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# On the path to 'strategic autonomy'

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The EU in an  
evolving  
geopolitical  
environment

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STUDY

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## The EU in an evolving geopolitical environment

In confronting the EU with an unprecedented crisis, the coronavirus outbreak is testing the bloc's unity, but may also accelerate the construction of EU strategic autonomy, as the roadmap for recovery is implemented. Political will, still in the making, and the capacity to act are key prerequisites for achieving effective European strategic autonomy.

The EU is increasingly at risk of becoming a 'playground' for global powers in a world dominated by geopolitics. Building European strategic autonomy on a horizontal – cross-policy – basis would strengthen the EU's multilateral action and reduce dependence on external actors, to make the EU less vulnerable to external threats; while promoting a level playing field that benefits everyone. The EU could thus reap the full dividend of its integration and possibly benefit from greater economic gains.

To build European strategic autonomy, the EU may choose to use the still 'under-used' or 'unused' potential of the Lisbon Treaty, with the European Council having a key role to play in triggering some of the Treaty provisions, particularly in foreign and security policy. European strategic autonomy may also result from a deepening of the EU integration process. Nevertheless, it remains to be seen whether the Member States will wish to grasp the opportunity offered by the Conference on the Future of Europe to deepen the European project.

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## Executive summary

The coronavirus outbreak confronts the EU once more with a [state of crisis](#), testing its unity. The crisis response is centred on the [roadmap for recovery](#) published in April 2020, which considers strategic autonomy as one of its key elements. The concept of 'strategic autonomy' – which originates from the defence sector, was long perceived with reluctance by the Member States. It is now gaining ground, particularly with the European Commission, which sees it as essential in shaping a new approach towards partners, including China, or in allowing the EU to reshape its industrial policy. The European Parliament has also recognised the importance of achieving strategic autonomy, as underlined in recent resolutions on [defence](#) and [digital Europe](#).

This study shows that political will and the capacity to act are key prerequisites to achieving effective 'strategic autonomy' and that the EU and its Member States need to operate based on a common understanding of the concept itself, which is nevertheless still in the making. Political consensus in the European Council on strategic autonomy has thus far concentrated on the defence industrial dimension. Attempts to broaden its scope are currently taking place, not least through the actions of European Council President, Charles Michel, who presented the roadmap for recovery jointly with European Commission President, Ursula von der Leyen. In their [2019-2024 strategic agenda](#), EU leaders themselves recognised that the EU needs to be able to 'act autonomously', opening the possibility of achieving broader political consensus on strategic autonomy. The ability to decide autonomously goes hand in hand with the ability to implement decisions, particularly since external actors – Russia or China – may at times try to take advantage of the lengthiness of the EU decision-making process and/or Member States' diverging views on a wide range of issues.

The EU is at risk of becoming a 'playground' for other global powers unless it develops both 'soft' and 'hard' power tools, allowing it to speak the 'language of power'. In the short term, the EU is set to continue to rely on such 'soft power' tools as sanctions, trade or climate diplomacy. In the long term, however, it may consider developing 'hard power' tools. Nevertheless, the EU still needs to build consensus on the objective and purpose of a European defence instrument, complementary to NATO, and to meet the Union's self-imposed level of ambition to protect EU citizens, respond to external conflicts and crises, and strengthen its partners' capacity.

Building European strategic autonomy on a horizontal – cross-policy basis – is expected to strengthen EU multilateral action, reduce dependence on external actors, and make the EU less vulnerable in areas such as energy, disinformation and digital technology. It would allow the EU to reap the full dividend of its integration. Potentially, this could lead to economic gains which could prove opportune at a time when the EU's share of global GDP is expected to continue declining up to 2030. Changes in the global gas market also enable the EU to achieve greater strategic autonomy. Preserving and developing technological know-how through an assertive EU industrial and economic policy, aware of European companies' – particularly small and medium-sized enterprises (SMEs) – potential and strategic value, is key to achieving strategic autonomy. Similarly, strengthening the internal market, completing banking union and consolidating the euro can help the EU keep pace with global competition at a time of geopolitical rivalry.

For strategic autonomy to materialise and be effective there is a need for political consensus on objectives, means and resources, at a time when less funding than [expected](#) might be allocated for 2021-2027 to key policies such as external relations, defence or even the green deal, putting a strain on the EU's ability to meet its level of ambition. One way to build European strategic autonomy is by using the 'unused' or 'under-used' Lisbon Treaty potential, particularly in areas such as external relations or defence, for which – as is the case for example with [common defence](#) – the European Council has to 'greenlight' the activation of relevant Treaty clauses. Another possibility is to further deepen EU integration. The forthcoming Conference on the Future of Europe could offer an opportunity to do so, although it remains to be seen if Member States will wish to grasp it.

