that the country is seeking to dominate the emerging and disruptive technology landscape, including AI, quantum technologies and hypersonic weapon systems.

The EU needs to innovate if it wants to remain competitive and reach its goal of strategic responsibility. Developing the next best thing in technology and defence will depend on making the European innovation ecosystem more flexible and agile and less averse to taking risks. It is time to have the courage to apply the American DARPA model to critical disruptive projects in the European ecosystem. The US approach has led to real changes and remarkable successes since it began responding to the Soviet Union's Sputnik in 1958. To have a real impact in the technological race, the EU will need strong political commitment, long-term vision and a culture of risk-taking. If the EU fails to foster its own defence innovation ecosystem, it will lose its ability to act on the global stage.

	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 so that it can undertake 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 start-ups to accelerate the development and commercialisation of new technologies at the European level.
Project 2	Establish a comprehensive strategic road map, 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 STEM 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 architecture: provide adaptable funding mechanisms that can support projects at different stages of development, from early 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.

Filling Strategic Capability Gaps

Daniel Fiott

Russia's brutal war on Ukraine has exposed the shortcomings of Europe's defence capabilities. The need to assist Ukraine and defend Europe has made it clear that major capability shortfalls in areas such as air and missile defence and ammunition persist. The EU has a tried and tested capability development process designed to identify strategic gaps. However, the need to prioritise the most urgent strategic capabilities and to fill them quickly remains a major challenge. To ensure that the member states can collectively develop strategic capabilities, the EU has developed tools such as the European Defence Fund (EDF) and PESCO. Moreover, it plans to introduce a European Defence Investment Programme (EDIP) to finance joint defence projects. Additionally, in early 2024 the European Council agreed to increase the EDF by €1.5 billion under the mid-term revision of the MFF. This brings the Fund to €9.5 billion until 2027. Furthermore, in 2024 the European Investment Bank (EIB) finally agreed to invest—albeit very modestly—in defence innovation.

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, research and technology, and secure supply chains. However, filling strategic capability gaps also requires a greater focus on those capability projects that most enhance European defence. 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 their own (e.g. air and missile defence, naval platforms, cyber defence and space systems). As underlined by the war on Ukraine, Europe cannot contribute to its own defence and to deterrence unless it develops strategic capabilities that would deny Russia's revisionist aims—now and over the longer term.

	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 defence, 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 binding commitments.	Invest in new defence manufacturing sites and fill skills shortages in the defence labour market, using the EIB and leveraging private investment.
Project 2	Build on current EU investments in existing strategic enablers such as space, cyberdefence and military mobility.	Agree swiftly to an EDIP that is backed by substantial financial means (approximately €100 billion) under 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.

Reinforcing the European Civil Protection Service

Paola Tessari

Over the years the territory of the EU has increasingly been hit by both natural and man-made disasters, ranging from floods and earthquakes to industrial accidents and intentional acts, such as terrorist attacks. The ramifications of such incidents, together with their tendency to intensify and spread beyond nations, necessitate collaboration among EU members and the possession of transboundary crisis-management capabilities.

With this in mind, the EU has implemented various initiatives to encourage collaboration among and support for member states. At the centre of the EU's action in this regard is the EU Civil Protection Mechanism, which plays a complex role in coordinating the various actors and combining their actions at multiple levels (national and international). In his 2006 report *For a European Civil Protection Force: Europe Aid*, written against the backdrop of severe crises, Michel Barnier detailed further actions that would need to be taken to achieve a more effective EU Civil Protection Service while maintaining a decentralised approach. Significant efforts were made to establish the voluntary pooling of resources by participating member states, which then progressed into the launch of rescEU, an additional reserve of assets (medical kits, firefighting helicopters, protective equipment etc.), purchased and managed by member states, but fully funded by the EU.

However, with devastating wildfires hitting EU countries last summer, the Covid-19 pandemic and the conflict in Ukraine, the threat landscape is evolving. Moreover, additional challenges are emerging, including events usually considered less likely. The Russian invasion of Ukraine has acted as a wake-up call about the threat of nuclear weapons and has also shed light on the risk of the deliberate dissemination of other hazardous materials in populated areas. Both elements have led to calls for dedicated civil defence measures. In addition, hybrid-warfare techniques add to the threat landscape, with a variety of actions able to exploit a state's vulnerabilities at all levels of society, including its institutions and infrastructure, with the aim of causing disruption to vital services and critical entities.

To fully address unprecedented emergencies, a more effective EU Civil Protection Service should take a comprehensive approach that prepares for evolving crisis scenarios, is strategically positioned across EU territory and is easily interoperable. Anticipated scenarios should include low-probability events since these—as the pandemic has shown—can have the highest impact on society and demand a rapid deployment of resources. As suggested in Barnier's report, the additional pooling of voluntary resources by member states could be enabled as a reinforced layer of protection. Furthermore, EU action in civil protection could benefit from existing resources, by offering dedicated follow-up on the outcomes of EU-supported projects. Coordination and alignment with other existing crisis-management initiatives could also be enhanced. A more effective system should also take a whole-of-society approach to resilience, empowering all actors, private and public, to act to ensure a state's security. This approach could be effective given that hybrid-warfare techniques have the potential to hit all elements of society and cause cascading effects. Among the measures for ensuring resilient systems and communities, clear communication strategies at the institutional level, risk and vulnerability assessments of critical entities, and information and awareness campaigns are key to empowering all actors with the tools to contribute to security.

	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 'high-impact–low-probability' 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 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 EU Civil Protection Mechanism, 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.

Designing a European Military Model

Michael Benhamou

Now that threats and military budgets are on the rise, Europeans are faced with a new and urgent question: what kind of defence model do they want? And on the basis of which doctrines? In other words, how do they want their defence to be conducted at the tactical, operational and strategic levels?

This European model should provide additional insights into the way European armies define their targeting procedures against adversaries; distribute tasks among willing nations before a fight; structure the chain of command between air, land and sea components; or integrate new technologies such as AI into decision-making processes.

At present, it is NATO that is doing this conceptual work on defence, and rightfully so. This organisation has gained expertise from the recent Balkan and post-9/11 conflicts; it possesses a framework of lessons learned, principles, practices and procedures that allow for clear and fluid management of military units on the ground.

Yet the US has been reducing its European commitment year by year: In the 1990s, 300,000 US troops were stationed in Europe; by 2023, the number was down to 100,000. Europeans need to start thinking now about a European-style military model that can be integrated within NATO systems and later on within a European Defence Union. A European defence model is needed to shape what Europe's force posture will look like in 2030, and to prepare for all warfare scenarios that reflect the realities of both our immediate neighbourhood (Russia and the Middle East) and of internal threats (jihadism).

In Brussels, such a doctrinal ramp-up should be led by the European Union Military Staff, a part of the European External Action Service (EEAS), which already has a department dedicated to military doctrines and concepts. This work should be carried out in coordination with the European Security and Defence College and, of course, in close partnership with the relevant branches and members of NATO. Partnership with NATO will be essential, as there is a great need for interoperability in military matters, i.e. mutual standards and regular exercises.

Finally, the European Parliament (EP) should oversee these efforts and ensure member state buy-in, while also involving the EU's neighbouring partners (UK, Norway, Ukraine, etc.). Coordination with the Court of Justice of the European Union (CJEU) and the European Court of Human Rights will also be essential to ensure that European laws converge with its future military ways.

	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 tasked to detect weak signals before, if relevant, planning the launch of a military operation.	Define the coordination and capability trade-offs between air, land and naval components for all scenarios: permissive to non-permissive. That assessment should be based on Europe's current wars and threats in its East and in its South.	Establish a European concept for the use of all sources of energy (oil, gas and renewables) and modes of transportation (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 EP, the CJEU and the ECHR.	Establish European manoeuvre guidelines (defence versus offence, attrition, centre of gravity definition, etc.) for air, navy, 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.

Reform of the EU's Military Operations

Alessandro Marrone

EU military operations have so far focused on crisis management, training and capacity building in non-hostile operational environments in Africa, the Middle East and the EU's eastern neighbourhood. As instability in these regions increases, and with NATO almost exclusively focused on collective defence against Russia and the US prioritising the Indo-Pacific, the EU will have to protect those European interests that are at stake via more effective military power projection. At the same time, reforming the EU's military operations will help strengthen the European pillar in the North Atlantic Alliance and benefit NATO–EU cooperation by improving the ability of EU militaries to use combat capabilities in high-intensity operations in hostile environments.

Operational theatres in Africa and the Middle East present a far less permissive environment than in the past, and risks are also arising in the Indo-Pacific. From Libya to Yemen, in the Sahel and the Middle East, both state and non-state actors can deploy capabilities that would challenge European militaries. In the naval domain, militias and transnational criminal organisations pose serious military challenges in the Red Sea, Gulf of Aden and Gulf of Guinea. The direct military involvement of regional powers should also be taken into account by EU operations, as a local conflict could well escalate to a regional one. And nor can the stability of a host nation government be taken for granted, as the series of coups in the Sahel has demonstrated. Such increasingly hostile environments will likely coexist alongside both security and defence capacity-building missions in more permissive theatres and the establishment of a range of military partnerships.

Reforms of EU operations should maintain the expertise developed so far while evolving to cope with increased threats on the ground, at sea and in the air. That is to say, operations should ensure a higher level of force and base protection, the freedom of manoeuvre and air superiority, actionable special forces capabilities, the use of strategic enablers, the provision of reinforcements and escalation management. EU operations will also need to be ready for rapid, large evacuations if necessary. At sea, fleets deployed by Europe will have to be fit for naval combat and escalation dominance.

