

European
Commission

European **Political**
Strategy Centre

STATE OF THE
UNION 2018

OUR
DESTINY
IN OUR
HANDS



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OUR DESTINY IN OUR HANDS





THE WIND IS STILL THERE, BUT A PERFECT STORM IS BREWING

- **Broadly speaking, the positive economic climate that surrounded the 2017 State of the Union speech remains prevalent.** Growth has stabilised since 2014 and is expected to remain at a healthy 2% rate in the near future. Investment levels are recovering. Employment is at its highest level yet. Europe's early focus on decarbonisation has enabled it to take a much-coveted lead on the clean economy transition. Sustained investments in Europe's research and development programmes over the past decade, as well as on training and skills mean that Europe still leads in many industrial sectors and is home to a thriving SME scene.
- **But, ten years of economic crisis have left deep scars.** Too many Europeans still live in precarious conditions.
- **What is more, there is a widespread sense of disruption in today's world.** This sense had been building for a while and is accompanied by mixed reactions. In some fields, such as health and science, it triggers enthusiasm, optimism and hope for the breakthroughs that may be achieved. In other fields, like in politics and labour markets, it breeds uncertainty, pessimism and even fear. Many Europeans are today worried about a perceived future in which technological breakthroughs will make them redundant, where social welfare systems will be strained to the limit under the weight of an increasingly ageing population, and competition for jobs will be made even tougher with the arrival of more migrants. **The continuation, acceleration and intersection of long-term structural trends mean these risks could reach boiling point sooner than expected.**
- **Externally, Europe is more challenged than ever. The liberal rules-based world order that kept it safe since the end of World War II is under pressure like never before.** Some of Europe's most trusted partners are shifting priorities, paving the way to a more unpredictable world. In this context, cooperation with like-minded partners, such as Canada, Japan and, in future, the UK, will be all the more important.
- **But nor is the liberal order guaranteed at home.** European societies are more polarised than they have been in almost half a century. **'My country first' is making inroads in elections.** Nationalism, xenophobia and fascism are back on the rise putting a strain on democracy, rule of law, respect for human rights and European solidarity, in ways that were thought to belong only to the past.

From reactive to proactive

When he first came into office in **2014**, European Commission President Juncker promised an agenda responding to the years of economic crisis and bringing Europe closer to its citizens.

In **2015**, faced with major new setbacks including the migration crisis and the pending Brexit referendum, he called for more 'Union in this Union' to address the challenges facing Europe and its citizens.

In **2016**, following the results of the Brexit vote, he launched the White Paper Process for a Future EU of 27, under the heading of a Europe that protects, empowers and defends.

In **2017**, he called on Europeans to take advantage of the wind in Europe's sail to build a more united, a stronger, a more democratic Europe for 2025.

In **2018**, it is time to look into the longer-term challenges and resilience of the European model, and offer pragmatic solutions.

Timeline of President Juncker's annual addresses

- 2014** 'Last-chance' Commission
- 2015** Time for honesty, unity and solidarity
- 2016** Towards a Europe that protects, empowers and defends
- 2017** Wind in our sails
- 2018** Time for unity, anticipation and responsibility

Source: European Political Strategy Centre



TIME FOR HISTORICAL CHOICES – TOWARDS A EUROPEAN SOVEREIGNTY

- In September 2018, there are **just 8 months left until the next European elections**. 367 million people across the EU will have the possibility of voting. **For 22 million of these, it will be the first time they are able to vote in the European elections and express their opinion on Europe.**
- After the recent elections in Sweden (9 September 2018), the coming 12 months will also see general elections in Luxembourg, Latvia, Poland, Estonia, Finland, Belgium, Greece, Portugal, and possibly other Member States. **The polarisation of the political debate is such that these elections will be a choice about the civilisation to which Europeans want to belong** – one of progress, equal rights, dignity, rule of law and democracy, or one of denial of the facts.
- Driven by fear, anger, resentment, or nostalgia for a more orderly past, many are turning to politicians who claim they can ‘free’ citizens by closing off their countries’ borders, restoring national sovereignty, and retreating from global integration – including from Europe.
- Indeed, all too often, the debate on national sovereignty has pitted eurosceptics and populists against the European Union. Yet **the real risk is that other, more worrying powers – ones less concerned with democracy, individual liberty and the rule of law – will soon be calling the shots and dictating the rules.**
- In an increasingly interconnected, digital era, the reality is that **no country can escape the forces of change that sweep the world.** The subprime crisis that threw Europe into a ten-year recession was in fact triggered in the US. In the future, the acts – and in some cases, irresponsibility – of the world’s ‘Great Powers’ risk not only jeopardising Europe’s prosperity, but also its security.
- In this context, **national sovereignty can only be a source of protection and power if one carries the scale, economic weight and military sophistication that matter on the global level.** Yet today, the EU and its Member States represent an ever smaller share of the world’s population, GDP and military spending. **The nature of the challenges ahead require that the national sovereignty of European Member States be strengthened through a European sovereignty.** This is the only way that Member States will be able to achieve their goals and assert their will, rather than heeding to the say of other great powers.
- European sovereignty in this world of flux is not a new synonym for building a federalist European super-state. It is rather about sharing and pooling national sovereignty for the sake of European values and interests. It is about helping to deliver on the expectations of Europeans. **It is a means of safely opening up to the world in the knowledge that, together, Member States have the political, economic and military clout to do so; a tool for protecting Member States from external threats that expand across borders; and an instrument to continue shaping and influencing future sources of growth and prosperity.**
- This does not mean that national sovereignty is irrelevant. **National interests will always play the central role in a European Union founded in pluralism** and rooted firmly in the principle of subsidiarity. Europe has never sought to replace national sovereignty – only to complement it.
- **Many Europeans understand that they are better served through a multi-level sovereignty.** The latest Eurobarometer poll, for instance, reveals that citizens expect



the European level to respond to problems with a European dimension – such as immigration and terrorism – while the main challenges they feel need addressing at national level are unemployment, health and social security. **Of course, for the EU to act in any of these areas, it needs to have the capability to do so – which can only be granted by the Member States and with the backing of European citizens.**

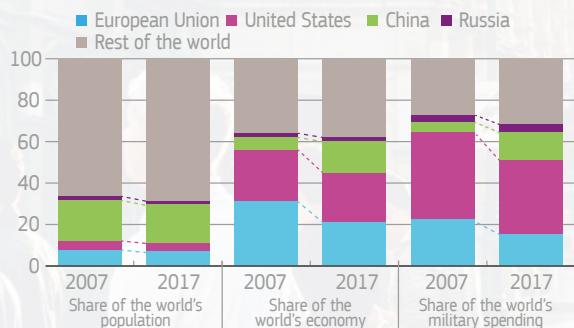
- European sovereignty has already been used as **a tool to assist Member States in difficulty** – whether in the financial crisis with the launch of a **European Stability Mechanism**; in the migration crisis, with the creation of the **European Border and Coast Guard**; or in the face of natural disasters and tragedies with the activation of the **European Civil Protection Mechanism**. In other areas, such as cybersecurity, competences still remain largely

in the hands of Member States despite the fact that cyberattacks know no borders.

- The EU must move away from the academic debates and embrace a purpose-oriented and case-related perception of sovereignty. The speed of change and the scale of disruption and opportunity makes taking such strategic decisions about Europe's long-term future all the more important.

What a difference a decade makes

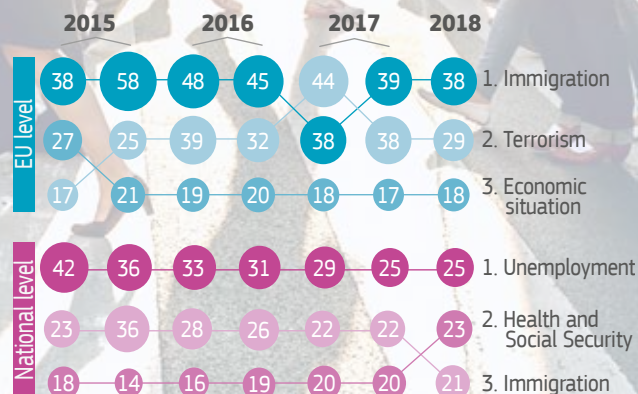
In percentage



Source: Stockholm International Peace Research Institute for military spending (2007 & 2017); World Bank for Gross Domestic Product and population (2007 & 2017)

Europeans mainly consider immigration & terrorism as EU level concerns

Top concerns at EU level (blue) and at national level (pink)



Source: Eurobarometer

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JUNCKER'S GAME CHANGERS



BRINGING EUROPE CLOSER TO CITIZENS

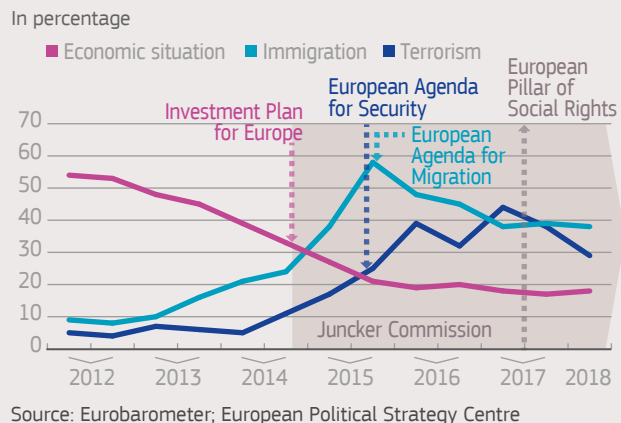
- No European Commission has done more to connect with Europeans. The Juncker Commission has engaged actively with citizens at all levels, organising more than 515 citizens' dialogues across the EU in 2018.
- It has taken policy measures aimed at addressing citizens' biggest concerns on the European level over the past years – namely the state of the economy and investment, security, and migration. The **10 political priorities of the Juncker Commission** were designed from the very outset to respond to these, and translated into:
 - **The Investment Plan for Europe** (2015)
 - **The European Security Agenda** (2015)
 - **The European Agenda for Migration** (2016)
 - **The European Pillar of Social Rights** (2017)
- It launched a wide-ranging debate with citizens about Europe's future by publishing the White Paper on the Future of Europe and subsequent reflection papers on issues ranging from globalisation and social Europe, to defence and the euro. This process **enabled an open and honest discussion with the Member States and with European citizens on what they want to achieve together** and how to get there; what the European Union means for them; where they see it doing more and where they think it ought to do less.
- Today, **more Europeans than ever believe that their voice counts in the EU (45%)**. Of course this leaves ample room for progress. Nonetheless, it

is noteworthy that **90% of proposed 'European Citizens' Initiatives' have been registered since April 2015**, compared to 60% under the previous Commission, with two concrete legislative proposals being tabled on the basis of the successful 'Right2Water' and 'Ban Glyphosate' Citizens' Initiatives.

- Recognising that change also needs to take place inside the European institutions, the Juncker Commission also initiated an **unprecedented period of internal reform** in response to concerns about the institution's legitimacy and relevance.
- In order to deliver better, faster and more effectively:
 - The EU legislative process has become **more transparent and open** to stakeholder input thanks to the 2016 inter-institutional agreement on better law-making, aimed at ensuring that EU legislation better serves citizens and businesses;

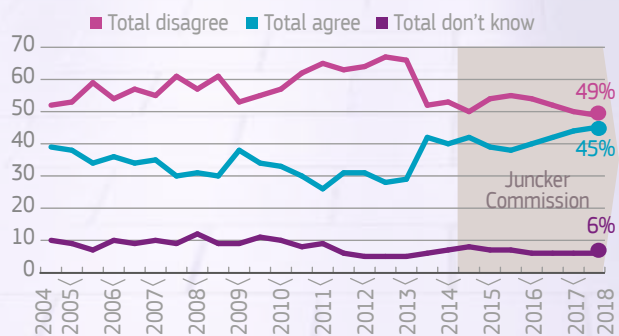
- The European Commission tabled a series of **proposals for the democratic reform of EU institutions towards greater simplification and transparency** (consolidation of the Spitzenkandidaten process; double-hatted Presidency of the European Commission and the European Council; further shift from unanimity to qualified majority voting in line with the Lisbon Treaty; etc.);
- A **Task Force for Subsidiarity and Proportionality** was established to help the EU to 'do less more efficiently' – namely by **identifying competences that could or should be returned to the Member States** rather than being dealt with at EU level.
- New **working methods** introduced in the European Commission under the Juncker Presidency have helped to overcome silo thinking and ensure a more effective, joint delivery of the President's political priorities.