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# 1. Introduction

The EU is operating in an increasingly volatile, complex and interdependent international context, facing growing unilateral action from various global actors, including its closest ally the United States of America (USA). Scholars see the US decision to withdraw from the Paris Climate Agreement, to pull out from the Iran nuclear deal or to escalate trade tensions as the 'new normal',<sup>1</sup> a return to a more realist vision of international relations where power, interests and geopolitics are to prevail.<sup>2</sup> Russia is another actor, which has, on several occasions over the last years, severely challenged the established international order, first and foremost through its illegal annexation of Crimea. In turn, China is also challenging the current [world order](#) through an assertive economic policy and a [growing appetite](#) for foreign [strategic infrastructure](#) accumulation.

The EU and its Member States have to constantly adapt to these moving and complex realities, maintain unity, and speak more readily with one voice in foreign policy, to avoid becoming the '[playground](#)' of global powers as their rivalry increases.<sup>3</sup> This is rather urgent if they wish to ensure that their voice, currently '[under threat](#)', continues to matter internationally. Strategic autonomy – defined in this study as the ability to act autonomously, to rely on one's own resources in key strategic areas and to cooperate with partners whenever needed – is therefore a strength, which, if used effectively, could also allow the EU to fulfil the goals [set](#) by the European Council in its 2019-2024 strategic agenda: to protect the EU's interests and to promote its values worldwide. It would enable the EU to live up to its self-imposed [level of ambition](#), to protect its citizens, respond to external conflicts and crises and help its partners to build their capacity.

Some of the EU's external vulnerabilities and dependencies, known well before the coronavirus outbreak, have subsequently been widely exposed and sometimes deepened. Academics stress that, unless substantively and strategically upgraded and reviewed, the reliance on the three pillars of EU foreign policy – multilateralism, transatlantic shared values and interests, and a level playing field in global trade – is likely to weaken the EU's position in an increasingly power-driven international world, where interests prevail over values and norms.<sup>4</sup> In their view, the 'soft power' approach centred on the EU's power of attraction, promotion of values and normative capacity needs deep rethinking, while some elements of 'hard power' have to be factored in. Well before the pandemic, the [EU Global Strategy](#) stated that 'soft and hard power go hand in hand', but given persisting Member State sensitivities,<sup>5</sup> it lacked clarity on what 'hard power' stood for. In their quest for a hybrid solution, where 'soft' and 'hard' power elements would come together in a unique manner and would allow the EU to reassert its position internationally, scholars and practitioners have advanced concepts like 'smart power',<sup>6</sup> 'sharp power',<sup>7</sup> or 'shaping power'.<sup>8</sup> The same academics and practitioners posited that the most flexible and rapid manner to ensure that the EU effectively defends its interests in a world increasingly dominated by geopolitical considerations would be to use its 'soft' power tools in a 'hard manner', including inter alia its trade weight or its

<sup>1</sup> Smith, M. E., [Transatlantic security relations since the European security strategy: what role for the EU in its pursuit of strategic autonomy?](#), *Journal of European Integration*, 40:5, 2018.

<sup>2</sup> Howorth, J., [Strategic autonomy and EU-NATO cooperation: threat or opportunity for transatlantic defence relations?](#), *Journal of European Integration*, 40:5, 2018.

<sup>3</sup> Grevi, G., [Europe's path to strategic recovery: Brace, empower and engage](#), EPC, 2020.

<sup>4</sup> Leonard, M., Shapiro, J., [Empowering EU Member States with Strategic Sovereignty](#), ECFR, 2019.

<sup>5</sup> Dempsey, J., [Is Europe Naive About Hard Power?](#), Carnegie Europe, 2014.

<sup>6</sup> Davis Cross, M. K., [The European External Action Service and Smart Power](#), USC Centre on Public Diplomacy, 2011.

<sup>7</sup> Biersteker, T., [The Potential of Europe's Sharp and Soft Power](#), *Global Policy*, Volume 11, .Issue 3, 2020.

<sup>8</sup> Grevi, G. (b), [Strategic autonomy for European choices: The key to Europe's shaping power](#), EPC, 2019.



capacity to autonomously set sanctions.<sup>9</sup> There is however very limited benefit with such an approach in the absence of a strategically autonomous EU, able not only to decide autonomously but also to effectively implement its decisions, in cooperation with partners when needed.