Progress should be made in two ways. First, the EU needs to fully implement the commitments already made in its various frameworks, including the Strategic Compass, PESCO and the European Peace Facility. Second, further steps should be taken to make the EU's military toolbox more effective and to appeal to those member states that are willing and able to act to protect shared interests and security. This approach will involve three actions: establishing a proper EU military headquarters (HQ), providing sustainable forces and capabilities, and ensuring wider support for European military operations.

	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 Common Security and Defence Policy 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 European Peace Facility 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 Common Security and Defence Policy operations, executive and non-executive, from the national level to the EU MPCC-HQ level.	Implement the Rapid Deployable Capacity 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 Battle Groups 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.

EU Institutional Reform in Defence

Steven Blockmans

Russia's full-scale war against Ukraine has led EU member states to update their threat perception and increase defence spending. It has made most of them realise that their security is best guaranteed by membership of both NATO and the EU, working together. Finland and Sweden have decided to join NATO. The Alliance is no fail-safe solution for common defence though. It may well fall victim to the nihilism of a second Trump presidency and/or the tactics of a 'multi-vector' strategist, such as Turkey's President Erdoğan. Denmark, already an Alliance member, has scrapped its opt-out from the EU's Common Security and Defence Policy and subscribed to larger political commitments in defence by joining PESCO capability-building projects. Battle-hardened Ukraine has embarked on its gradual integration in the EU, including in defence. For the time being, however, NATO membership remains off-limits, also for Moldova and Georgia.

While EU 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. It is fair to say that 'market' forces (including new wars on the EU's borders) are insufficient to lead the EU to achieve the aims laid down in the Strategic Compass. In short, Europe has a collective action problem.

Jean Monnet once said, 'Nothing is possible without men; nothing is lasting without institutions.' Without an integrated architecture, the risk is that European lethargy in defence will continue. Indeed, 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 member states. To be sure, 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. But they may help in making strategies and defence planning more cohesive, achieving economies of scale and stimulating specialisation.

As regards the European Council, there is a disconnect between what member state leaders declare in the Council and execution at the level of defence ministries. Defence ministerials are irregular and follow-up by the high representative, supported by the EEAS, insufficient. The intergovernmental nature of defence decision-making often sidelines the Commission and EP, hindering their ability to drive cohesive defence policies and boost democratic legitimacy. With the introduction of DG DEFIS, the Commission's role in defence has increased, but it is still constrained by its focus on economic matters, creating a gap in expertise and authority. This problem with authority is a matter of widespread concern, notably among the defence ministries of the larger member states. These same ministries are also concerned that a similar problem applies to the EDA in its relationship to the Organisation for Joint Armament Cooperation and that, as a result, the swift execution of joint defence initiatives is impeded. With its Sub-Committee on Security and Defence (SEDE), the EP lacks direct control over defence policy and budgetary decisions, limiting its influence in shaping a coherent strategy. At the level of force deployment, the lack of a real European HQ and a military academy is hindering rapid and coordinated responses to security challenges (see Chapter 8).

	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 Defence Cooperation 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 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 Common Foreign and Security Policy and chair the Defence Council, in close cooperation with the new Commissioner. Economic security and hard security would need to be blended better, 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 specialised command centres for cyber, space, maritime and so on.	Within the EEAS, SECDEFPOL is the logical counterpart for the DG Defence Cooperation 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.

Why Europe Needs a Nuclear Deterrent

Adérito Vicente

The increasingly complex and uncertain security environment in Europe today has prompted a re-evaluation of the role of nuclear weapons on the continent. Factors such as Vladimir Putin's unprovoked invasion of Ukraine, the ascent of revisionist powers such as Russia and China, and the unpredictability of US politics all underscore the urgency of the need for the EU to cultivate its own nuclear option.

Most European countries currently rely on the NATO nuclear umbrella for collective defence, primarily under the leadership of the US. A few, such as France, continue to address nuclear issues on a strictly national basis. While this arrangement has historically provided security guarantees, the changing dynamics of the current environment demand a serious discussion on Europe's imperative to establish its own nuclear deterrent. 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. The second is that the unpredictable nature of US politics, as witnessed in former President Trump's rhetoric, is raising doubts about the US's enduring commitment to European security.

The absence of an independent European nuclear deterrent capability renders the continent vulnerable, compromising its autonomy in critical security matters. Therefore, recognising that US security guarantees alone may prove insufficient, European decision-makers must prioritise the resolution of this issue to ensure timely and effective responses to emerging nuclear threats.

To advance a stronger European defence policy and establish a common, credible and feasible nuclear deterrent, strategic collaboration is essential. First and foremost, creating such a deterrent among the European nations demands open dialogue to address the diverse national interests and sovereignty concerns. The process will require the alignment of collective security needs and the fostering of greater political cohesion among the participating states, elements indispensable to crafting a common nuclear deterrence strategy and policy that can effectively address scenarios where the US commitment is uncertain. Second, the credibility of the deterrent force rests upon its ability to dissuade potential adversaries, particularly Russia. Third, feasibility demands that unrealistic proposals be discarded while pragmatic scenarios are pursued. This necessitates constructive dialogue and cooperation among the parties involved, including NATO and EU members, and even extending beyond the formal EU framework.

A European-led nuclear deterrent represents a path towards enhanced strategic autonomy amidst the dynamic global security landscape and underscores the importance of independent security decision-making. Such an initiative would reduce Europe's near-exclusive reliance on US and NATO nuclear extended deterrence for collective defence and security. Furthermore, it could serve as a valuable complement to NATO's deterrence efforts, contributing to the development of a stronger partnership of equals between the US and Europe. This dual role would not only fortify Europe's defence capabilities but also foster a more equitable and interconnected security architecture in the Euro-Atlantic region.

	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 European nations 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. This should be done as soon as possible.	Outline the specific threats to be deterred, the parameters of the deterrence posture and the conditions under which nuclear weapons hypothetically would be used, which encompass target selection and communication protocols.	Draw upon existing European capabilities. Establish a European-led nuclear deterrent that involves the transfer, acquisition or development of nuclear warheads and delivery systems.
Project 2	Conduct a comprehensive intergovernmental feasibility study on establishing a European nuclear deterrent. This comprehensive feasibility study should be conducted within a year.	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 with NATO's overall collective defence strategy. Ensure that Europe's deterrent policy, including the development of cooperation mechanisms with non-NATO European states, complements and reinforces NATO's deterrence posture.	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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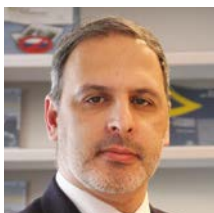
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▶ **Democracy**

Table of Abbreviations

CJEU	Court of Justice of the European Union
CoR	European Committee of the Regions
EESC	European Economic and Social Committee
EP	European Parliament
REFIT	The Regulatory Fitness and Performance Programme
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union

Introduction

Klaus Welle and Federico Ottavio 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 (EP) in 1979, the EU's democratic system has developed hugely too: by increasing transparency, empowering the EP, 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 EP 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.

The European Parliament

Anthony Teasdale

The EP is the only directly elected transnational legislative body in the world. Chosen by the public every five years in direct elections held simultaneously in the 27 EU member states, it is currently made up of 605 members (rising to 620 in July 2024) from over 200 individual national political parties, who come together to form seven political groups of differing ideological persuasions. The EP has seen its formal powers and political role grow rapidly in recent decades. Through successive EU treaty changes, introduced mainly between 1987 and 2009, the EP has progressively become a joint legislature with the Council of Ministers in most EU policy areas—other than, notably, foreign policy, security and defence—whilst also being the Union’s joint budgetary authority and the central forum in which the European Commission, the Union’s lead executive body, is held to account. The Commission president and his or her ‘college’ of 26 other commissioners, although nominated by the member states collectively, can only enter office with the explicit approval of the EP. The EP also has the power, by a super majority, to dismiss the Commission, although this has never happened so far.

The increasing centrality of the EP within EU policymaking requires a constant process of institutional updating and improvement, building on the significant progress made over the last 15 years at both the political and the administrative levels. Further reforms recommend themselves in at least three broad areas. First, action could be taken to increase the clarity and visibility of both the EP and the five-yearly elections to it, with a view to reflecting and underlining their importance as central vehicles for democratic expression and choice within the EU system. Among the ways this could be achieved are (1) clarifying and codifying the *Spitzenkandidat* or ‘lead candidate’ process, by which the outcome of EP elections influences the choice of Commission president; (2) introducing transnational lists, in parallel to the existing 27 national electoral processes, for European elections; and (3) holding a formal inauguration ceremony for the incoming president and college of commissioners outside the EP building every fifth year. Second, action could be taken to update the EU legislative process through reforms designed (1) to involve the EP in decisions on ‘Emergency Europe’ crisis spending, (2) to increase the openness of trilogues in EU law-making, and (3) to give the EP greater opportunities to engage in legislative initiative. Third, action could also be taken to give greater weight in EP committee work to the policy cycle and policy context, to help promote more coherent, resilient and forward-looking law-making within the EU system. Key to this would be mainstreaming greater discussion of (1) *ex ante* impact assessment, *ex post* evaluation and European added value; (2) risks to, and the capabilities and resilience of, the Union as a system; and (3) global trends and strategic foresight. Discussion in the latter case should include serious consideration of the potential creation of an EP Committee for the Future.