European Commission has responded to Europeans' top concerns in real time





More Europeans than ever believe that their voice counts in the EU



Source: Eurobarometer



FOSTERING AND CONSOLIDATING EUROPE'S ECONOMIC RECOVERY

THE COMMITMENT

- **Boosting competitiveness, stimulating investment and creating jobs.**

THE FACTS

- The EU 27 is witnessing its **best growth rate in a decade**. Total investments are on the rise, closing in on pre-crisis levels and driving EU economic growth. The EU's investment gap has narrowed from 223 to 123 billion euro since 2014.
- **Solid job formation** over the past four years, with over 3 million jobs created in the EU 27 in 2017 alone, has driven unemployment down considerably. The EU's unemployment rate fell to 6.9% in the second quarter of 2018 – which is lower than in September 2007, just prior to the crisis.
- The EU 27 is **performing better in terms of its public finances**, with the yearly public deficit forecast to drop to 0.8% of Gross Domestic Product, and gross public debt down to 81.2% of Gross Domestic Product in 2018, paving the way to debt sustainability in the Union – albeit still off the target of 60%.
- **Structural reform programmes** implemented in the Member States with EU support are helping to raise productivity, laying the foundation for stronger growth in the future. This remains particularly relevant in Member States, such as Italy, which have seen sluggish productivity growth.
- **In Greece too, reform efforts are paying off**, delivering tangible results. Even if the country will need more time to make a full recovery, economic growth has returned.

Unemployment, while still too high, is falling. Public finances have been stabilised.

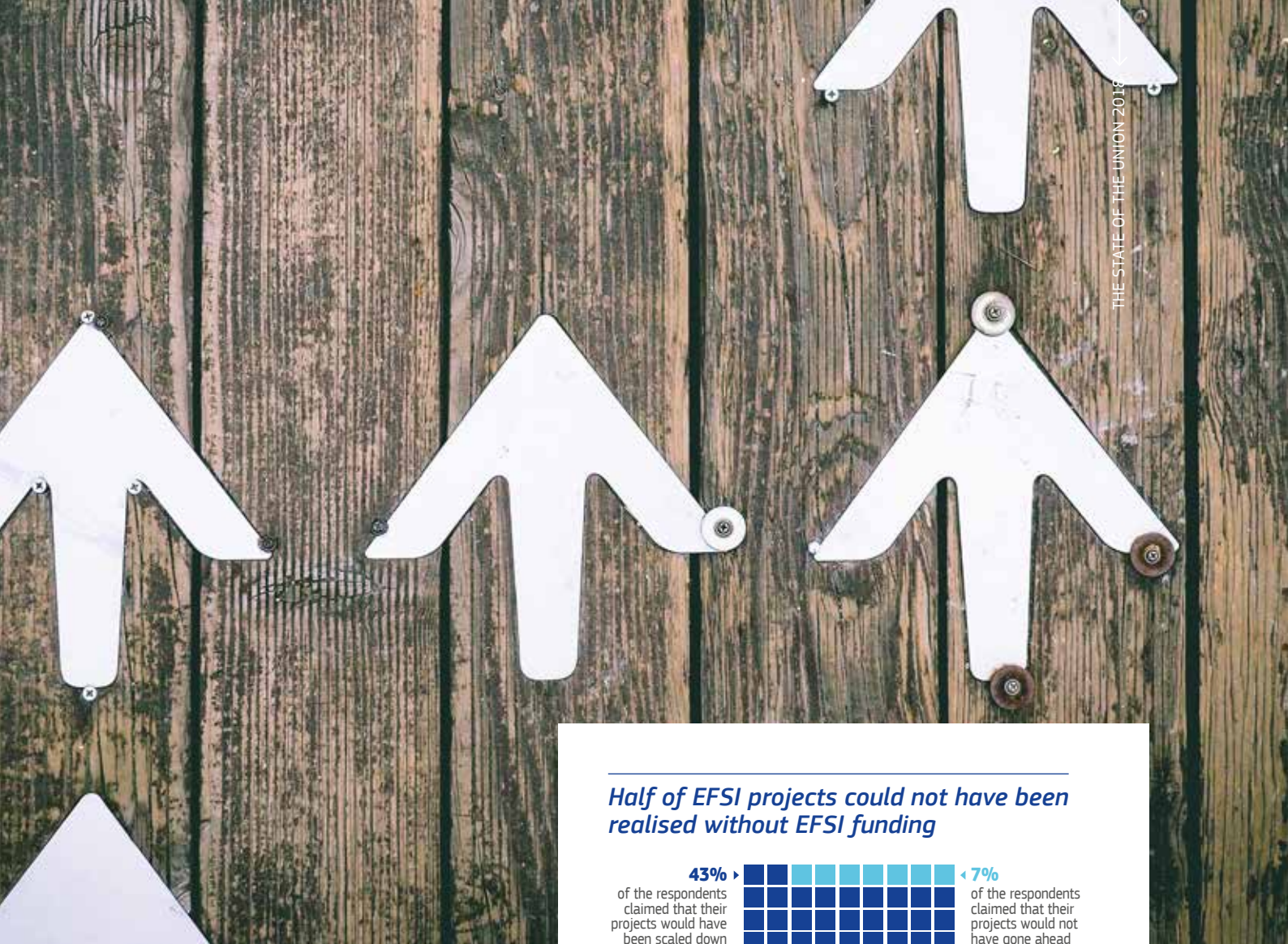
THE GAME CHANGERS

- European recovery was aided by bold EU policy actions such as **the Investment Plan for Europe**, launched in 2015.
 - Projects supported so far under the European Fund for Structural Investments are expected to trigger 335 billion euro in investments, **to the benefit of some 700,000 SMEs**.
 - The European Fund for Strategic Investments represented a step change in the way that the EU disburses funds. By crowding in additional public and private funds, this scheme has had a **strong multiplier effect**, enabling the EU to do more with less, with each euro of Union funds triggering some 12.5 euro of additional investments.
- The EU's **consistent spending on cohesion policy** throughout the crisis also contributed to the recovery. In fact, EU funding accounted for more than 80% of total public investment in Portugal on average in the past 3 years; 80% in Croatia; 74% in Lithuania; around 60% in Poland and Latvia; and 55% in Hungary.

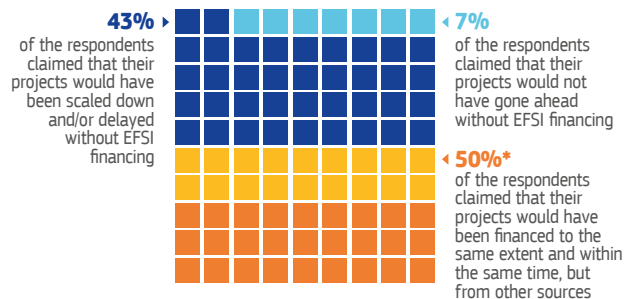
CLOUDS AHEAD

- The current high levels of EU funding as a share of total public spending in many Member States are not sustainable over the long term and **Member States must themselves take on greater responsibility for public investment**.





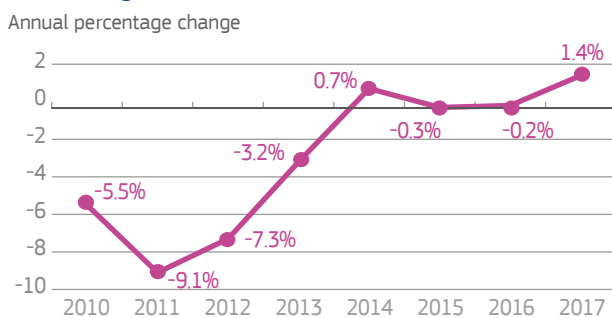
Half of EFSI projects could not have been realised without EFSI funding



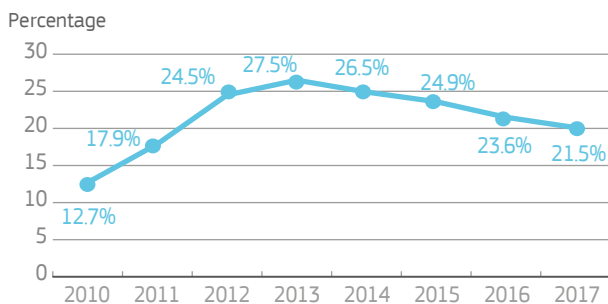
Notes: Survey of 90 Infrastructure and Innovation Windows project promoters
 * 19 out of the 45 respondents (40%) however would have been able to obtain only partial financing from alternative sources of finances
 Source: ICF, European Commission

A new chapter opening for Greece

Economic growth



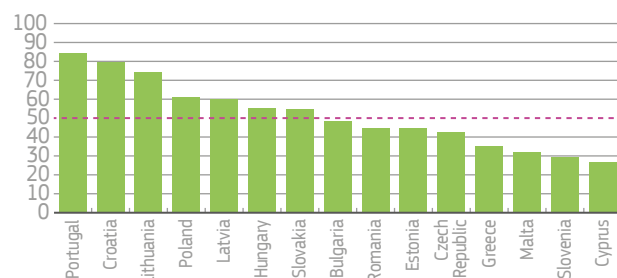
Unemployment rate



Source: European Commission

EU funds account for well over half of total public investment in some Member States

EU Member States where cohesion policy funds represent more than one fifth of national public investment over the period 2015-2017



Source: European Commission

PUTTING SOCIAL FAIRNESS BACK AT THE HEART OF EUROPE

THE COMMITMENT

- **Bringing Europe towards a 'Social Triple A'.**

THE FACTS

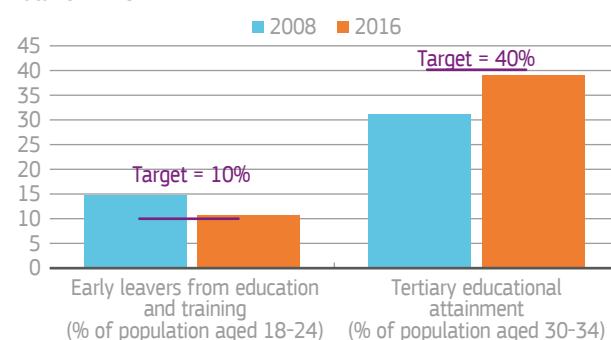
- Social realities within Europe and among Europeans still differ significantly.

THE GAME CHANGERS

- Investments in youth, skills, equal opportunities and fairness were prioritised with a view to empowering Europeans and opening up new opportunities in the world of work.
- **The Skills Agenda for Europe** launched a set of targeted actions to help citizens acquire more and better skills, in particular in the digital field.
- The **European Solidarity Corps** was set up to create new opportunities for young people to volunteer or work in projects that benefit communities around Europe at a time when civil society and the non-profit sector – which are at the heart of Europe's democratic life – were in dire need resources and support.
- The **Erasmus programme** was expanded to support long duration placements of apprentices abroad.
- In November 2017, European Heads of State and Government, social partners and other key players came together for the first time in 20 years to work on a more social Europe at the Gothenburg **Social Summit**. During this meeting, leaders signed up to a **European Pillar of Social Rights**, enshrining a set of fundamental values and principles aimed at offering

EU close to meeting Europe 2020 targets on education

Data for EU28



Source: European Commission

more equal protection and fairer opportunities to all Europeans in a changing world of work.