	Programme 1	Programme 2	Programme 3
	Increasing the clarity and visibility of the EP and its 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 <i>Spitzenkandidat</i> 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 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 Article 122 TFEU ‘emergency clause’.	Mainstream discussion of <i>ex ante</i> impact assessment, <i>ex post</i> evaluation and European added value in the routine work of parliamentary committees. Passage of all significant legislation should start with meaningful sessions on these policy cycle issues.
Project 2	Introduce transnational lists, in parallel to the existing 27 national electoral processes, for European elections, to promote a stronger sense of continent-wide political choice. Add European party logos alongside national ones on ballot papers, and conduct EP elections over a single day of voting.	Further open up the trilogue process for negotiating EU law, <i>inter alia</i> , by giving full details of all meetings and amendments at all stages of the co-decision procedure. Publish EP successes in shaping final outcomes quickly and in detail.	Mainstream discussion of 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 the 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 of every fifth year, on the Agora Simone Veil, with an oath administered by the president of the CJEU.	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 super majority.	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.

The Council of the EU

Nicolai Von Ondarza

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 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. Looking ahead to the challenges facing the EU in the next institutional cycle, reforms to three crucial aspects of the Council could help to streamline the EU's institutional capacity to act. All of these reforms can be implemented without treaty change.

The first challenge relates to getting the EU institutions ready for enlargement whilst strengthening the Union's capacity to act. By its nature, the Council will be particularly affected. The Council and its working groups have already been transformed from small gatherings to huge sessions of 27 countries, with less room for informality and the greater challenge of finding unanimity among 27. This calls for a wide extension of qualified-majority voting via the passerelle clause wherever possible, albeit with a mechanism to protect vital national interests in critical decisions. The Council should create a special body under its own auspices to bring together both this reform and the enlargement process itself. This could be modelled after the 'A50 Council' which helped to foster unity in the EU through the Brexit process, including close coordination with the Commission and the Parliament.

The second major task is strengthening democracy. 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 Council's working methods into those of a second chamber whenever it acts in a legislative capacity together with the EP. This includes enhancing transparency on Council votes and negotiated amendments to increase accountability. The negotiations themselves should retain the necessary confidentiality. The Council Presidency remains crucial for national ownership and strengthening of the link between the national and the European level. With enlargement on the horizon, it should be turned into a 'quintet' of five presidencies, planning longer legislative agendas. It could also be linked to regular citizens' assemblies in the country of the Presidency, bringing together randomly selected citizens from across the EU.

Third, the Council should become a strategic driver for security and defence policy. Alongside the creation of a commissioner for defence, a Council formation for defence ministers and the streamlining of EU external relations are needed. The Council could also provide a hub to link the EU's new initiatives in security and defence with those of close allies such as the UK, Norway and candidate countries who align with EU foreign policy, which could take part in the new Defence Council if they meet certain conditions.

	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 qualified-majority voting in the Council—albeit balanced with a ‘sovereignty safety net’ in particular in sovereignty-sensitive policy areas.	Turn the Council into a second chamber for legislative votes.	Create a separate ‘Council for defence’, prepared by the Political and Security Committee and aligning 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 EU 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, including 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. For 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.

European Political Parties

Wouter Wolfs

EU democracy needs stronger European political parties. This chapter proposes three programmes to strengthen their role. The first aims to create a *stable regulatory environment* that allows Europarties to develop into strong extra-parliamentary organisations. It comprises three projects. First, the ratification process of the latest proposal amending the EU Electoral Law needs to be completed to end the existing legal uncertainty. Second, a simplified registration procedure would make it easier to gain official recognition, strengthening participation and political pluralism and creating a political level playing field. A lower registration threshold could be combined with a higher threshold for funding. Third, the current rules on expenditure are too rigid. They should be reformed to make it easier to finance weaker members, run campaigns outside EP elections and collaborate with national parties.

The second programme focuses on *bridging the gap with European citizens* by turning the Europarties into genuinely representative entities. The projects for this programme are the following. First, a clearer and more detailed description of European political parties as the main organisations providing democratic linkage at the EU level. That is, clarification is required as to what their core democratic functions are and how these differ from the role of the EP groups and national parties. Second, Europarties should be given more opportunities to engage non-EU parties in their day-to-day functioning, among others, by collecting membership fees. Especially for parties in the EU's neighbouring countries, Europarties play an important democracy-building role. Third, there should be more opportunities to involve individual members of the national parties and other citizens in the Europarties, for example by making (part of) their funding dependent on the number of individual members or by introducing citizen support as an alternative to parliamentary support to gain official recognition.

Finally, the third programme aims to *raise the electoral stakes* by giving Europarties the means to operate as genuine campaign organisations. It comprises the following projects. First, simplifying the electoral regulatory environment. The existing plethora of different national rules substantially complicates the development of a consistent EU-wide campaign. Second, introducing measures to raise the Europarties' visibility by displaying their names and logos on the electoral ballots and on the campaign materials of national parties. Third, a separate campaign grant (which should not be tied to a co-financing principle) in addition to the existing operating grant could provide Europarties with sufficient financial resources to conduct an electoral campaign.

	Programme 1	Programme 2	Programme 3
	Creating a stable regulatory environment and positioning European political parties as strong extra-parliamentary organisations	Bridging the gap with the people of Europe by making European political parties the representatives of European citizens	Raising the electoral stakes by allowing European political parties to act as campaign organisations
Project 1	Ratify the latest proposal amending EU electoral law.	Define and empower European political parties as the core democratic link organisations in EU democracy.	Harmonise national electoral and campaign finance laws, including those governing the common closing of polls, electoral periods, and 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 European party name and logo on electoral ballots and national party campaign materials).
Project 3	Reform party financing and spending rules to allow more funding, and more leeway to finance weaker members and run campaigns outside EP elections, on non-EU issues and at all levels.	Provide a (financial) incentive to European political parties to enlarge and engage their individual membership bases.	Introduce a separate campaign grant to provide European political parties with the required resources to conduct an electoral campaign.

National Democratic Institutions

Adriaan Schout

A strong Europe is built on strong member states. The EU is confronted with thorny challenges that require collective answers in areas that have so far been either politically sensitive or regarded as national prerogatives. Previous Commission presidents have underlined that ‘the EU must deliver’. This is partly true, but equally important are the member states and their capacities to deliver.

Debates about the future of the EU have tended to forget the national requirements and the distribution of roles between the EU institutions and the national administrations. As problems with enforcement have shown, the EU is a multilevel network system in which the weakest links can affect the legitimacy of the Union. Management deficits in EU networks have hampered, among other things, the functioning of the rule of law, the Economic and Monetary Union, and the effectiveness and accountability of the EU budget. The list of relevant national institutions that determine national competitiveness and the legitimacy of the EU as a whole is long (from legal systems to independent monitoring and enforcement mechanisms, from educational institutions to effective public administrations able to spend public funds). The quality of public-sector institutions is key to national ownership, economic convergence and mutual respect among member states.

‘Good governance’ has a long tradition in the EU. However, political interest in the subject has faded, and it is essentially considered only in relation to modernising the Commission. In fact, the EU Treaties largely shield national institutions from EU scrutiny. Arguably, some of the achievements of the good governance agenda have been reversed or forgotten. Given the fresh demands on EU spending, frustrations with enforcement and over national ownership, and preparations for enlargement, the next Commission cannot avoid ensuring the legitimacy of the EU’s multilevel administrative systems. Similarly, the recent political focus on the impact of legislation calls for a reassessment of harmonisation ambitions and the reliability of impact assessments. Politicians may prefer concrete policies over governance, but as Monnet was well aware, ‘nothing lasts without institutions’.

The table identifies three interlinked programmes: a reconsideration of good governance for the 2020s, enforcement as key to the sustainable legitimacy of the EU and multilevel institutional innovation. One underlying question relates to the nature of politics. Politicians like to discuss policies—they are much less interested in the quality of administrations. Yet, to remain legitimate in terms of delivery, how should the quality of European and national polities be safeguarded? A second fundamental question concerns the role of the European Commission if the EU is understood as a multilevel network-based system of governance.

	Programme 1	Programme 2	Programme 3
	Reconsidering good governance	Monitoring and enforcement	Innovating the institutions
Project 1	Sharpen the wording of the EU Treaties concerning the obligations of national administrations. The standards of good governance should also apply to the member states, for two reasons: (1) member states need to be sound in themselves and (2) good governance in the EU will fail if it is not grounded at the national level.	Enforce all areas of EU policymaking effectively. This is crucial for the Union's legitimacy. Lessons need to be drawn from policy areas that have been successful and from those that have not. Examples of complex and politically sensitive areas where the EU has excelled include monitoring the state of the environment and competition policy. Less successful areas have been the Economic and Monetary Union, the rule of law and budgets.	Modernise the European Commission, taking into account the current challenges and recent developments. The credibility of the Commission has to be beyond doubt. Overly ambitious targets and a risk of overregulation point to questions related to policymaking, the choice of instruments and attention for actual outputs.
Project 2	Define the essential national requirements for successful European integration in each EU policy area. Determine the added value of the role of the European Commission vis-à-vis national administrations in EU areas.	Regularly assess the quality of national enforcement systems in all relevant policy areas. The requirements of enforcement include independence, transparency, and a distinction between first-line and second-line controls.	Proactively provide more information on EU policies and implementation. Policies should be oriented towards more feasible objectives, and more attention should be paid to national enforcement. National ownership depends on the scrutiny of EU policies by the national parliaments.
Project 3	The Commission should retake the lead regarding good governance. This requires a reorganisation of its Secretariat-General, which has increasingly acquired a political status. Good governance was a European priority in the 2000s. This agenda has slipped, and politicisation has taken over at the expense of transparency and the usefulness and reliability of impact assessments.	Reconsider the role of EU agencies and their relationship with the national networks and the Commission. The politics of EU agencies has been largely—and dangerously—underestimated.	Make national supreme auditing institutions active in scrutinising EU policies at the national level (including scrutinising national expenditures of EU funds).

Subsidiarity

Federico Ottavio Reho

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 the EU acquires, therefore, the more important the strong protection of subsidiarity becomes to ensure that they are exercised as close as possible to the citizens and without encroaching upon the prerogatives of the lower levels. In other words, empowering the EU and strengthening subsidiarity are two sides of the same coin and have historically progressed together.

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), which deal with the definition of the principle, the role of national parliaments in its enforcement, and the application of subsidiarity and proportionality respectively. 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. Multiple and complex reasons account for this, including the fact that, while in force since 1992, the subsidiarity principle has never acquired any justiciable content. This 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—the fact that its treaties have been turned into a *de facto* constitution by the case law of the ECJ means that European constitutional law is full of provisions that, in any regular polity, would be governed by so-called ordinary law. For example, the constitutionalised goal of establishing a common market provided a legal basis that could be used to generally undermine the competences of member states, as every national norm could be construed as an impediment. 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. To overcome some of these difficulties, actions to reinforce the protection of subsidiarity are suggested on three fronts: the legal definition of subsidiarity and its justiciability, the institutional protection of subsidiarity and the political protection of subsidiarity. Measures range from relatively simple initiatives that would not require a treaty change to more transformative interventions that would.

	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. Encourage the Council working groups responsible for these matters to systematically assess whether the Commission's proposals comply with the principles of subsidiarity and proportionality.
Project 2	Establish a new constituent court of the ECJ that is specialised in actions against alleged violations of the principles of subsidiarity and proportionality, and is 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 choose 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' principle.
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 REFIT programme and Fit for Future platform), as well as the role of the EESC (horizontal subsidiarity).	Reject on strict constitutional grounds initiatives, whether binding or not, of any EU institutions that seem to exceed EU competences and violate a rigorous application of subsidiarity, refusing to discuss their substantive merits (e.g. initiatives on, or touching upon, controversial moral disagreements).

EU Enlargement

Nikolaos Tzifakis

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, the accession of new members has propelled the EU to reform its institutions and extend its integration into new policy areas (e.g. cohesion policy). Managing the current poly-crisis requires the EU to, once again, move forward decisively with both dimensions of European integration. The containment of Russian aggressive revisionism renders the acceleration of the EU accession of all countries in the continent that share European norms and values a matter of strategic priority. The prospect of integrating several new member states compels the EU to seriously reflect on the efficiency of its institutions and procedures. This concerns reforms that are long overdue, such as reducing the size of the Commission and addressing the issue areas where decisions are taken by unanimity. The postponement of these reforms has put the enlargement policy on hold for some time. It has also shaken the interested countries' belief in their prospects for membership of the EU. Reforming EU institutions (deepening) and preparing (potential) candidate countries for EU accession (widening) are two processes that should run in parallel, not one at the expense of the other.

The EU enlargement policy has not worked effectively for at least the last decade. All the Western Balkan countries have witnessed democratic backsliding while claiming to be working to prepare for EU accession. The EU has used conditionality inconsistently on several occasions. In some cases, the EU has failed to reward progress owing to the tendency of member states to use the enlargement policy as a vehicle for projecting their national preferences. On other occasions (potential) candidate countries have been allowed to advance on the accession path (e.g. through the opening of negotiations on chapters of the *acquis*) despite their poor track record in implementing reforms. While the EU has established tools to sanction stagnation in reform efforts (e.g. the 'balance clause' in fundamentals, and process reversibility), it has never employed them. The EU should learn 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. Pre-accession financial assistance has not brought about any economic convergence between the EU27 and the Western Balkans. It is insufficient in size and does not follow the methodology and logic of the EU Structural and Investment Funds. 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 EU budget and the Union's financial instruments for supporting (potential) candidate countries.

	Programme 1	Programme 2	Programme 3
	Reforming EU institutions, procedures and instruments in preparation for the accession of new member states	Increasing the efficiency of the EU enlargement policy to accelerate the process	Restoring the credibility of EU accession conditionality
Project 1	Review the rules that determine the composition of the EP 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 the opening and closing of negotiations in different chapters/clusters. Unanimity should remain the requirement at all the decisive stages: accepting an application, granting candidate status and concluding negotiations.	Adopt a European Council declaration which states unequivocally that the accession of new member states is not conditional on the completion of internal EU reforms. If candidate countries were ready to accede before the reform of EU institutions is completed, a series of transitional derogations would be introduced in those countries' accession treaties. These might concern areas such as the right to veto decisions taken with unanimity and 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 reviews of the interested countries' rule of law sectors. These reviews, conducted by groups of independent analysts, would 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 would inform accession negotiations.	Introduce tangible interim rewards for interested countries registering progress in the accession process. These could include: access to EU Structural and Investment Funds; periodic participation as observers in sessions of Council meetings (discussing issues in chapters/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 the 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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▶ Demography

Introduction

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 to 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 a stable job allows those who wish to have children to choose to do so.

Health care, affordable housing and life-long 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.

In 2023, the Martens Centre published its *7Ds for Sustainability* strategy document. This text comprised 175 proposals for the next legislature to future-proof EU policy in the areas of debt, decarbonisation, defence, democracy, demography, de-risking globalisation and digitalisation. Sustainability was chosen as the guiding principle to ensure that the policies reconcile the needs of both the present and the future, and systematically include the interests of the next generations.

The *7Ds* document has already inspired reflection on what to do over the next five years, the discussions being based on Christian Democrat and conservative thinking and the available in-house expertise of the Martens Centre. For the next phase of intense discussions about the programme to be implemented during the 2024–9 legislature, the Martens Centre has invited renowned external experts to put forward their own, more extensive proposals based on the original document, thereby deepening the available expertise. It is hoped that these proposals, published at the beginning of April 2024, will help to clarify the way forward at a critical juncture, when the European Parliament, the European Commission and the European Council are negotiating on and finalising their strategic priorities.

Forging a Productive and Child-Friendly Society

Daniela Vono de Vilhena

To forge productive and child-friendly societies, steps need to be taken to ensure that young people have stable and independent lives at an early age. Governments should provide public services and infrastructure that help the working-age population to thrive; and authorities should invest in human capital from pre-school age onwards.

First, in recent decades the transition to adulthood has been taking substantially longer in many European countries. It is crucial to ensure that this transition takes place effectively, not only to increase the number of people in the labour force, which is vital in ageing societies, but also to improve individual well-being and to allow those who wish to have children sufficient time and financial stability to pursue this goal.

Second, the appropriate public services and infrastructure are necessary for the working-age population to thrive. Here, promoting gender equality is essential. It is well known that girls outperform boys in school and that, among the younger generations, women outnumber men in tertiary education. However, women's educational attainment does not translate into equal employment opportunities and working conditions, especially when they become mothers. To address this issue, regulations to guarantee gender equality in the workplace are necessary. It is also important to promote work–life balance, the use of parental leave by fathers, and the greater involvement of men in care and family life. In addition, to ensure that families have adequate, stable incomes, governments need to provide universal child benefits and to increase financial support. And to promote the well-being and productivity of the whole population, investment in health care needs to be increased and access to housing has to be improved.

Finally, what happens early in life has a direct impact on how individuals perform in adulthood, and school performance is a strong determinant of individuals' future working lives. Accordingly, to ensure a productive and child-friendly society in the long term, it is necessary to increase and improve investment in human capital. Three areas deserve particular attention. (1) There is ample evidence of the importance of high-quality preschool education for a child's development, yet in Europe the infrastructure is often inadequate, and there are problems with access to and the quality of services. (2) Early school leaving is a real problem, as is the number of young people who are not in school, employment or training. Education systems need to become more equitable and effective. Supporting under-resourced pupils and disadvantaged schools, raising the minimum age for leaving school, and promoting social and emotional learning in school are solid steps in this direction. (3) The levels of achievement of children from lower social backgrounds could be improved substantially by reducing the long school holidays and ensuring that educational activities are carried out within school hours.

	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 by, for example, 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 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 leaving school to when pupils earn a secondary-level qualification. Moreover, social and emotional learning should also be promoted.
Project 3	Encourage hybrid and flexible forms of employment and entrepreneurship without compromising on job stability and security.	Invest in health care 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.

Increasing the Labour Participation of Women

Anna Matysiak and Anna Kurowska

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 under-represented 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 used, 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 actively foster women's economic activity and address gender disparities within the labour market. Comprehensive policy interventions are needed.

First, the unequal division of unpaid work, particularly caregiving, limits women's ability to participate fully in paid employment. Redistributing care responsibilities among parents, the welfare state and employers is essential. Care should no longer fall solely to women but be shared equally between women and men. Additionally, the support of the state and employers is needed. 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. European states must ensure access to full-time, affordable and flexible childcare and elderly care. Moreover, employers should facilitate work–life balance by offering employee-oriented flexible working arrangements on equal terms with standard work arrangements. Both the state and employers must guarantee equal access to care-related leave, including equal compensation, for both women and men.

Second, increasing the participation of women in the labour force requires equal career opportunities for women and men. To this end it is pivotal to reduce gender segregation in occupations, particularly by encouraging women's entry into science and technology and men's uptake of traditionally female-dominated jobs. Such actions should diminish gender differences in pay gaps in the long run. Furthermore, efforts are needed to ensure equal pay for women and men in equivalent positions and to increase the representation of women in management. Such measures will not only improve women's career prospects but also create a more inclusive organisational culture and enhance productivity through higher diversity.