- The **European Semester** – the mechanism for coordinating national economic policy measures at EU level – **is the most social it has ever been.** Instead of focusing purely on traditional economic indicators, since 2016, it also tracks social indicators in the Member States – such as the activity rate, and long-term and youth unemployment rates. Since 2018, the principles enshrined in the European Pillar of Social Rights are also monitored. This means that topics such as the redistributive effect of social transfers, the multiple dimensions of inequality, and gaps in welfare coverage and access to social protection are now assessed.
- With the agreement on the **posting of workers Directive**, local or posted workers doing the same job at the same place will have the same working and wage conditions.

- The proposed new Directive on **work-life balance for parents and carers** will modernise the existing EU legal framework in the area of family-related leaves and flexible working arrangements, introducing paternity leave, as well as carers' leave for workers caring for seriously ill or dependent relatives.

CLOUDS AHEAD

- Changes in the world of work – from digitalisation and automation to the rise of Artificial Intelligence – are opening up new opportunities but also present new challenges. Europeans need to be empowered to reap the benefits of these transformations and protected from the potential downsides that accompany them.

TAKING EUROPE FIRMLY – AND SAFELY – INTO THE DIGITAL ERA

THE COMMITMENT

- Taking the single market firmly into the 21st century by building a digital single market.

THE FACTS

- As the world enters the fourth Industrial Revolution, being at the fore of technological cutting edge is more important than ever to exert global influence.
- Today, technology firms dominate Fortune 500 lists once topped by energy and financial services companies. All of the top 20 technology companies are from China or the USA. None are European.

THE GAME CHANGERS

- The European Commission placed digital issues at the top of its agenda and has presented all the initiatives initially announced.
- **Mobile roaming charges** have been abolished, citizens can now continue to enjoy their **online content** and subscriptions when travelling in the EU, and they can shop online freely across EU borders thanks to the abolishment of unjustified geoblocking.
- Reflecting how much Europeans care about privacy and the strong demand for more responsible

and transparent digital tools and services, the EU's new **General Data Protection Regulation** (GDPR) is setting standards around the world. It sends a strong signal that the EU stands ready to defend its citizens' rights both off- and online. The GDPR will give people better privacy protection by requiring companies – including those not in the EU but that market goods or services to EU citizens, or control or process data regarding EU citizens – to make meaningful changes in the way they collect data and obtain consent from users. Fines of up to 4% of revenues can be applied to those who don't comply.

- The Council of Europe's Convention 108 for the protection of individuals with regard to automatic processing of personal data, which currently covers 51 parties, has already been modernised to reflect most of the GDPR's new elements.
- Facebook, Google, Amazon, Twitter, Apple, Microsoft have largely acknowledged the benefits of the GDPR and taken measures to ensure they comply with the new EU regulation. Some, like Microsoft, have announced they will extend the new privacy rights to all their users worldwide.

- The EU also boldly stood up to digital companies practicing unfair tax operations, with landmark cases against Apple, Amazon and Google. What is more, the European Commission has tabled a proposal to make large technology companies pay a 3% tax if they make money from user data or digital advertising in a country, regardless of their bricks-and-mortar presence.
- With its **EU Internet Forum**, the EU is also driving global efforts to ensure online platforms better tackle terrorist content.
- A new **Cybersecurity Package** tabled in September 2017 will increase Europe's cyber-resilience in particular in the case of cross-border cyber incidents or crises, by upgrading capabilities, strengthening coordination and joint emergency planning.

CLOUDS AHEAD

- The Fourth Industrial Revolution requires Europe to rapidly scale up its technology leadership and grow sizeable companies of its own. Compared to the US and China, it still lags behind on many future technologies. In a world where connectivity is the new critical infrastructure, Europe cannot afford to be overly reliant on technology developed elsewhere.

PLACING CLIMATE AT THE CENTRE OF THE EU'S ECONOMIC MODERNISATION

THE COMMITMENT

- **Tackling climate change and ensuring a wiser use of resources** as both a spur for new jobs and growth and an investment in Europe's future.

THE FACTS

- Not so long ago, sustainable development was still principally considered to be a fringe issue. Today, there is growing consensus among politicians, businesses and consumers worldwide that sustainable development offers a credible framework for a much-needed transformation of society and the economy to make them future-proof and more resilient in times of unprecedented change. **Sustainability is no longer seen as a sacrifice, but as an ambitious choice about the type of society that people want to live in.**
- The EU has been central to making this happen – a driving force behind landmark international agreements such as the United Nations' **Sustainable Development Goals** and the **Paris Climate Agreement**, while also implementing ambitious policies at home.
- **The growth potential of the clean economy is significant.** Between 2000 and 2015, employment and value added in the EU environmental economy grew considerably faster than employment and GDP in the EU overall.

- **9 million Europeans are already working in the clean energy sector.** This includes jobs in energy efficiency and the construction sector. These are local jobs that cannot be outsourced to another part of the world. This number is expected to double by 2030.
- Although China is leading in many clean tech sectors, such as the manufacturing of solar cells, Europe is strong and can compete. **10 out of the 20 companies with the highest market capitalisation in the New Energy Global Innovation Index are European.** And Europe is world leader in wind turbine manufacturing.

THE GAME CHANGERS

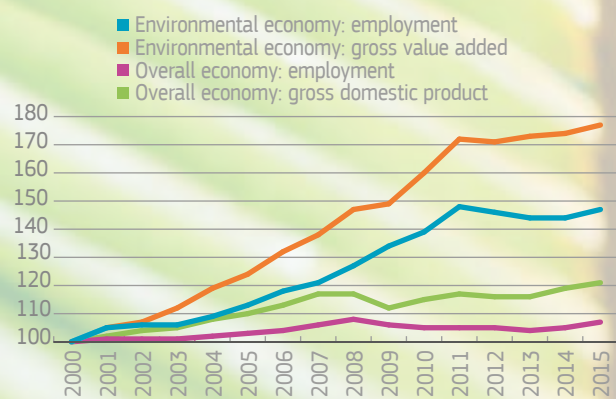
- Under the Juncker Presidency, the European Commission presented **major packages on clean energy and mobility**, including regulatory measures and investment tools to stimulate energy efficiency and renewable energy, as well as stricter CO2 standards for vehicles. Once implemented, these measures will modernise Europe's energy system and give a boost to new business models, contributing to Europe's economic recovery in sectors such as construction.
- With its **initiative for coal and carbon-intensive regions**, the European Commission provides tailor-made support for regions standing to lose out from the transition to the clean economy, to help reskill workers, modernise infrastructures and invest in business models of the future.

- The **Investment Plan for Europe** has focused on **accelerating the clean economy transition** even before regulatory measures are implemented, by leveraging private investments into renewable energy, energy efficiency and other clean economy projects.
- With the **Sustainable Finance strategy and action plan**, the European Commission has initiated steps to create more transparency around climate risks in the financial system and incentivise investors to finance the clean economy transition.
- Beyond climate change, the European Commission has proposed **measures to increase resource efficiency**. These include its circular economy strategy, as well as other key building blocks (like the plastics strategy) to support the creation of more sustainable and competitive secondary raw materials markets.

CLOUDS AHEAD

- The transition to a low-carbon economy needs to be smooth and fair for Europeans in all parts of Europe – including those more carbon-intensive ones.
- Maintaining security of supply in a changing geopolitical environment remains a challenge, while the gradual diversification off Europe's energy sources will lead to new dependencies.

Environmental economy growing faster than overall economy



Source: European Commission

HARNESSING TRADE AS A POWERFUL MOTOR OF GROWTH AND WELLBEING

THE COMMITMENT

- **Making trade work for all by harnessing globalisation and upholding European standards.**

THE FACTS

- The openness of Europe's trade regime has meant that **the EU is today the biggest player on the global trading scene.** Trade today accounts for one third of the European economy and 32 million jobs. Export-related EU jobs are also on average better paid, with up to 16% wage premium.¹
- **84% of European exporters are SMEs:** That means 600,000 SMEs, generating over 500 billion euro in exports and employing over 6 million people.²
- The benefits of trade openness are clear: **European consumers have been saving over 60 billion euro per year** since the Uruguay Round WTO negotiations were concluded thanks to EU and worldwide tariff reductions.³
- Still, globalisation can have negative effects on some sectors and regions, and many people worldwide – Europeans included – are concerned about the effects on their living standards, their job opportunities, or on the quality of their products.

THE GAME CHANGERS

- **As others have retreated from globalisation, Europe has not.** Instead, it has worked to strike a balance between openness and national interests, understanding that trade and international collaboration on global challenges, such as climate change, are vital to its long-term growth and wellbeing.

- This is why the EU has sought to strengthen global governance in all areas, while also developing a comprehensive domestic policy response to globalisation, encompassing education, investment, innovation, energy, fiscal, social policies and more, starting at the level of Member States.
- It has continued working towards ambitious **trade and investment partnerships** with its key partners. Deals have already been concluded with G7 partners, Canada and Japan. The EU is also committed to bringing ongoing negotiations with Australia, New Zealand, Mexico and Mercosur to a successful conclusion. **These agreements are about more than just trade.** They are a vow of collaboration between democracies and advanced economies to continue promoting openness and multilateralism based on shared rules and standards. They can have non-negligible spill-over effects on security, regional stability and on shaping the global regulatory framework.
- Thanks to its openness and competitiveness, exports from the EU 27 have experienced strong growth, now representing around half of EU GDP. This is over 30 percentage points higher than in the US and Japan. As a result, while the EU recorded relatively big annual trade deficits in goods between 2002 and 2012, it has seen surpluses each year since 2013.
- The EU does not 'play dirty' on trade. **EU import tariffs for industrial products are among the lowest in the world.** And

it applies some of the highest standards in the world – be it in terms of safety and security, or in terms of social and environmental considerations. It supports the World Trade Organisation as the central player in ensuring a level playing field for global trade and as the key arbitrator in trade disputes.

- **Nor is Europe a naïve free trader.** It has shown it will not remain passive as others dump excess state-subsidised domestic production on foreign markets or use foreign investment and ownership restrictions to gain unfair access to technology transfers. The proposed EU-wide mechanism for the screening of foreign direct investment has been developed as a means to better monitor and counter such unfair practices.
- The EU supports workers and sectors that have suffered losses due to globalisation through its **Globalisation Adjustment Fund.** More than half of supported workers had found a new job or become self-employed within a year of receiving assistance.

CLOUDS AHEAD

- Rising protectionism and pressure on the World Trade Organisation mean maintaining multilateralism and an open, level playing field for global trade will be a growing challenge.
- A balance must be ensured between openness and defending European strategic interests.
- Multilateral rules need to be updated to reflect contemporary challenges such as theft of intellectual property or forced technology transfers.

1. Source: European Commission, DG TRADE, see: http://trade.ec.europa.eu/doclib/docs/2017/september/tradoc_156037.pdf

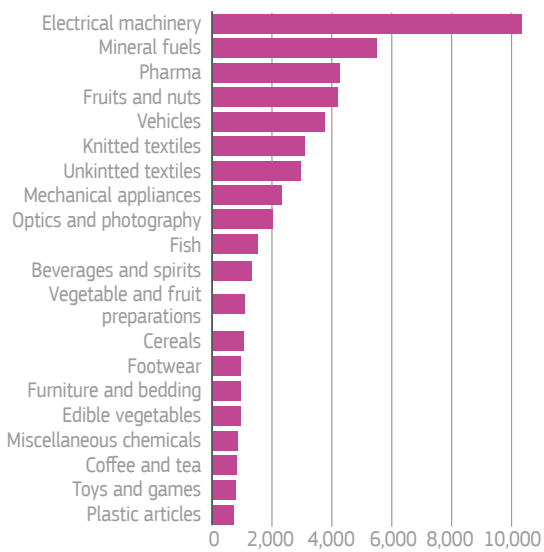
2. Source: Cernat et al. (2013)

3. Source: Cernat et al (2018)



European consumers have saved billions thanks to reduced tariffs on everyday products

Tariff savings in million euro

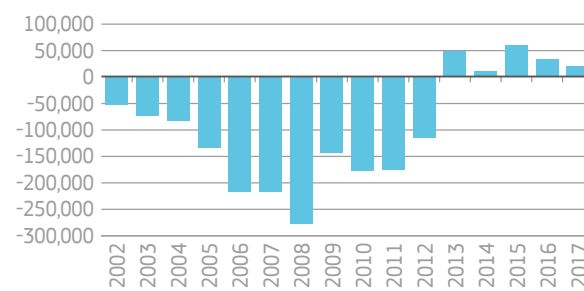


Source: Cernat et al (2018)

A surplus for extra-EU trade for the fifth year in a row

Trade balance, trade in goods, EU-28, 2002–2017

Million euro



Note: External trade flows with extra EU28

Source: Eurostat

ACTING UNANIMOUSLY TO RESPOND TO CITIZENS' NEED FOR GREATER SECURITY

THE COMMITMENT

- **Enhancing Europe's ability to ensure its own security and defence in a more unstable world.**

THE FACTS

- The terrorist attacks in different European cities were a brutal reminder that central pillars of the EU and the European way of life are under threat. In November 2015, following the Paris terror attacks, **France invoked the mutual assistance clause for the first time.**
- **Digitisation and the rise of new hybrid threats** have also significantly changed the nature and geography of security challenges.