Third, 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 meet 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. Furthermore, 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 mid-career stages, given women's susceptibility to skill depreciation due to care-related career breaks and their higher prevalence in positions exposed to 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	Making it easier for women to remain active in the labour market longer
Project 1	Foster men's involvement in areas such as child and elderly care by ensuring that both men and women have access to care-related leave with equal compensation and by promoting men's participation 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 include menstruation and menopause.
Project 2	Develop full-time, flexible, high-quality and affordable child and elderly care.	Increase the share of women in managerial positions by ensuring that promotion processes are transparent and that working conditions in such positions are conducive to achieving a work-life balance.	Facilitate access to preventive health care 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.	Guarantee equal pay for women and men in equivalent positions by ensuring that pay practices are transparent in all EU member states.	Develop skill enhancement programmes tailored to women in the middle stages of their careers, enabling them to adapt to rapid technological changes in the labour market.

Boosting the Participation of Both Young and Older People

Arnstein Aassve

Populations in Europe are ageing because, combined with low fertility, individuals are living longer, healthier lives. Our systems need to adapt to facilitate longer working lives, increase labour force participation and improve people's digital skills.

Apart from the unpopular but necessary step of raising the retirement age, one strategy to deal with the challenges of ageing is to develop flexible retirement schemes. This means maintaining a statutory retirement age, at which individuals are entitled to retire if they so choose, while also introducing flexibility for those who wish to work longer. Those who have physically and mentally demanding jobs may wish to retire at the guaranteed retirement age, while others may be equipped and motivated to work for several more years. In addition, the current educational system predominantly focuses on the education of the young, aiming to prepare them for a profession or occupation where they can contribute to the productivity and economic prosperity of the nation state. However, with rapid technological changes, as evidenced by the onset of artificial intelligence, labour markets are transforming quickly. This requires the modernisation of education, including as a means to encourage people to work longer.

Increasing labour force participation through education and training is another imperative. The ageing of the population will lead to a significant increase in the number of people entering retirement. Consequently, there is a need to expand the caring workforce, which entails improving the educational infrastructure for these professionals. However, many individuals, especially those from immigrant backgrounds, are excluded from this field, often because their training in their original country is not identical to what is required in the EU. There is an important need to make it easier for the immigrant population to participate in this growing profession; the standardisation and harmonisation of such training schemes would help. There are also variations across the educational systems among the EU member states. Some are oriented towards fostering less individual competition (e.g. Finland), while others take a more elitist approach (e.g. Italy). The phenomenon of school dropouts is more prevalent in countries with elitist educational systems. However, in an ageing society, it is crucial to prevent young people's exclusion from education, employment and training.

Finally, with the ever-increasing pace of technological change, digital channels have become the standard way for people to interact with banking, the public sector and private services. Our educational systems need revising to integrate digital technologies into schools alongside more traditional subjects. It is equally true that the actors involved in the process of digitisation have not prioritised user-friendliness. In the public sector, bureaucratic regulations impose overly complicated procedures that older citizens—who were not exposed to digital technology during their own education—struggle to navigate. There are stark differences across European countries. For example, the UK has made commendable efforts to make digital access easier.

	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. In Norway, for example, there is a general consensus to increase the retirement age to 72, albeit with important elements of flexibility.	Expand and facilitate training in care-related occupations, in particular for those with immigrant backgrounds. EU institutions could play a role in establishing educational or training standards that would lead to an EU certification. This would help to open up access to professions that in some cases are overprotected by national regulations.	Expand training and education to improve citizens' digital competences and their preparedness for the digital age.
Project 2	Develop flexible retirement schemes. Offer a choice not only of the number of additional years worked but also as to whether those years are taken as part-time work. Such a system may require collaboration between the private sector and the state.	Reform educational systems to address youth unemployment and to reduce the share of young people who leave school without basic skills. This means changing long-standing school systems, thereby making education more inclusive.	Simplify digital services in the public sector and make them more accessible and user-friendly, particularly for older people. Older people should not be dependent on younger family members for assistance.
Project 3	Expand schooling and retraining for the older strata of the population. Universities should enable individuals in their 40s, 50s and 60s to re-enter education and gain new qualifications, so as to ensure longer and more meaningful working lives.	Reform education to respond to the technological developments that are leading to jobs, professions and occupations changing or disappearing. The modern educational system needs to provide opportunities both to upgrade one's education and to 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 competences of the older generations.

Leveraging the Potential of Migrants and Diasporas

Rainer Münz

Europe is facing a demographically induced shortage of labour and skills. This demographic and labour deficit can be addressed by (1) a substantial rise in the retirement age (ideally by linking it to increasing life expectancy, as in Finland and Sweden); (2) higher labour force participation among migrants from non-EU countries in general and female migrants in particular; and (3) the admission of foreign labour and skills.

‘Importing’ foreign labour is the quickest ‘remedy’ if these migrants expediently integrate into European labour markets. It is also important to activate the segments of European society that have low labour force participation rates. While 75% of EU-born people are working, less than two-thirds of non-EU-born residents are employed. The gap is particularly visible among women: only 50% of non-EU-born women residing in the EU are in work, compared to 75% of women born in the bloc. And despite skills shortages in the EU27, more than a third of all working migrants are employed below their skill level (resulting in brain waste).

There are various reasons for these unsatisfactory economic and labour market outcomes and several ways to address them. First, during the past 15 years, inflows of non-EU citizens have been dominated by asylum seekers, displaced Ukrainians, dependent family members and marriage migrants. None was selected based on his or her education or skills. Consequently, many migrants arriving via these pathways do not match EU labour market needs. EU countries therefore need to develop migration policies that use employability as a key criterion for admission. This could include a requirement for pre-departure enrolment in language classes or targeted upskilling for marriage and family migrants.

Second, some problems are ‘homemade’. Recognition of skills acquired outside the EU is often cumbersome and inefficient, which contributes to brain waste. The vested interests of natives partly prevent immigrants from competing with them, leading to discrimination. To stay competitive in times of an ageing and declining native workforce, EU countries need to remain or become attractive destinations and to speed up the economic integration of newly arriving migrants. The European Commission should establish a global register for educational attainment and skills equivalency, as well as EU-wide guidelines for skills assessments to support employers and labour market authorities.

Third, low labour force participation among women from certain diasporas is partly the result of the cultural values of their countries of origin, where there is little or no tradition of mothers working in the formal sector of the economy. Targeted measures directed at the female members of these diasporas (i.e. improving literacy and numeracy, skills transferability, language support and health measures), in combination with an expansion of preschool facilities and after-school care (possibly with language learning and homework support), have the potential to foster the socio-economic integration of these women—especially those with children.

	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 support for language learning and homework).

Addressing Depopulation

Tado Jurić

The current migration trends and population distribution in the EU are exacerbating both existing inequalities between Eastern and Western Europe and the economic gap between developed and poorer regions.

Patterns of internal EU migration from the periphery to the core mainly involve young, educated and skilled workers, and families often migrate together. This process produces a ‘geography of discontent’ effect in the countries of departure, encouraging further emigration. The sharp decline in the number of inhabitants is pronounced in the Baltic States and Greece but is most dramatic in Croatia, Bulgaria and Romania. It is important to note that this depopulation is not primarily linked to natural decline but to massive emigration. The policy of drawing a young workforce to the centre of the EU, coupled with corruption in the countries of emigration, is one of the main causes of contemporary migrations from the EU periphery. Alongside this, Spain, France and other EU countries have been experiencing outflows of people from their rural regions due to a lack of infrastructure and services and declining incomes.

For these reasons all EU member states and institutions should work to mitigate the harmful effects of freedom of movement and unfavourable demographic developments in general. Sending and hosting countries and regions should work together. The proposed measures respond to these problems and address policy gaps:

Demographic measures and policy coordination. An EU-level office should be established, tasked with exchanging best practices among the relevant national demographic policy bodies of the EU member states. Generational solidarity could bridge the gap between urban and rural regions, create youth employment and foster a sense of belonging in depopulated areas. Amendments to inheritance laws would have a direct impact on the depopulated regions (because in these regions most property ownership is still in the hands of families).

Labour markets and demographic data. EU countries in the south and east are experiencing outflows of qualified personnel, especially in health care. This also raises the question of the investment in the education of the emigrated workforce. Migrations are extremely difficult to record correctly. This is evidenced by the discrepancies between the records of Eurostat and the national statistical offices, which show variances of between 20% and 80% over the last decade. This is not just an administrative issue: insufficient records result in various abuses of social and other systems. Therefore, we propose a new (supplementary) approach based on digital traces and Big Data.

Revitalising the periphery. Developed regions have always attracted young people, and the phenomenon of ‘escaping from the province’ is an important push factor for youth emigration. Empty areas are susceptible to environmental degradation and illegal migration. However, in the future peripheral areas could appear more attractive due to various threats, such as pandemics, pollution and terrorism. Remote work could repopulate the periphery of the EU. The prerequisite for this is providing the rural regions with broadband Internet, public transport, mobile health care teams and distance education.

	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 measure: 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, with 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 (1) installing broadband Internet throughout the EU, (2) investing in public transportation, (3) introducing mobile health care teams and (4) 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 km ² or with an average annual population decrease of greater than 1%.