THE GAME CHANGERS

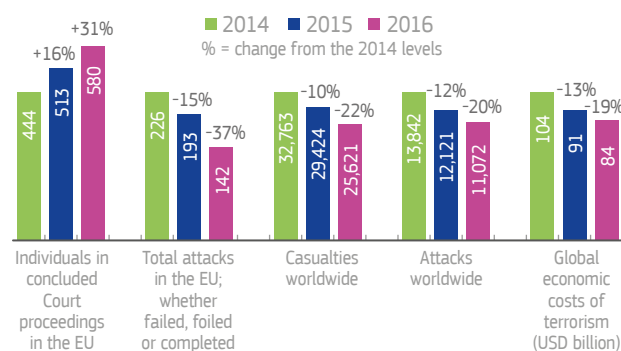
- Faced with growing citizen concern for their security and safety, the EU has taken giant strides to improve its collective security both internally and externally. Responding to President Juncker's call for enhanced defence cooperation and the activation of a permanent structured cooperation in the field of defence in his 2014 political guidelines, **more progress has been achieved in the past two years than in the past 20 years.**
- In June 2016, High Representative of the Union for Foreign Affairs and Security Policy and European Commission Vice-President Mogherini outlined, in the **EU Global Strategy on Foreign and Security Policy**, the core strategic priorities of the EU: more joint capability building, better crisis management and more forceful protection of Europe.

- At the same time, the Council decided to set up a **military planning and conduct capability for EU-led operations** to improve the EU's effectiveness in projecting stability beyond Europe's borders.
- In July 2016, the **EU and NATO signed a Joint Declaration** at NATO's Warsaw Summit to strengthen cooperation between the two providers of security in a number of critical areas, such as hybrid threats, cyber security, capacity building or joint exercises.
- In September 2016, Sir Julian King was appointed **Commissioner for the Security Union** to step up the work of the European Commission in the fields of counter-terrorism, cybersecurity and protection of critical infrastructures.
- In June 2017, the Commission proposed a 590 million euro **European Defence Fund** to support greater cooperation at EU level on the development of future defence technologies and build up Europe's strategic autonomy. It also presented a Reflection Paper on the Future of

European Defence to contribute to an ambitious and forward-looking debate in Member States.

- In December 2017, 25 Member States took the historic step to boost defence collaboration on a regular basis by putting into effect the **permanent structured cooperation ('PESCO') in the field of defence**, as foreseen in the Lisbon Treaty. The first set of common projects – ranging from the establishment of a European Medical Command, to Cyber Rapid Response Teams and Military Mobility – are already underway. The next round of joint defence projects will be decided upon by the end of 2018.
- Under the umbrella of the European Security Union, cooperation on **counter-terrorism** has grown much stronger over the past few years. The EU has taken numerous measures to close down the space in which terrorists operate: improving the **interoperability** of law-enforcement databases and the sharing of threat analyses among Member States, as well as with the EU Directive on

Terrorism in decline across Europe



Source: Europol, Statista, Global Terrorism Index

Passenger Name Record data, the strengthening of **border controls**, stricter **rules and controls on dangerous substances and on financial activities**.

- Much as a result of this, Europol has recorded a significant drop in the number of attacks on EU soil in the past 3 years. In 2016, 1,002 suspects were arrested for terrorist offences and 67% of reported terrorist attacks were failed or foiled. Via the Radicalisation Awareness Network – over 4,000 practitioners working on a daily basis with people who have been radicalised or who are at risk of **radicalisation**, the EU is doing more to counter ‘home-grown’ terrorism.

- With the creation of the Border and Coast Guard Agency in 2016, the EU is not only safeguarding Member States’ common European borders, it is also contributing to the international **fight against smuggling and human trafficking**.

CLOUDS AHEAD

- The first crucial steps towards a European Defence Union have been taken but the lion’s share of the work lies ahead if Member States are to move towards a convergence of strategic cultures.
- Confronted with new geopolitical rivalries, rising geo-economic competition and unprecedented pressure on the rules-based

multinational order, the EU must be able to respond swiftly to emerging global challenges in order to decisively protect and defend European values and interests.

- Spending more on defence must rhyme with spending better and with an eye to the future.
- The terrorist threat remains acute, with the number of attacks on EU soil – increasingly carried out by lone actors – rising again in 2017. Significant efforts are still needed to improve cooperation on data sharing and retention in the fight against terrorism and organised crime, as well as to ensure a uniform prosecution of terrorists across the territory of the EU.



RESTORING CONTROL OF EUROPE'S BORDERS AND PROTECTING THOSE IN NEED

THE COMMITMENT

- **No EU country can nor should be left alone to address huge migratory pressures and borders need to be effectively protected.**
- Europe must remain the **continent of solidarity** where those fleeing persecution can find refuge.

THE FACTS

- In 2015, the EU met with a dramatic spike in the number of irregular migrants and refugees crossing the Eastern and the Central Mediterranean to seek EU territory. Driven by war, conflicts, political repression, drought, famine and deteriorating living conditions, more than 1.3 million people – mostly stemming from Syria (~362,700), but also Afghanistan (~178,300), Iraq (121,600), Kosovo (66,900), Albania (66,100), as well as Pakistan, Eritrea, Nigeria and Iran – requested asylum in an EU Member State in 2015.
 - Thousands lost their lives attempting the crossing, and many more died on their journey through the Sahara. In the face of this **human tragedy**, new maritime surveillance operations were launched in the Central Mediterranean towards the end of 2013 and successively scaled up. Yet, despite the intensified efforts, 2016 was both the deadliest year yet, and the one that saw the largest number of irregular migrants disembark in Italy and Greece. Meanwhile, **trafficking and smuggling networks** were making unprecedented profits at the cost of thousands of lives.
- Concern for the humanitarian crisis that was taking shape, as well as with the security implications of such a disorderly arrival of irregular migrants and asylum-seekers, lifted migration to the top of the list of European citizens' concerns.

THE GAME CHANGERS

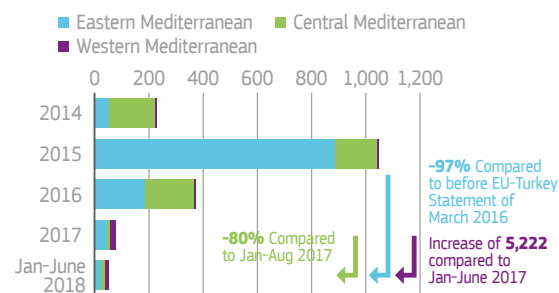
- Bold responses were required and the European Commission came forward with measures – at times controversial – but effective in responding to the need to stem the loss of lives and flows of migrants, and restore control over European borders.
 - Since 2015, joint EU operations (EUNavFor Med Sophia; Frontex Triton/Themis and Po-seidon) contributed to saving over 690,000 lives, apprehending over 151 traffickers and smugglers and neutralising 551 vessels.
 - To relieve some of the pressure on Greece and Italy, Member States agreed to an **EU-wide relocation scheme** in the summer of 2015. This was complemented by **resettlement schemes** aimed at offering safe and legal pathways to Europe for some Syrian refugees located in Turkey, to avoid them resorting to dangerous criminal smuggling networks. **Hotspots were also established in Greece and Italy** so that all arrivals could be registered appropriately. Today, it is estimated that close to 100% of irregular migrants arriving via the Aegean and the Central Mediterranean are registered.
 - The EU Civil Protection Mechanism and **emergency funds were mobilised** to help the most affected Member States.
- 165 programmes have been approved under the EU's 4.09 billion euro **Emergency Trust Fund for Africa** to address root causes of migration.
- With the **closing of the Western Balkan** route and the conclusion of the **EU-Turkey agreement** (both in March 2016), **flows of irregular migrants and asylum-seekers were reduced by 97% in the Eastern Mediterranean compared to 2016, and by 80% in the Central Mediterranean compared to 2017**. The drop was aided by efficient return and readmission procedures between the EU and Western Balkan countries, as well as an upgrade of the Libyan Coast Guard, assisting with the return of irregular migrants from Libya and anti-smuggling activities in the Sahel region.
- The rapid **roll-out of the European Border and Coast Guard** facilitated the introduction of systematic checks on everyone crossing European borders, while interoperable IT systems were improved to exchange information on border crossings between Member States in real time.
- Notwithstanding some teething difficulties, the measures taken so far have bought time for Europe to regain control of the situation and to start fundamentally reviewing the way it fulfils its humanitarian obligation to provide international protection.

CLOUDS AHEAD

- Member States will need to continue to show courage and act decisively to find more permanent solutions to a problem that is not about to disappear any time soon.
- Europe's geography and the conditions in its immediate neighbourhoods mean it will remain an attractive destination be it for asylum claims or economic migration.
- Securing borders will remain just one side of the coin. Europe's demographic reality means that it will face labour shortages in many areas down the road.

Arrivals of irregular immigrants today under control

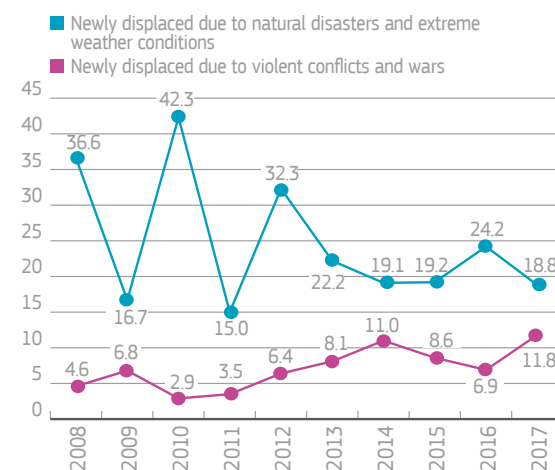
In thousands



Source: European Commission

Migration will not simply disappear: More than 30 million people displaced within their country in 2017

Millions of people



Source: Internal Displacement Monitoring Centre





MISSIONS FOR THE FUTURE





MATCHING PROMISES AND DELIVERY BY DOING LESS, MORE EFFICIENTLY

- Even if the EU has only a **limited set of tools**, it has a responsibility to act with them as effectively and efficiently as possible.
- This means **being more selective** on where and how it intervenes. The EU – and the European Commission in particular – cannot and should not be everywhere or do everything. Firstly, because it is simply not its role to do some things: others – be it the Member States, regions, cities, private businesses or civil society actors – can do it better. Secondly, because continued pressures on spending mean it does not have the resources to do everything: others must help shoulder these responsibilities.
- Doing less more efficiently also requires **managing expectations**: The EU cannot and should not promise where it cannot deliver. For instance, the EU cannot single-handedly put an end to youth unemployment. It can foster the right business environment, and support individuals in their training and retraining needs, etc. But it does not have the tools to create jobs on the ground.
- This is the very **logic underpinning the new Multiannual Financial Framework** – where the focus lies on prioritising policies with the largest added value and withdrawing from those where Member States (or regions) have the primary responsibility for delivery. This is, for instance, the case for agricultural policy, where overhauling EU-level intervention would enable a greater focus on policies that are truly European, such as security, defence, migration or research and innovation.

MAKING SURE THAT THE EURO REMAINS EUROPE'S STRENGTH

- Europe must continue to **strengthen its single currency**. The euro is still young and the crisis was a formative experience. But its advantages remain clear. The euro stimulates intra-EU trade and generates 20-25 billion euro in foreign exchange savings. It increases price stability and transparency. And it is more than a mere currency. It is a tangible, daily reminder of the freedom, convenience and opportunities that the European Union offers to its citizens and businesses.
- Today, the governance of the euro area has been fortified as a response to the crisis. Yet, its long-term resilience is still not assured. **Bold proposals have been made to this end, yet many of them remain blocked** (European deposit insurance scheme (EDIS), risk reduction/risk sharing, European Monetary Fund (EMF), Single Resolution Fund backstop, fiscal tool, etc.). **Complacency could come with potentially catastrophic costs** for the euro area and the whole of the EU if another financial or economic shock arises.
- Merely completing the euro's governance architecture and building up defence mechanisms will not suffice in the long term. Work is needed to ensure that the euro becomes an optimal currency area.
- Capitalising on the benefits of the larger EU market for financial services, restoring the enabling role of the banking sector in the economy, and ensuring resilience in the face of future pressures are objectives that can only be fully achieved by **both broadening and deepening the Banking Union** in the years to come. A genuine Banking Union is one that will not only help avoid disaster but also help to further induce cross-border banking.
- What is more, the success of the euro lies as much in the hands of the Member States as it does in its institutions. A continued commitment to **internal reform** is needed on the part of all Member States to continue moving towards **real convergence**. This is why the European Commission is proposing to establish a 'Reform Support Programme', as part of its proposals for a new Multiannual Financial Framework for 2021-2027, including a dedicated 'convergence facility' of 2.16 billion euro designed to support Member States in their concrete preparation for a smooth participation in the euro area.
- **Addressing the debt bias:** The tax deductibility of debt is *the* distortion underlying the entire global financial sector. From a financial stability perspective, debt is volatile and spreads financial risks, while equity is committed and absorbs losses. Also, equity investment usually encourages active shareholdership i.e. active monitoring of the management's decision to be in line with the investment horizon of the investors. This is likely to benefit the company in the long run. Addressing this basic distortion would go a long way to making the financial system safer and would be a lot more effective than the vast number of regulatory measures aimed at increasing the share of capital in the financial system. The Common Consolidated Corporate Tax Base (CCCTB) introduces an 'Allowance for Growth and Investment', which would give companies equivalent benefits for equity as they get for debt.



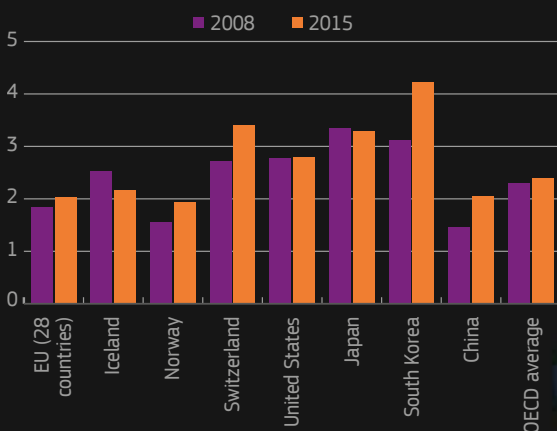


TAKING FORWARD EUROPE'S TRANSFORMATION INTO A MODERN, DIGITAL, LOW-CARBON JOB-CREATING ECONOMY

- Whether Europe can **hold onto a leading position in the next wave of the digital and low-carbon revolution** will not only determine whether the European way of life can be sustained over time. It will determine whether Europe can still expect to count among the heavyweights shaping the global agenda – or whether that role will be left to the US and China. **In 2004, the EU accounted for 31% of the global economy. Tomorrow, it will account for less than 20%.**
- Europe is strong in science but **the geography of research funding is changing remarkably.** Many of Europe's closest rivals are increasing their investments massively in the technologies that are set to dominate in the future, such as Artificial Intelligence, electro-mobility or semi-conductors, where the EU lags behind.
- **Europe needs to find its competitive edge** in this changing global economy, where the new rules of the game are scale and speed.
- Remaining at the frontier of knowledge, innovation, technology, and value creation relies on the **combined power of modern infrastructure, growth finance, and thriving human talent.**
- **Skills are the infrastructure of the future.** The expansion of global value chains, propelled by innovation in digital technologies, have transformed the way people work, live, and create value today. Re-skilling and retraining will increasingly become the norm. As the onus shifts onto the individual to remain at the 'skills cutting-edge', more personalised support will be warranted.
- At EU level, **the single market represents a major asset but its underlying building blocks need to be taken into the 21st century.** Just as innovation in the industrial era was facilitated in countries with well-developed industrial infrastructures – power plants, water supply, well-connected transport and communication networks – innovation in the digital era is reliant on top-notch digital base: high-speed broadband, 5G, super-computational power, large-scale cloud computing facilities. In a world where data is the key resource, **ubiquitous connectivity** is a precondition for economic growth and innovation. This is why the European Commission is proposing to increase investments in **research, innovation and digital** from around 70 billion euro to 114.8 billion euro under the next Multiannual Financial Framework.
- **Digitalisation and decarbonisation must be supported as mutually dependent and reinforcing processes.** Smart mobility concepts, better management of household's electricity consumption and the smart grid are all enabled by digitalisation. Leveraging these synergies will open new, innovative business models, boost the economy, and empower the European citizens. A particular focus should be on those key enabling technologies and sectors that can make the clean transition happen, based on an analysis of Europe's strengths and weaknesses throughout value chains and on designing strategies to accelerate research-to-market development of innovative solutions. The European Battery Alliance is a step into the right direction, but Europe needs to be more ambitious and more determined still.
- The EU needs to align its **innovation, industrial, trade policies and economic diplomacy** to reclaim global value chains and move towards the circular economy. This will not only bring back jobs and economic growth, it will also reduce Europe's environmental footprint through shorter transport routes, higher resource-efficiency and better environmental protection.
- Importantly, the EU must work more on **fast-tracking investments into sectors of the future.** It needs to better incentivise private venture capital investments – in particular from large institutional funds (pension funds, insurance companies, sovereign wealth funds) which are currently chronically under-represented in venture capital, and by crowding in foreign investors. While Europe has made real advances in narrowing the gap to the US with regards to seed and early-stage funding for start-ups, it **lags behind on later-stage funding of companies.** As a result, European unicorns like Delivery Hero and Spotify, for example, had to turn to foreign investors to gain access to the capital they needed to scale up and become globally competitive. The lack

EU struggles to keep pace with rivals on research investments

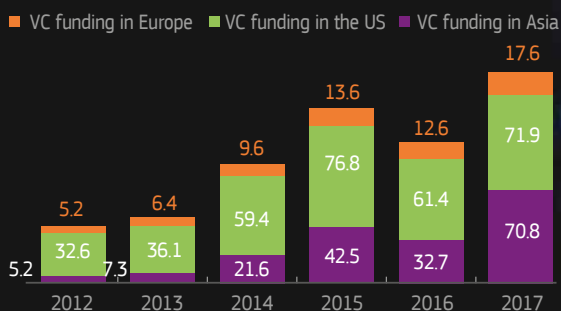
% of GDP spent on Research and Development



Source: Eurostat, Organisation for Economic Cooperation and Development

European Venture Capital has grown 3x over the last 5 years but remains minute in global comparison

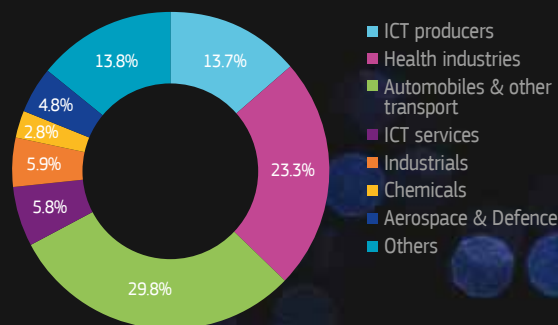
Total annual Venture Capital funding by continent, billion dollars



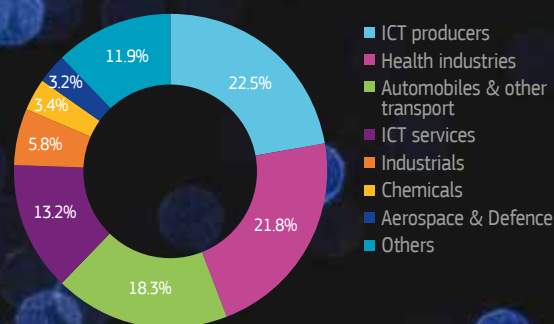
Source: PwC, CB Insights MoneyTree, Report Q4 2017

EU is underinvesting in digital research

EU Research and Development spending, 2016



World Research and Development spending, 2016



Note: shares computed for 456 EU and 1,836 world companies for which R&D data are available for the entire period 2007-2016.

Source: 2017 EU Industrial R&D Investment Scoreboard, European Commission, JRC/DG RTD

of European growth finance also means the EU's best companies are easy targets for acquisitions by non-European venture funds or investors. Europe needs more capital firepower to compete with the US and Asia's superfunds if it does not want to lose its most successful start-ups to other parts of the globe.

- The success achieved with the European Fund for Strategic Investments must be continued and reinforced. The new InvestEU will do this, with a proposed contribution from the EU budget of 15.2 billion euro – expected to mobilise more than 650 billion euro of additional investment across Europe. The fund will also see improvements to

the rulebook and the governance structure. Efforts are also needed on the regulatory and policy front (regulatory simplification, tax incentives) to create vibrant venture capital hubs, and to better connect venture capital with research and investment to ensure that the value chain is seamlessly connected.