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**De-risking
Globalisation**

Table of Abbreviations

AI	Artificial Intelligence
CAI	Comprehensive Agreement on Investment
EDA	European Defence Agency
EUMS	European Union Military Staff
FTA	Free Trade Agreement
IDEA	Inspire, Debate, Engage and Accelerate Action (EU Fellowship Programme on China)
IoT	Internet of Things
NATO/SHAPE	North Atlantic Treaty Organisation/Supreme Headquarters Allied Powers Europe
NSS	National Security Strategy
PESCO	Permanent Structured Cooperation
SME	Small and medium-sized enterprises
TEC	Transatlantic Economic Council
TTTI	Transatlantic Tech and Trade Initiative

Introduction

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 overregulation 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

Roberta N. Haar

With regard to the US, the goal to de-risk globalisation coalesces around three central issues of the transatlantic relationship. The first is a leadership problem, which has bedevilled relations since the Obama administration. More recently, both the traditional leadership role of the US and Europeans' willingness to follow its lead have been undermined by shifting geopolitical landscapes and the emergence of new global challenges, such as the energy crisis in Europe, the rise of authoritarianism, the upsurge of populism, threats related to pandemics, vulnerabilities linked to critical infrastructure, pressures stemming from climate change and a general surge in global violence.

This leads to the second issue: capability. The US is currently focusing on security challenges in the Asia-Pacific region, and some US politicians are advocating isolationism. Moreover, new types of security threats are emerging in the wake of Putin's invasion of Ukraine and the renewed violence in the Middle East.

The third challenge is a solidarity problem. Like the issues already described, it has several sources. The most prominent of these is the growing sense of disillusionment among European leaders and citizens regarding the commitment of the US to the rules-based international order that it built after the Second World War. Certainly, the Trump administration's 'America First' foreign policy and its rejection of multilateralism propelled this disillusionment. However, the Biden administration's attempt to engineer a comparative advantage through its Inflation Reduction Act, its CHIPS and Science Act, and its Infrastructure Investment and Jobs Act has given Europeans the feeling that Biden has pulled the rug out from under his promised 'we're back' multilateral foreign policy—at least when it comes to free trade. Other factors that have undermined transatlantic solidarity include divergent views on how to interact with China, how to address climate change and (during the Trump years, in any event) how to deal with Iran. Domestic factors on both sides of the Atlantic, such as the increasing political polarisation, are creating pressures that make it still more difficult to pursue a common transatlantic foreign policy agenda on de-risking globalisation.

	Programme 1	Programme 2	Programme 3
	Strengthening the 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 and maintain a strong strategic partnership to sustain global inclusive institutions such as the G20, the WTO and the UN.	Do not play into the new isolationists' campaign narrative in the US by failing to invest in national security and defence plans, in digital infrastructure, and in strategic capabilities and technologies. Adopt 'total defence' models that emphasise defence preparedness and civil defence.	Focus on the competitive but also cooperative element of the transatlantic economic relationship by cultivating trust and transparency, and developing a cooperative relationship via the TEC, the TTTI and current negotiations on a critical minerals agreement.
Project 2	Develop a European grand strategy within the transatlantic partnership. It should be built on the premise of shared global governance and a complementarity with the grand strategy of the US as specified in the US NSS.	Invest in the means to meet new types of security threats, such as the vulnerability of global supply-chain systems, of energy security, and of critical infrastructure, such as smart electrical grids. Coordinate EU investments with the US through the EU–US Task Force on Energy Security and the EU Global Gateway.	Renew the EU's commitment to diplomacy and invest in soft-power initiatives such as cultural exchanges (e.g. Youth in Action, and 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. Reminding publics on both sides of the Atlantic of the importance of their partnership and the global governance system could build solidarity.
Project 3	Embrace a more prominent role in promoting values globally, with a focus on values 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 of rectifying fragmentation in the intra-European context. Invest in enhancing the cooperative development of strategic technologies and infrastructure, in green technologies and in harnessing the revolution in digitalisation. Coordinate EU investments through the EDA and PESCO.	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/SHAPE and the EUMS.

De-risking EU–China Relations

Jakub Janda

Since 2019 the EU has taken a three-pronged strategic approach to China, treating it as a partner, an economic competitor and a systemic rival. In the last two years, China has increased its hostility to EU interests. It is pursuing an ‘unlimited partnership’ with Russia, which is committing war crimes against Ukraine while enjoying significant material, political, informational and diplomatic support from China. Beijing has been steadily increasing its disruptive actions against Taiwan and the Philippines, in this way violating international maritime law and upsetting the stability of regional maritime trade routes in East Asia, the EU’s core interest there. Chinese economic coercion and technological espionage against the EU member states have been increasing in recent years, despite the Union’s continuous diplomatic efforts to ‘talk to China’ and extensive EU–China trade. Therefore, a new strategy has to be developed for relations between the EU and China. De-risking economic relations with China and other adversarial nations must be part of this new approach.

The aim of the de-risking policy is to ensure that neither China nor any other nation can damage the EU in such a way that the Union would be prevented from pursuing its own autonomous strategic interests, such as stability of trade in and with the East Asian region. Numerous economic and technological interdependencies exist between the EU and East Asian countries such as Japan, South Korea and Taiwan. Thus, the Union has every reason to deter China from taking hostile or even military actions in East Asia, which could lead to an economic disaster for Europe. Therefore, the EU must be able to develop and, if necessary, implement (sectoral) sanctions packages. Moreover, it needs to communicate to the leadership of the Chinese Communist Party that it would impose these sanctions if China were to launch attacks in East Asia in violation of the international law of the sea. To be able to employ such deterrence tools, the EU first needs to rapidly decrease its strategic, economic and technological dependencies on China and create a robust set-up of economic security institutions.

	Programme 1	Programme 2	Programme 3
	Setting up a robust institutional structure within the new European Commission to be better prepared for geo-economic competition	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 the EU's dependence on its competitors
Project 1	The new European Commission should establish an economic security portfolio for which one Commissioner would be responsible.	The Commission should prepare a toolkit for a trade defence escalation ladder with detailed economic, security and political analysis discussed with the EU member states. The measures should also include possible scenarios for the deployment of the EU Anti-Coercion Instrument.	The Commission should proactively enhance its options for trade and investment cooperation agreements with like-minded countries in the Indo-Pacific, including the Philippines, Australia and Taiwan.
Project 2	Establish an internal Commission think tank that would deal with all strategic policy areas important for the EU–China relationship. It should build on the pilot version of the IDEA under the guidance of the president of the Commission and expand it into the wider Indo-Pacific.	The Commission should conduct an annual assessment of the strategic dependencies of the EU and its member economies on its adversaries and competitors. The Commission should also conduct simulations of crisis scenarios.	Terminate the EU–China CAI as it would deepen Europe's strategic dependence on China.
Project 3	The Commission should set up a formal standardised platform for EU companies, one which would provide a safe space where companies and business associations could receive selective intelligence and lessons from specialists to help them make trade decisions in the most informed way.	The Commission should declare specific sectors to be strategically relevant for European interests and develop specific action plans to provide enhanced protection. These sectors should be selected on the basis of their strategic vulnerability to external players.	Share lessons learned in setting economic security policies with selected allies and like-minded partners that are facing systematic Chinese economic coercion. A specialised team should be organised for this purpose.

Working With Global Partners to Shape Global Trade

Peter Hefele

The global trade landscape is undergoing dramatic changes linked to technological advancements, shifting consumer preferences and destabilising geopolitical factors. Companies and governments alike must navigate these trends and create new frameworks to ensure stable supply chains and optimise the cost advantages they offer, and contribute to a sustainable transformation of the global economy.

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. However, Europe has not been very successful in promoting its sophisticated and ambitious free-trade agreements with extra-European partners, for instance with India or the Association of Southeast Asian Nations, and thus is losing influence in shaping the principles of global trade. Its efforts to revitalise existing global trade governance mechanisms, in particular the WTO, have been blocked by other major powers.

The impact of the global pandemic and the fallout of the Russian war against Ukraine—that is, the high energy prices and volatile raw materials markets—will remain significant uncertainty factors. Hedging these risks through supply-chain diversification, whether through friend-, near- or re-shoring, has just begun and will remain a decade-long challenge.

At the same time, a growing emphasis on sustainability has already begun to shape global trade practices, including the use of renewable energy in transportation, eco-friendly packaging and a focus on circular economy models. Consumers and regulators are pushing for more sustainable practices, influencing trade policies and company strategies alike. Digitalisation, in the form of blockchain, artificial intelligence and Internet of Things technologies, is helping companies to make transactions faster, more transparent and more secure.

Technologically driven shifts in factor combination and allocation will also influence global trade flows and economic policies, and are increasingly impacting trade-related services as well. Furthermore, innovation in trade finance is seen as a game-changer, with fintech companies introducing digital platforms that will make financing more accessible to small and medium-sized enterprises (SMEs) engaging in international trade.

	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 regional and global trade architecture
Project 1	Improve the coordination of forecasting and consulting on trade developments among Europe and its like-minded partners.	Make it easier for Europe's SMEs to obtain innovative forms of trade financing to gain better access to the global market.	Revise the current concepts of the EU FTA and switch to a more modular, gradual approach, reducing the duration of negotiations and implementation.
Project 2	Develop joint platforms with like-minded countries, both industrialised and developing, to streamline policy reactions in times of supply-chain disruptions.	Help SMEs in Europe to make better use of innovative digital platforms and tools to enhance market transparency and to improve these companies' access to global markets.	Introduce a fair playing field for digital services among like-minded countries to improve minimum global standards for digital trade.
Project 3	Reorientate global trade policy along the lines of sustainable development and aim to better link developing economies into this process.	Assist SMEs in developing countries to get better access to European markets. They can reach this goal by using innovative digital and financial tools and, as a result, diversify their sales structures.	Link efforts to enhance the global trade architecture with promoting democracy and the rule of law through initiatives such as the Global Gateway—as an alternative to economic integration with authoritarian governments.