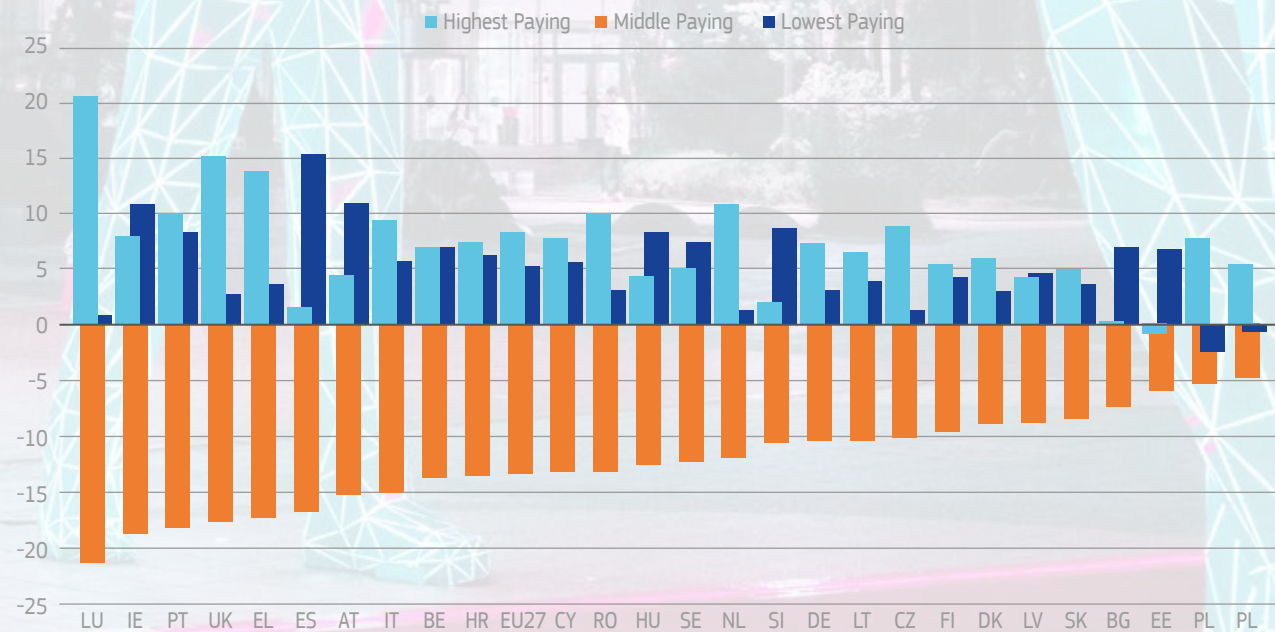


A FAIR DEAL FOR ALL EUROPEANS

- **Recovery has been slow on the social front, but steady gains are being made.** Already in 2016, the EU registered its highest ever level of employment – 71.7%. In 2017, it reached a new peak 72.2%.
- In parallel, however, important transformations are taking place.
- **Automation** is not only accelerating around the world, it is **affecting sectors and professions that were previously unaffected.** Predictions about the **jobs and tasks that will be replaced or created through technological change vary widely** but there will be further disruptions.
- Already today, more and more Europeans – and particularly younger Europeans – are turning to **non-standard forms of work** (self-employment, collaborative, temporary or part-time work), which are often at risk of in-work poverty and precarious employment conditions, as well as being left outside the scope of effective social protection. In advanced economies, **close to 60% of all employment growth since the 1990s has been in the form of non-standard work.**⁴
- The transition to a modern economy represents an uphill struggle for many. Over the past decade, EU economies have already seen polarisation rise as the middle hollows out in terms of jobs, incomes, firms, and regions. **84% of Europeans say inequality is a problem in their country.** Many expect that their children will be worse off than their parents.
- An urgent effort is needed to help European companies and citizens adapt more quickly, more securely, and more comprehensively. **Fairness has too often been addressed ex-post, through redistributive tools and policies, rather than by design.** This needs to change.
- Ensuring that workers have the skills, protection and support to transition to new jobs and to new ways of working will be of the essence.
- Facilitating labour mobility could help better match jobseekers with suitable job offers. The future **European Labour Authority** could be a true crossborder asset – by connecting with citizens more directly and helping individuals, businesses and national administrations to get the most out of the opportunities offered by free movement and to ensure fair labour mobility.
- In terms of protection, **EU spending should also focus on those affected by large-scale job displacements caused by technological shocks – not just globalisation-related.** A safety net is needed for workers – or regions, in cases where entire industries are disrupted by structural changes in the economic fabric. The European Globalisation Adjustment Fund already does this to a certain extent but it should be expanded to cover a wider array of cases that also include structural transformations caused by technological change.
- **Structural reforms are a major precondition for real convergence among Member States.** Regions and cities need to be supported in developing tailor-made solutions to anticipate and manage environmental, energy and industrial transitions, together with the private sector and citizens. Different local circumstances and demographic trends most often do not allow for one-size-fits-all solutions. An adapted cohesion policy approach, based on partnerships, investments and place-based solutions is needed.

The vanishing middle worker

Share of highest, middle and lowest paying jobs in the EU, change from 2002 to 2016 (purchasing power standard)



Source: Employment and Social Developments in Europe (ESDE), 2018



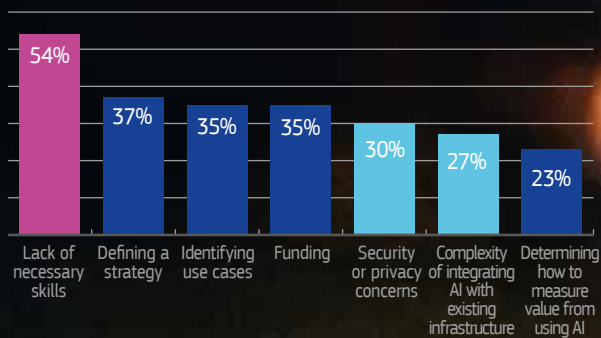
BUILDING EUROPE'S DIGITAL SOVEREIGNTY

- Digital technologies and social media have largely delivered on their promise of greater media diversity, more freedom of expression and broader opportunities for civic engagement and political participation. But they also came with challenges – cybersecurity, data protection, online disinformation.
- Europe must anticipate the next big challenges that will accompany the spread of these technologies, while also enabling European firms to reap further benefits of the digital economy.
- **The Internet of Things, cloud computing and 5G** are changing the strategic paradigm for protecting European interests. Contract negotiations, government secrets and personal health data are commonly uploaded to the cloud every day, travelling across multiple data centres in Europe and abroad. The risk of hacking and tracking is increasing exponentially as some 26 billion personal devices, government, businesses and industrial equipment are to become seamlessly connected in the new digital society. Today, anyone, anywhere in the world, can create and distribute **disinformation** to undermine national security, spread extremist views and delegitimise democracy.
- Both the United States and China have already responded to these risks by introducing efficient cybersecurity policies that include closing down their markets to foreign ownership in critical sectors. In contrast, **European digital infrastructure remains insufficiently protected.**
- Only by establishing a fully-fledged **Cybersecurity Agency**, bringing existing EU entities and skills under one umbrella, will Europe be able to advance on cyber prevention, detection and protection. This would enhance cooperation both vertically (with Member States and the private sector) and horizontally (across EU entities), as well as with other relevant entities such as NATO. Existing cooperation among Computer Security Incident Response teams (CSIRTs) networks in the Member States needs to be strengthened with a duty to exchange information and the creation of common European cyber-safety standards.
- A big part of the problem is that **Europe continues to lack the skills needed to thrive in a digital environment.** Today, still only 2% of European enterprises are taking full advantage of new digital technologies despite the fact that digitising has been proven to lead to productivity gains and increased growth potential. 4 in 10 Europeans do not have basic digital skills even though 90% of jobs will require some level of digital literacy in the near future. Nearly one in two businesses feels underprepared to handle a **cyberattack**,⁵ even as Europol estimates the cost of cybercrime at 265 billion euro per year. Work on **updating the digital skills and digital literacy** of Europeans must be ramped up rapidly.
- While **Artificial Intelligence** is still an emerging field, the widely acknowledged transformative nature of the technology requires public authorities to be vigilant. AI's huge potential is mirrored by its likely destabilising effects on some aspects of economic and social life. Similarly, while blockchain offers game-changing functionalities in terms of security, traceability, trust, it is not exempt from its own security challenges.
- The European Commission has already shown its commitment to protecting citizens in a digital area by developing an extensive framework for **data privacy** with the General Data Protection Regulation (GDPR). It will need to build on this further as it continues its work on further freeing up data flows and as new digital technologies spread. In particular, common standards with Europe's key trading partners (adequacy decisions) are needed.
- The **ethical framework for AI** that the European Commission is currently working on will be essential for framing future developments of the technology – not just in Europe but across the globe.

5. These figures are from a survey of 1,300 senior professionals, from small business to enterprise level, conducted by B2B International, in 11 countries, covering both developed markets, including the UK, USA and Japan and developing markets, including Brazil, China and India. See: Kaspersky Lab, 'Ready or not? Balancing future opportunities with future risks. A global survey into attitudes and opinions on IT security', http://media.kaspersky.com/documents/business/brfwn/en/The-Kaspersky-Lab-Global-IT-Risk-Report_Kaspersky-Endpoint-Security-report.pdf

Lack of skills is number one challenge in adoption of Artificial Intelligence

Answers to the question: 'What is the biggest roadblock to AI adoption?' (Share of respondents, %)



Source: Gartner, November 2017



TACKLING CLIMATE CHANGE TO PROTECT THE PLANET AND ITS PEOPLE

- Europe must **remain firmly committed to a highly ambitious climate action agenda**. The upcoming **Mid-Century Strategy**, requested by the European Council on 22 March 2018, should send a strong signal to industry, businesses and consumers. The aim must be to create additional incentives to shift to more sustainable practices and to scale up sustainable investments.
- Protecting the planet calls for **systemic change across the board** – not just in the traditional fields of energy and climate, but also in sectors such as construction, mobility, agriculture and manufacturing. All actors in the value chain must be involved – consumers, retail banks, management boards of institutional investors, regulators, supervisors, as well as local, regional and national governments.
- **Financial systems in particular need refocusing** to ensure the integration of long-term climate risks in financing decisions and a more sustainable capital allocation.
- Citizens must be empowered towards contributing to the common cause. This is already happening on many fronts, among others thanks to the **decentralisation of energy production**, which should be facilitated and encouraged.

- As Europe moves towards a more circular, resource-efficient economy, **new business models** around recycling, secondary resource markets, repair and upgrade services will emerge and Europe should have the appropriate enabling framework in place.
- Climate action must be used as a lever for becoming more competitive globally. From an industrial policy point of view, Europe needs to ensure that its key competitive advantages can bear fruit for the entire clean tech value chain. It must **identify the key enabling technologies and sectors** that can accelerate the transition. It must analyse its strengths and weaknesses throughout the value chain and design strategies to accelerate research-to-market development of

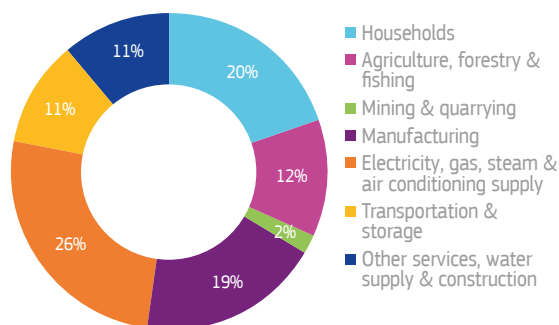
innovative solutions. **Continued technological innovation** will be key to tackling climate change. Europe needs to maintain its leadership position on R&D regarding renewables, smart energy solutions, energy storage.

- Accelerating and scaling up the use of renewables and improving energy efficiency is also core to **improving Europe's energy security** and decreasing external reliance on costly energy imports. This is therefore also central to reinforcing Europe's strategic autonomy. Yet, the shift to renewable energy will also create **new dependencies that will need to be managed** in Europe's external and trade relationships. Ensuring **access to rare earth materials** and other important resources will be of utmost strategic importance.

- While committing to higher environmental standards at home, Europe also must not be naïve; it must defend its strategic interests by **upholding these standards in its trade agreements**.
- Europe's engagement to protect the planet and its people does not stop at its borders. The EU is the largest contributor of **climate finance** worldwide. Supporting emerging economies, in Africa in particular, to leapfrog into a sustainable energy future and extending access to renewable-generated electricity for all is not only a question of fairness, but can act as a game changer for the economic development of these countries, as well as **opening new market opportunities** for European businesses.

Reducing the EU's carbon footprint requires a holistic strategy

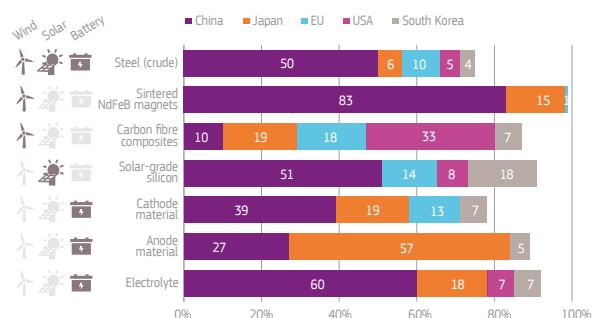
Emissions per sector, in % of total



Source: Eurostat

EU competitiveness at stake as China leads on supply of most materials and components needed for renewables

Share of global production of different processed and finished materials used in wind turbines, solar photovoltaic panels and batteries, in % of total



Source: Joint Research Centre

PUTTING THE 'C' BACK IN EUROPE'S COMMON FOREIGN AND SECURITY POLICY

- Europe's changing strategic environment requires the EU and its Member States to adapt accordingly.
- **A step-by-step consolidation of existing Common Foreign and Security Policy (CFSP) tools** can no longer be postponed. Increasing effectiveness, enhancing coherence and building resilience against attempts by third countries to divide Europe's Member States are central to strengthening the EU's global standing.
- The Lisbon Treaty already reflects the political consensus among Member States that a more efficient, timely and credible CFSP could be achieved through a gradual move away from unanimity voting. Of course, the particularly sensitive character of foreign and security policy means that unanimous decision-making will always remain the EU's ambition.
- Yet, in specific areas, where speed, efficiency and unity are of the essence, **qualified majority voting** offers a non-negligible tool to safeguard European sovereignty. This is namely the case when it comes to crucial decisions on human rights, EU sanction regimes, civilian Common Security and Defence Policy (CSDP) missions, or on EU strategies towards key regions of interest or on critical policies like the non-proliferation of weapons of mass destruction. This is all the more true against the backdrop of new geopolitical rivalries, rising geo-economic competition and unprecedented pressure on the liberal order.
- With the Foreign Affairs Council as the core platform for elaborating the Union's external action, strategic focus and action-oriented decision-making will remain a key task in forging a stronger CFSP. **Using the tool of Council decisions more decisively** and including concrete operational steps in Council Conclusions will make joint foreign policy action more output-oriented. It will also enhance CSFP ownership by EU Member States.
- With the EU's increasing defence and security focus, a **Defence Council formation** and dedicated meetings of the European Council on Security and Defence could be considered by Member States.
- A more effective foreign and security policy goes together with a strong development policy. Together, the EU and its Member States are the world's largest donor of development and humanitarian aid. The expiry of the **Cotonou Partnership Agreement**, covering 100 countries and some 1.5 billion people, is a unique opportunity to rejuvenate the EU's relationship with its partners in Africa, the Caribbean and the Pacific. A **strengthened post-2020**

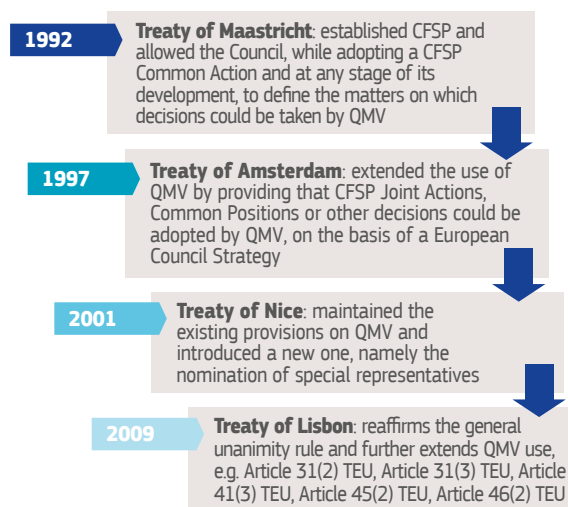


partnership must be built on the principles of the United Nations' 2030 Agenda and the Sustainable Development Goals, the Global Strategy for the EU's Foreign and Security Policy and the European Consensus on Development.

- The new Agreement must aim for **mutually beneficial outcomes** on common interests such as eradicating poverty, tackling discrimination and inequalities, and leaving no-one behind. It should facilitate a **whole-of-government approach** to make headway in building universal nationally-owned social protection systems, promoting gender equality, tackling environmental and climate-related challenges, and the root causes of migration. Efforts towards boosting research and innovation, private sector development, and trade cooperation should also be stepped up. The post-Cotonou partnership must also promote a multi-stakeholder, **whole-of-society approach**, stimulating the active engagement of a wide variety of actors in dialogue and cooperation processes, including local authorities, civil

society, the private sector, social entrepreneurs, social partners, universities and foundations. Building effective alliances in international settings will also be important to drive global action forward.

Steps towards strengthening the EU's ability to speak with one voice on the international stage



Source: European Political Strategy Centre

Note: QMV = Qualified Majority Voting





DEFENDING THE EUROPEAN SECURITY INTEREST AT HOME AND GLOBALLY

- The creation of the Schengen area has undeniably given rise to **a new, European dimension of security**, which goes beyond Schengen members and encompasses all Member States. The abolition of border controls within the EU and the global nature of the threat mean that **security must be treated as a common responsibility of EU institutions and Member State authorities**. The EU institutions have a duty to protect and to ensure security of the Union within the sphere of their competences. This can by no means be understood as taking over the security obligations of the Member States with regards to the protection of their citizens, but it comes as an additional layer of security. This **European Security Interest** must be taken into account in the application of EU law, and should lead to greater efforts in some areas, such as cooperation on data sharing and retention in the fight against terrorism and organised crime; external border protection; cybercrime and hybrid warfare, the protection of public spaces and critical infrastructure; as well as tackling energy security, climate change or migration. It could also justify measures across the full spectrum of EU policies, aimed at building up and preserving the Union's strategic autonomy in areas that are critical to its security.
- And, of course, Europe cannot improve its internal security without **looking beyond its borders**. In a time of shifting global power balances, no single Member State alone is able to master the multifaceted security challenges of the 21st century. Great progress has already been made towards **a European Defence Union**, but Europe is not there yet. The first crucial steps have been taken but the lion's share of work lies still ahead.
- By activating the **permanent structured cooperation (PESCO) on defence**, Member States have committed to doing more as Europeans for Europe's own security. Longstanding capability shortfalls – such as strategic air and sea transport, remotely piloted aircraft systems, or command and control – have to be addressed more forcefully than in the past. The next set of PESCO projects, to be decided by the end of 2018, will be a crucial litmus test for the EU's resolve to further integrate defence cooperation and build European strategic autonomy.
- For the first time, the European Commission proposal for the next Multiannual Financial Framework (2021-2027)⁶ contains **a dedicated budget for defence actions**: a budget of 13 billion euro for an enhanced European Defence Fund and a European Defence Industrial Development Programme, and an additional 6.5 billion euro for making strategic transport infrastructures fit for military mobility. In addition, the proposed **European Peace Facility** – an off-budget instrument aimed at enabling the financing of operational actions under the Common Foreign and Security Policy (CFSP) that have military or defence implications⁷ – will enable the EU to cement its role as a global actor by stepping up its ability to prevent conflicts, build peace and strengthen international security.
- The increase in security and defence spending at EU level is not an excuse for Member States to do less but an incentive to do more in times of need. **EU Member States will need to continue to increase their overall spending on defence**, as well as spend better. In practice, this means cooperating right from the start and all the way to the end of the defence capability lifecycle. 'At the start', means that EU Member States need to be serious about utilising two tools in particular – **Capability Development Plan** (CDP) and the nascent **Coordinated Annual Review on Defence** (CARD). In particular, Member States need to accept to not only share information but also accept recommendations and agree on common goals, which can then be translated into priorities for future financing under the European Defence Fund.

6. Communication from the Commission "A Modern Budget for a Union that Protects, Empowers and Defends: The Multiannual Financial Framework for 2021-2027", COM(2018) 321 final (link)

7. European Peace Facility factsheet (link)

- This also requires that Europe works more on building a **common strategic culture**, through joint military deployment, capability development and common training and exercises.
- **A European White Paper on Security and Defence** – to forge a shared understanding of key threats to European security, on the need to use military force as part of the EU’s unique integrated approach to security, on mutual aid and assistance and on the progressive framing of a common defence policy – will be a crucial element to reach a joint strategic outlook on the security challenges of the 21st century.
- Rapidly advancing technologies in Artificial Intelligence (AI), quantum computing and machine learning, as well as biotechnology, materials science, and other fields, add uncertainty to the EU’s future security environment. Technologies with the potential to disrupt societies by attacking networks or critical infrastructure are set to become more affordable and more accessible to a wider range of actors. Space technologies, data gathering, data transmission and cyber capabilities also increasingly represent a growing set of information technology applications which tend to disrupt classic defence paradigms. In the age of accelerated technological change, **defence spending choices** need to be future proof.



STANDING UP FOR THE FUNDAMENTALS: COMMON DEMOCRATIC VALUES

- Since its inception, the European Union has been a synonym of **democracy, rule of law, respect for human rights, solidarity**. These are the very principles that inspired the creation, development and enlargement of the EU and now guide its action at home and abroad. Yet today, these values are being challenged not only from the outside, but also from within.
- Eighteen years ago, the EU Treaties established an instrument to ascertain that Member States would live up to EU rules on democratic governance and human rights once they had joined – the so-called **Article 7**. During President Juncker's mandate, the European Commission has activated the Rule of Law Framework with regards to Hungary and Poland. In 2017, it went a step further and activated Article 7(1) TEU for the first time arguing that there was a clear risk of a serious breach of the rule of law by Poland. It then decided to initiate infringement proceedings regarding the Polish law on the Supreme Court – a procedure it had already used in 2017 concerning the Polish law on Ordinary Courts.
- **Keeping the European house in liberal order will be one of the EU's key contributions to sustaining this order on the global level.**
- Of course, **Europe is not an occupying force** – neither at home nor abroad. But it must stand up for its core values. At home, there can be no distinction between Member States, no discrimination between citizens. With the rest of the world, its engagement must be guided by a commitment to developing partnerships of equals.

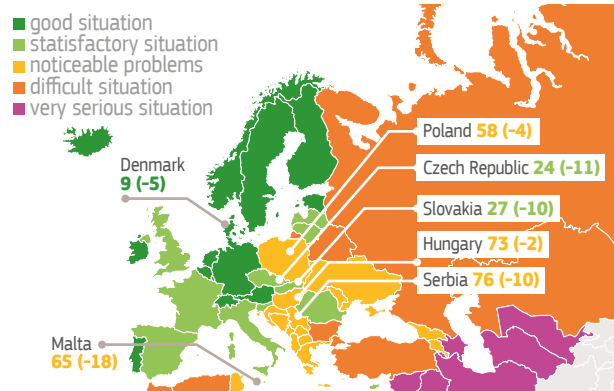
- For the next budgetary period, the European Commission is proposing a mechanism to guarantee that **future spending takes place in strict conformity with the rule of law**.
- **Supporting democratic resilience** across the EU and vibrant democratic life in each of the Member States must remain at the top of the EU's collective agenda. **In an age of disinformation and polarisation, this includes:**
 - **Providing stronger support to critical media literacy** among Europeans so that they can better harness news and information in the digital age. Recent research finds that many adults today cannot distinguish between a basic fact or an opinion. One in three do not even pay any attention to the source when accessing news on social media.⁸ As online disinformation continues to spread – going so far as to impact electoral results – educating citizens to online literacy is of crucial importance. And it will be all the more so as new technologies like

Artificial Intelligence and machine learning further blur the lines between physical and virtual reality, enabling ever more targeted profiling and influencing of individuals for commercial and political purposes.

- **Bolstering vibrant and objective journalism** in Member States, strengthening **think tanks** as a vital space for open debate and pluralism, and better protecting **freedom of expression**.
- **Supporting organisations that support the rule of law and democratic values throughout society**, both in the Member States and in accession / neighbourhood countries, through EU-funded programmes.
- **Reinforcing the cybersecurity of the tools and mechanisms underpinning Europe's democratic systems**, namely election systems, political parties, infrastructure providers – and potentially also media groups and services – in particular in

Freedom of the press deteriorating in parts of Europe

Ranking, 2017-2018



Source: 2018 World Press Freedom Index, Reporters without borders

the run-up to the European Parliament elections in 2019. This could be done by including them within the **concept of 'essential services' covered by the Directive on Security of Network and Information Systems** ('NIS' Directive). There is also a need to jointly define what should be off limits for foreign investors in terms of **critical infrastructure**. This should be done both at EU level and with EU accession countries.