Empowering SMEs in the EU

Horst Heitz

SMEs are the lifeblood of the EU's economy, contributing significantly to employment, innovation and economic growth. These businesses play a vital role in driving economic activity and job creation. They represent 99.9% of all companies in the EU, with 99.7% having fewer than 10 employees. Indeed, approximately 60% of SMEs are one-person companies. It is important to recognise the diverse conditions in which they operate—in different sectors, member states and regions. Furthermore, it is worth noting that women often face disadvantages in accessing loans to start businesses. Despite their diversity, SMEs encounter common challenges that warrant attention and a consolidation of efforts.

Accessing finance. This is one of the most significant challenges facing SMEs. Due to factors such as lack of collateral, limited credit history and perceived riskiness, many of these businesses struggle to secure funding from traditional sources such as banks.

Regulatory complexity and bureaucracy. SMEs often grapple with complex and burdensome regulatory requirements imposed by both EU and national authorities. Navigating this regulatory maze consumes both valuable time and resources.

Accessing the EU's internal market. Expanding into even this market can be daunting for SMEs due to barriers such as trade regulations, customs procedures, language and cultural differences, a lack of networks and insufficient knowledge about the market.

Digitalisation. Digital technologies offer SMEs immense opportunities to improve productivity, enhance competitiveness and expand market reach. But due to various factors, many of these businesses are struggling to embrace digitalisation.

	Programme 1	Programme 2	Programme 3
	Handling bureaucracy and accessing finance	Supporting EU cross-border trade	Promoting digitalisation
Project 1	Create a European award for the public service with the best track record in assisting SMEs.	Examine how well SMEs understand the EU's single market and support services. Where and why are there gaps in this knowledge?	Develop an EU forum for public and private providers offering SMEs education services in the area of digitalisation. On this forum these providers would be able to exchange experiences of how best to reach SMEs, deliver knowledge effectively and establish long-term learning cycles.
Project 2	Develop a platform for exchanging best practices and experiences among EU member states as well as between SMEs and financial institutions. This would make it easier to identify successful approaches and replicate them.	Develop an EU mentorship programme aimed at helping micro-businesses enter the market in neighbouring regions.	Develop an EU website on which SMEs could find the most suitable free digitalisation training programme offered by public or private providers. All providers listed would be certified and adhere to the highest standards.
Project 3	Create a SME-friendly index to EU legislation and a compilation of the best examples of the implementation of this legislation by the member states.	Establish an EU emergency assistance centre for trade issues in the EU single market. To benefit, SMEs would have to register beforehand and submit their trade transactions.	Establish a European flagship programme for schools and universities to prepare students for a career or entrepreneurship in the field of digitalisation.

About the Authors



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Peter Hefele has been the Policy Director at the Wilfried Martens Centre for European Studies since 2022. He graduated in Economics and Economic History from the Catholic University of Eichstätt-Ingolstadt in 1997. He worked as an economic researcher at the Institute for Economy and Society, Bonn, before joining the Konrad-Adenauer-Stiftung in 2003, where he worked in various capacities, mainly in the Asia-Pacific region. From 2019 to 2021 he was the Director for Asia and the Pacific of the Konrad-Adenauer-Stiftung in Berlin. His work focuses on foreign and security policy, economic policy, international development cooperation and energy/climate policy. He is also an expert on Asia's political, economic and social developments.



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Jakub Janda specialises in European policy towards Russia and China, and specifically to the response of democratic states to hostile influence operations. In 2016–7, he was tasked by Czech security and intelligence institutions to consult on the ‘Influence of Foreign Powers’ chapter within the National Security Audit conducted by the Czech government, where he was involved in the Czech policy shift on this issue. He has delivered expert briefings and testimonies to members of the US Congress, the NATO Political Committee and the European Parliament Special Committee on Foreign Interference in all Democratic Processes in the European Union, including Disinformation. He spent four months living in Taipei, where he established the European Values Center Taiwan Office in January 2022, making the European Values Center the first European think tank to set up a permanent presence in Taiwan.



Digitalisation

Table of Abbreviations

5G	Fifth generation technology standard for cellular networks
AI	Artificial Intelligence
CMU	Capital Markets Union
DSA	Digital Services Act
EV	Electric Vehicle
Fintech	Financial technology
GDPR	General Data Protection Regulation
ICT	Information and Communication Technologies
IEC	International Electrotechnical Commission
ISO	International Organization of Standardization
ITU	International Telecommunications Union
O-RAN	Open Radio Access Network
R&D	Research and Development
SME	Small and Medium-Sized Enterprise
STEM	Science, Technology, Engineering and Mathematics
TTC	Trade and Technology Council

Introduction

Peter Hefe

Alongside the Green Deal and the first steps towards a Defence Union, creating a single European digital space has been a key project of the outgoing European Commission (2019–24). This has 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 (AI) 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 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 (R&D) 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 health care. 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 AI.

In 2023, the Martens Centre published its *7Ds for Sustainability* strategy document. This text comprised 175 proposals for the next legislature to future-proof EU policy in the areas of debt, decarbonisation, defence, democracy, demography, de-risking globalisation, and digitalisation. Sustainability was chosen as the guiding principle to ensure that the policies reconcile the needs of both the present and the future, and systematically include the interests of the next generations.

The *7Ds* document has already inspired reflection on what to do over the next five years. These discussions are based on Christian Democrat and conservative thinking and the available in-house expertise of the Martens Centre. For the next phase of intense discussions about the programme to be implemented during the 2024–9 legislature, the Martens Centre has invited renowned external experts to put forward their own, more extensive proposals based on the original document, thereby deepening the available expertise. It is hoped that these proposals, published at the beginning of April 2024, will help to clarify the way forward at a critical juncture, when the European Parliament, the European Commission and the European Council are negotiating on and finalising their strategic priorities.

Rolling Out Secure Digital Infrastructure and Hardware

Amelia Andersdotter

To manage the complex cyber-environment around cloud infrastructures, the Internet of things and 5G networks, the EU will need to agree on a proactive strategy. Establishing and protecting EU capabilities 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).

This brief sets out nine areas of action for EU policymakers in the upcoming five years. They range from the practical, highlighting the need for the EU to build capacity in the governance of open technology collaborations, to the visionary, asking that Western European markets be opened to Central and Eastern European players (e.g. Revolut in financial technology (Fintech), Workable in HR management, Seznam in Internet search, ESET in cybersecurity and Digi Communications in the mobile sector). 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. In a similar vein, the EU should explore how to enable service scaling directly in the European market. Too often, European companies scale their services by launching in their home state, then the UK and the US, before returning to launch in non-home-state EU markets.

Governance tools such as procurement, standardisation and certification are already in place, waiting to be used. But the EU is having to answer crucial questions about these, such as how to transform its legally established values into verifiably testable criteria for technology. On the fast-paced digital markets, product cycles are often shorter than the time required to certify. Self-certification against objectively established criteria would address such concerns. Adequately specified infrastructures can also serve to facilitate migration between or the simultaneous use of several technical infrastructures.

Finally, in applying these existing tools, the EU will have to develop a new culture of risk. Not every investment will succeed, but we can learn from all investments. It is through leveraging such learning that the EU can establish itself as a global leader in and internal enabler of cyber-excellence.

	Programme 1	Programme 2	Programme 3
	Creating digital resilience	Ensuring digital sovereignty	Building future infrastructures
Project 1	<p>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.</p>	<p>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 to address shared challenges can act as both public infrastructure and a trustworthy technology base.</p>	<p>Produce a standardisation strategy for 5G, O-RAN cloud technologies and the Internet of things, emphasising 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 properties of network equipment.</p>
Project 2	<p>Ensure technical resilience in investments across Europe. Use at least two vendors of network equipment from two different countries in a 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 application programming interfaces or de facto standards).</p>	<p>Support technology development in Europe through strategic procurement, including where there is a risk of failure. Map capital flows into European technology industries and start-ups. Ensure that public money goes to public, open infrastructures, even code, that instil trust by being verifiable.</p>	<p>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 exploring competitions that test sectoral, randomly selected teams, or similar, rather than national ones.</p>
Project 3	<p>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.</p>	<p>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.</p>	<p>Realise opportunities for innovators by opening up new regulatory spaces: replicate experiences in the Fintech sector with open application programming interfaces for specific bank payment systems in the 2010s; or from the wireless local area network sector when microwave bands were opened up to licence-exempt use in the 1990s.</p>

Completing the European Digital Single Market

Milda Kaklauskaitė

The Digital Single Market is a cornerstone of EU policy. The objective is to unify digital regulations and infrastructure across member states to promote innovation, economic growth and competitiveness. As the digital landscape evolves, it is imperative to refine and complete the Digital Single Market to address emerging challenges and capitalise on new opportunities. This chapter outlines policy priorities focused on fostering Europe's tech start-up and small and medium-sized enterprise (SME) ecosystem, attracting private investment, and enhancing technological independence and the cybersecurity posture across the EU. A strong Digital Single Market will ensure that Europe remains at the forefront of the global digital economy.

Streamlining bureaucracy and reducing fragmentation are paramount to nurturing Europe's tech start-up and SME ecosystem. By introducing an 'EU Company' status, the Union could pave the way for seamless cross-border operations, liberating businesses from the shackles of administrative burdens and enabling rapid market entry. Moreover, incentivising large businesses to embrace innovative European solutions is essential. Through collaborative platforms and targeted incentives, we could foster a culture of cooperation, empowering homegrown companies to gain market traction and credibility. Furthermore, democratising access to data is key. By facilitating data pooling and sharing, we empower smaller players, levelling the playing field and bolstering their competitiveness on a global scale.

Moreover, to fuel the growth of European start-ups, we must ensure a conducive investment environment. Completing the Capital Markets Union (CMU) is vital as this would eradicate barriers and facilitate the free flow of venture-capital investments across borders. Additionally, aligning European pension funds with the continent's burgeoning start-up scene holds immense potential. By incentivising these funds to support venture-capital firms and growth companies, we could unlock a vast pool of capital, driving innovation and economic growth. Furthermore, harmonising insolvency proceedings across EU member states would increase investors' confidence, fostering cross-border investment and a culture of risk-taking and entrepreneurship.

In an era defined by digital interconnectedness, cybersecurity stands as a cornerstone of our digital sovereignty. Thus, investing in cybersecurity training programmes is essential. By upskilling and reskilling our workforce, we could cultivate a robust cadre of cybersecurity professionals, equipped to defend against evolving threats. Furthermore, establishing a pan-European public-private fund-of-funds dedicated to cybersecurity is essential. This initiative would not only foster innovation but also safeguard Europe's digital landscape, ensuring resilience in the face of cyber adversaries. Finally, harmonising public procurement rules across member states would also bring added benefit. By incentivising the adoption of European cybersecurity solutions, we bolster our collective security and reduce dependencies on non-European suppliers.

	Programme 1	Programme 2	Programme 3
	Fostering Europe’s tech start-up 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 a 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 to gain market traction and establish credibility among potential customers. Matchmaking platforms 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. By aligning the interests of pension funds with the growth of European start-ups, we can 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, it is imperative to promote collaborative investments among both public and private entities across the EU, ensuring robust protection against evolving cyber-threats and advancing Europe’s digital agenda.
Project 3	Strengthen the access of European players 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 member states 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 the EU to provide more assurance among investors investing 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.

Enhancing European Technological Excellence

Žiga Turk

This chapter is based on the policies encapsulated in the Europe Fit for the Digital Age initiative, the comprehensive strategies underpinning the 2021–7 Horizon Europe programme and the McKinsey analysis. It argues that the EU needs to ensure the resilience of its technological sector by empowering research and innovation across the Union, while also helping European businesses leverage these advancements for competitive advantage. To date, the commercial exploitation of what is generally quite good European research has been lacking. This had already been identified 30 years ago in the Bangemann report: ‘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; it does NOT mean more public money, financial assistance, subsidies, dirigisme, or protectionism’.

The strategy delineates efforts in three critical technological domains and adopts three overarching methodologies. First, Information and Communication Technologies (ICT) is a multiplier for productivity growth across the economy. When it comes to R&D spending in ICT, Europe is currently behind the US, which invests about four times more. Second, focus on cleantech technologies such as solar, wind, hydro power, nuclear fusion and hydrogen, which are crucial for the transition to a net-zero economy. The EU has the potential to lead in cleantech innovation, although it currently lags in production. Competitiveness in cleantech could generate significant economic value and is essential for achieving energy independence and sustainability goals. Lastly, the pharmaceutical industry is a critical sector. The EU needs to bolster its competitiveness, particularly given the global leadership of the US in public funding in this field. Enhancing investment and innovation in pharmaceuticals is vital for the EU to maintain and advance its health care systems, respond to public health challenges and secure its position in the global market.

Through a combination of strategic investment, regulatory refinement and international collaboration, the EU can regain its position as a global competitor in technology and innovation while adhering to principles that resonate with the liberal and conservative values of market freedom, individual rights and limited government intervention.

	Programme 1	Programme 2	Programme 3
	Growing ICT	Making cleantech competitive	Bolstering pharmaceuticals
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 across Europe to attract talent from abroad.	Establish programmes that will approach development from a rational viewpoint—focusing on sustainable development and growth and approaching the climate-change problem from the perspective of mitigation of the effects and reducing greenhouse gases where it is least expensive. In particular, focus on knowledge related to the circular and regenerative economies.	Enhance interdisciplinary training. The pharmaceutical industry is inherently multidisciplinary, requiring a blend of skills across scientific, technological and clinical domains. Policies should encourage academic institutions to offer interdisciplinary programmes that integrate areas such as pharmacology, data science and engineering. Such initiatives could be supported by industry–academic partnerships.
Project 2	Establish low–red-tape incubation programmes that provide resources, mentorship and funding to ICT start-ups. These programmes should catalyse innovation by supporting entrepreneurs to develop and scale viable technology solutions.	Support the establishment of cleantech innovation hubs that bring together researchers, start-ups and investors to accelerate development. These hubs can provide essential resources, mentorship and networking opportunities to foster innovation and commercialise sustainable technologies.	Strengthen intellectual property rights to incentivise innovation and research, ensuring that pharmaceutical companies have the security needed to invest in new and groundbreaking treatments.
Project 3	Carry out a regulatory review with a view to reducing the regulatory burden on the EU’s digital industry. Deepen forms of regulation that ensure fair market access for emerging ICT companies to 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 environmental footprint, undermines its industrial foundation. Existing initiatives such as the European Sovereignty Fund and the Green Deal Industrial Plan should evolve in this direction.	Streamline regulatory approval processes. Simplifying and expediting the approval processes for new drugs and treatments could reduce development costs and time to market, enhancing the industry’s global competitiveness.

Artificial Intelligence

Anastas Punev

At the end of 2023, the agreed text of the EU's Artificial Intelligence (AI) Act laid down the architecture for the future use of AI within the Union. This chapter responds to the possible drawbacks of the Act, making recommendations on both internal governance and the EU's international role.

The AI Act can be compared to the General Data Protection Regulation (GDPR), which was similarly hailed as a 'global first' piece of legislation that balanced fundamental rights and innovation, in this way fostering the EU's global role. Unfortunately, the GDPR's ambitious goals have been undermined by poor enforcement. Millions of European SMEs have reportedly not complied with the excessive burdens, and this has thrown into question the purpose and future impact of the regulation. The AI Act would involve certain comparable levels of market surveillance at both the national and supranational level, as a new institution—an EU AI Office—would be established. There was a considerable lack of consistency among the member states in implementing the GDPR without falling into unnecessary bureaucracy. This suggests that something similar can be expected when it comes time to implement the AI Act. Moreover, the elaborate risk-sharing formula established by the AI Act might be unsuitable for open-source foundation models since they 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. Such a one-size-fits-all approach is impractical for providers of mostly decentralised open-source AI systems, especially given the excessive regulatory burden, such as the requirement to maintain ten years of documentation.

Furthermore, while the levels of risk are defined in the Act, the allocation of responsibility between the different providers throughout the AI life cycle remains vague and thus unpredictable for businesses from the outset. The fundamental question of liability remains open. Moreover, the regulation has been designed in accordance with the product safety legislation, and end users have been left in the dark as their role as right-holders is not expressly guaranteed and protected.

Finally, 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, as China has already introduced its AI legislation and the US is still considering its own approach. In any case, the Chinese model does not aim for global supremacy but is mostly pragmatic in its aims, adhering to a 'vertical strategy' where regulations are tailored to certain AI applications. Consequently, the EU AI Act would enter into competition with the Chinese legislation in terms of its agility. And even if it is adapted to the current technological advances, its ability to deliver future-proof results is far from guaranteed.

	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 by EU authorities in approving organisations that would 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 global risks of AI proliferation and 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/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. 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.

European Digital Leadership on the Global Stage

Dimitar Lilkov

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 AI systems. The old continent is making an ambitious attempt to pioneer the global golden standard in legislation for the online realm.

This ambition, however, is being put to the test. Rule-setting and global influence are functions of technological excellence and market share. 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.

This concept has three pillars. First, the EU must upgrade its blueprint for digital deterrence. Enhancing supranational tools here is not driven by federalist zeal but rather by practical necessity. The European Commission needs to have an improved mandate to implement security standards for critical digital infrastructure and to prohibit high-risk vendors from penetrating sensitive networks. An expanded toolkit is necessary to limit the threats from compromised ICT products/services (and apps) which could serve the purposes of foreign adversaries.

Second, the EU needs to expand its digital outreach internationally. Within this decade, the European institutions need to deepen strategic engagement on technology and multiply existing agreements. The recently concluded EU–Japan data agreement and EU–India Trade and Technology Council (TTC) are important milestones that need to be replicated. Such a proactive agenda internationally will produce positive spillovers, enhancing bilateral trade, reinforcing important 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.

Lastly, Europe’s international digital agenda must retain a strong transatlantic component. Both Europe and the US must remain committed to driving the digital transformation, cooperating on breakthrough technologies and promoting joint standards internationally. The EU–US TTC remains an important mechanism for achieving these goals. There is a shared agenda of common interests, and also common concerns about the proliferation of advanced technologies and how to respond to joint threats. The EU–US relationship is a key artery of the global economy; improved digital circulation and boosted immunity need to remain a priority for both economic blocs.

	Programme 1	Programme 2	Programme 3
	Ensuring digital deterrence against 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 R&D in advanced technologies, and boosting trade.	Finalise an 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 for 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 going against pre-defined European standards.	Engage with international standards-setting bodies (i.e. ISO, IEC) and the UN (i.e. ITU) to promote European digital standards. Oppose China’s targeted 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 warning on semiconductors and secure supply chains. Adopt joint standards on EVs and clean technologies.
Project 3	Strengthen foreign direct investment 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 with 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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