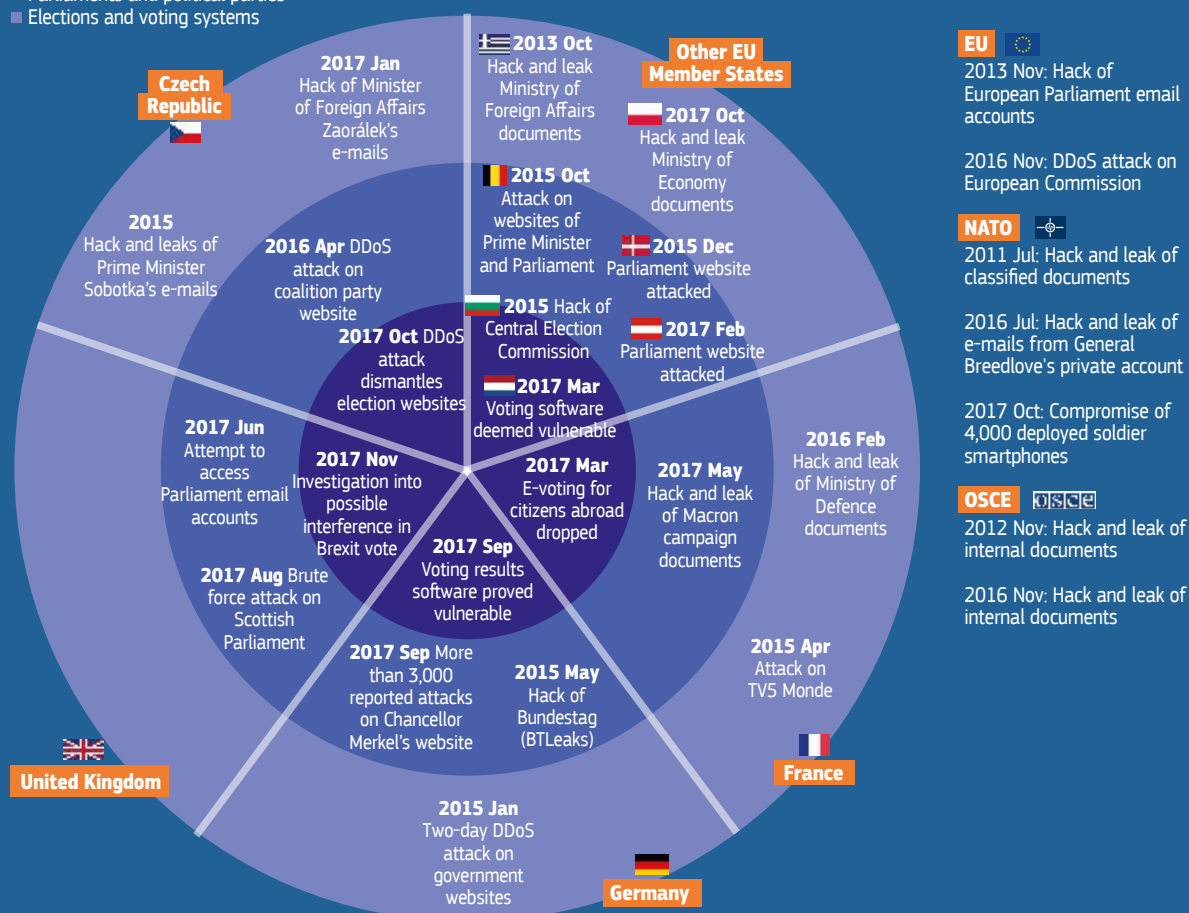
- **Europe must also promote its core values in its external relations.** If it does not stand up for the liberal world order, who else can and will?

- **In its relations with accession countries, the EU must be both a staunch partner for reform efforts,** while also making clear that there will be no rewards for those who choose to play according to different rules. As such, investment phases and cash transfers could be tied directly to progress on milestones of reforms to strengthen the rule of law and security.
- **As a major provider of development assistance,** the EU must leverage its collective weight to uphold fundamental values even as other emerging donors refuse to subscribe to international standards and safeguards.

- To have a strong voice, the EU must act united on major challenges such as the defence of human rights and the imposition of economic and political sanctions on third countries. **Moving forward with qualified majority voting** – rather than unanimity – in such selected areas would enhance European resilience against interference of third countries that try to drive a wedge between EU Member States, and would enable the EU to respond more swiftly and decisively and defend European interests and values.

Examples of breach of information incidents and vulnerabilities exposed in Europe

- Government and public institutions
- Parliaments and political parties
- Elections and voting systems



Notes: A Distributed Denial of Service (DDoS) attack is an attempt to make an online service unavailable by overwhelming it with traffic from multiple sources.

Source: European Political Strategy Centre



A MIGRATION STRATEGY THAT COMBINES RESPECT FOR EU VALUES WITH CONTROL OVER BORDERS, AND ATTRACTS THE TALENT EUROPE NEEDS

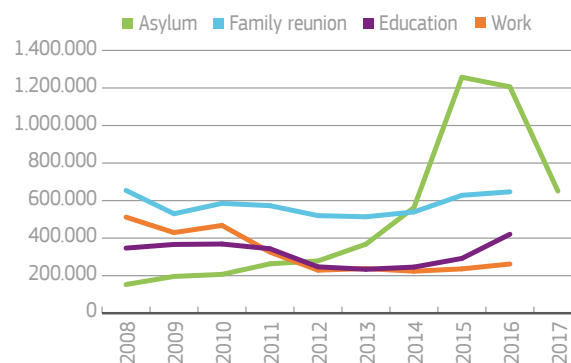
- Migration continues to dominate much of the political agenda and achieving a sovereign, comprehensive approach to migration management remains one of the biggest challenges ahead.
- In the absence of a functioning relocation mechanism under a revised Dublin III regulation, countries such as Italy, Greece and Spain remain responsible for registering irregular migrants and processing their asylum claims. To help Member States deal with these claims, while regaining full control over common European borders, and sustaining public order and security, the European Commission has proposed **tripling the budget for external border management, migration and asylum under the next Multiannual Financial Framework** – bringing it to nearly 35 billion euro – and raising the deployable staff of European border and coast guards to 10,000.
- Controlling borders and further reducing irregular flows are fundamental prerequisites for further developing European migration policy. But that is only one side of the coin. **A partial response to irregular migration will always fail.** Rescue operations far away from European coasts to prevent the loss of lives at sea will continue acting as a ‘pull’ factor unless Europe is either able to disembark irregular migrants outside its territory or to send irregular migrants who do not qualify as refugees back to their countries of origin. Putting in place an effective return policy is only possible if countries of origin are both safe and willing to take back their citizens. Return agreements with non-European countries will most likely hinge on direct financial support, direct investment, trade liberalisation, a more generous visa policy as well as more scholarships and work permits for legal migrants. Burden-sharing and relocation within the Union will only work if secondary movements of asylum-seekers between Member States can be significantly reduced.
- **The priority must be to move from irregular migration to a system of legal and controlled migration that puts Europeans – and the EU's sovereign Member States in charge of deciding who enters EU territory.**
- Currently, labour migration to EU Member States is on the decline. More than half of newly arriving citizens of non-EU countries are now admitted on rights-based (family reunion) and humanitarian grounds (refugee status, other humanitarian reasons). As a result, most new entrants are not immediately integrated into formal EU labour markets, reducing the potential economic gains from migration.
- As Europe closes down irregular routes, it must also discuss how to open up legal pathways – both for those politically persecuted and in genuine need of international protection, but also so it can attract professionals who possess skills that are in great demand and short supply in Europe, whether it's information technology or nursing. And, in order to maximise the gains from migration, **Europe needs to ensure that legal migrants are effectively integrated into its labour markets.**
- **Flexible solidarity** among Member States can help smooth the way towards a comprehensive solution. This entails that Member States less affected by inflows of irregular migrants and asylum-seekers would finance a comparatively larger share of commitments related to the EU-Turkey agreement the EU Emergency Trust Fund for Africa and the staffing of Frontex.
- **External hotspots** processing those disembarked outside the EU could be established by bilateral agreements with transit countries.
- As for the actual **relocation** of recognised refugees within the EU and the **resettlement** of refugees from crisis areas, an effective response can be organised by a ‘coalition of the

willing', with Member States participating on a voluntary basis with substantial financial support from the EU budget and from non-participating Member States.

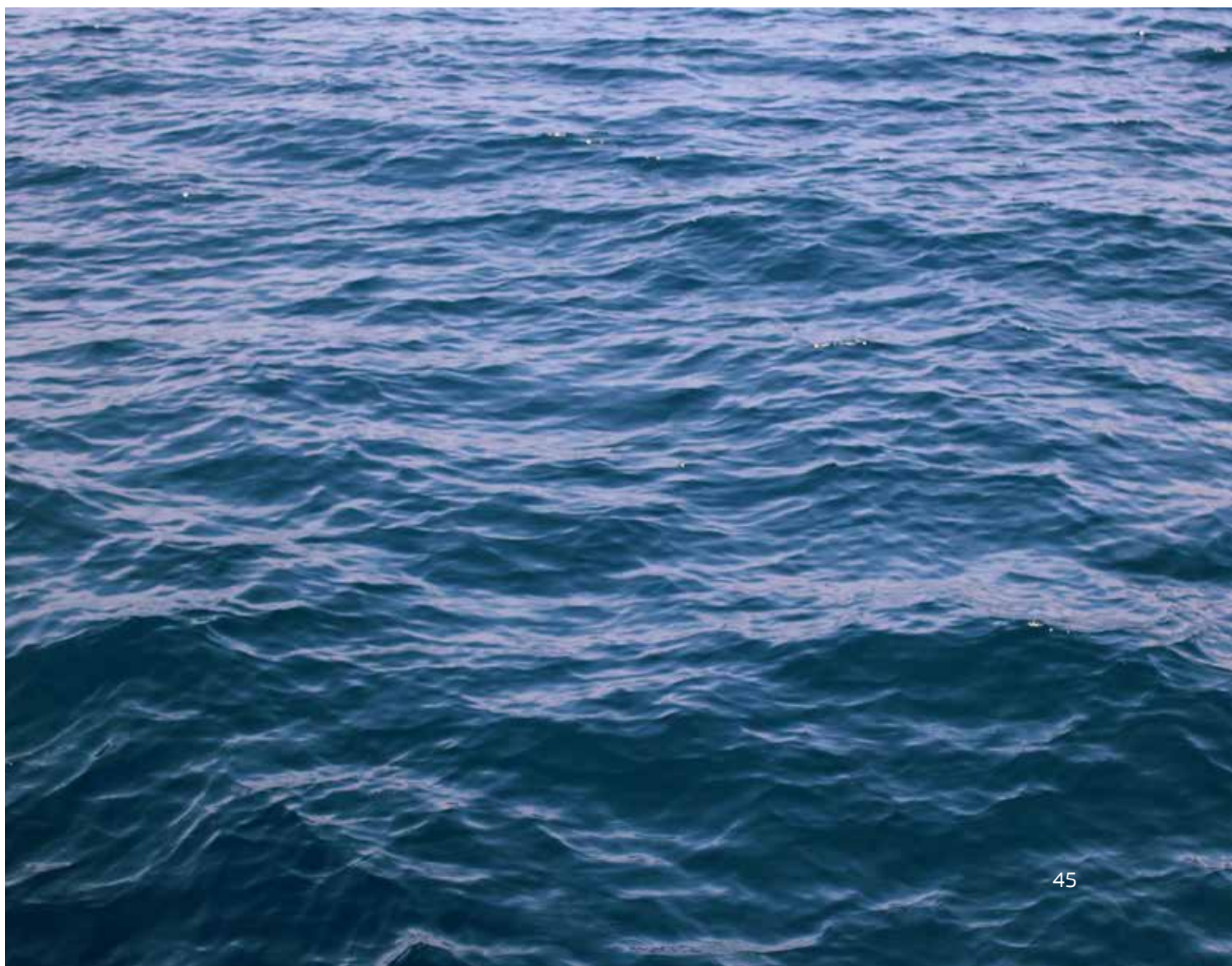
- The next EU budget cycle (2021–27) should thus be used not only for funding an expanded European Border Coast Guard, but also to reimburse (part of) the cost of managing asylum requests, hosting asylum-seekers as well as integrating recognised, relocated and resettled refugees under a new EU scheme. The budget should also support third countries and international organisations involved in managing international protection and irregular migration outside the EU.

Labour migrants accounted for just 10% of permits awarded in 2016

Migration to EU28 by category of admission/permit, 2008-2016/17



Source: Eurostat







Disclaimer

The views expressed in this EPSC publication are those of the authors and do not necessarily correspond to those of the European Commission. This publication seeks to provide food for thought in the context of the President of the European Commission's upcoming State of the Union speech in 2018, but in no way seeks to pre-empt the final speech.

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