The coronavirus outbreak has triggered an existential crisis<sup>10</sup> of an unprecedented scale, affecting the EU and its citizens.<sup>11</sup> Medical equipment scarcity during the early moments of the crisis threatened EU citizens' right to life, tested Member State solidarity, and exposed some of EU's trade dependency on [external actors](#), notably China. The early [crisis response](#) revived Member States' former individualistic reflexes, prompting analysts to speak of a [comeback](#) of 'bilateral diplomacy' and of 'regaining sovereignty'. As the crisis progressed, EU leaders emphasised the importance of maintaining unity and of jointly addressing the medium- to long-term challenges posed by an unprecedented recovery effort. Achieving 'strategic autonomy' has risen to become an essential element of the recovery effort, being central to both the [roadmap for recovery](#) and the European Commission's revised multiannual financial framework (MFF) [proposal](#). Already in motion prior to the coronavirus outbreak, the pandemic has accelerated this trend. In its 2019 [China strategy](#), the EU was already considering reinforcing its economic and industrial policy 'with strong European players, around strategic value chains' which are key to 'EU industrial competitiveness and strategic autonomy'.

The forthcoming Conference on the Future of Europe, a subject outside of the scope of this paper, could, as a result of the pandemic, obtain a more [robust mandate](#) to consider those policy areas, such as [health](#) for example, where EU action would need to be strengthened to reduce external dependencies and enhance 'strategic autonomy'. However, the tendency to act nationally shown by Member States during the early moments of the coronavirus crisis could have lasting effects and it may prove quite [difficult](#) for the Member States 'to give more authority' to the EU institutions.

This study first defines the concept of strategic autonomy. It then considers the benefits for the EU of building an effective strategic autonomy in the current volatile geopolitical context, which is likely to persist in the years to come, and where power competition will continue to challenge multilateralism at both the regional and the global level. The study continues by focusing on several policy areas – energy policy and climate action, economic and financial governance, EU external action and security and defence – where it identifies potential for a more effective strategic autonomy. Already prior to the coronavirus outbreak, strategic autonomy ceased to be exclusively linked to the security and defence policy area from which it originated; whilst the pandemic has accelerated the EU's quest for strategic autonomy in a horizontal, cross-policy manner.

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<sup>9</sup> Abels, C., Anheier, H., Begg, I., Featherstone, K., '[Enhancing Europe's Global Power: A Scenario Exercise with Eight Proposals](#)', Global Policy, Volume 11, Issue 1, 2020.

<sup>10</sup> Deen, B., Kruijver, K., [Corona: EU's existential crisis Why the lack of solidarity threatens not only the Union's health and economy, but also its security](#), Clingendael, 2020.

<sup>11</sup> Anghel S., Drachenberg, R., [The European Council as COVID-19 crisis manager: A comparison with previous crises](#), EPRS, European Parliament, 2020.

## 2. Defining (effective) 'strategic autonomy'

This study defines EU's 'strategic autonomy' as the ability to act autonomously as well as to choose when, in which area, and if, to act with like-minded partners. The capacity to act autonomously implies both the ability to decide and to implement decisions in an autonomous manner. 'Strategic autonomy' is not about self-sufficiency but about means and tools to reduce external dependencies in areas deemed strategic and where dependencies could compromise autonomy, whilst continuing to cooperate with partners in a multilateral setting.<sup>12</sup> Its effectiveness derives from the ability to achieve the expected outcome. The prerequisites for achieving an effective 'strategic autonomy' are political will, common strategic vision and the capacity to act.

### 2.1. Political will, common strategic vision and 'strategic autonomy'

Political will is a key element in pursuing 'strategic autonomy', particularly as it requires all actors – Member States and the EU institutions – to operate based on a common understanding of the concept. Academics have outlined that – similarly to most EU policy actions before their adoption – there was no common understanding among the Member States on a definition of 'strategic autonomy',<sup>13</sup> on the objectives to attain in view of achieving it, or on the importance of pursuing such a goal. Some academics even argue that 'disparate loyalties and contradictory interests' govern the bilateral relations of individual EU Member States with global powers, hampering a common approach to 'strategic autonomy'.<sup>14</sup> The argument most often invoked against the pursuit of 'strategic autonomy' is its alleged potential to lead to the duplication of the North Atlantic Treaty Organization (NATO), or at least of weakening the transatlantic link, to which the eastern Member States remain particularly attached. In recent years, there has however been less resistance to the concept on both sides of the Atlantic, considering the growing awareness that a more 'strategically autonomous' EU in defence matters would [strengthen](#) rather than weaken NATO, by enabling an increased sharing of the burden of transatlantic security.

Academics argue that strategic autonomy does not apply exclusively to the realm of security and defence policy from which it [originates](#),<sup>15</sup> but covers all EU-related policy areas, thereby requiring a horizontal, cross-policy, approach – and the discontinuation of the existing silo approach to EU policies. This view was already reflected in the 2016 EU Global Strategy, which [identified](#), in addition to defence, other strategic policy areas, energy in particular, where the EU should be able to act autonomously in order to be able to promote its interests and defend its values. The EU Global Strategy has made 'strategic autonomy' one of its central elements, in an attempt to foster political consensus on the issue as part of a broader foreign and security policy package. The European Council however has only 'welcomed' the EU Global Strategy, without expressly endorsing it politically.<sup>16</sup> Therefore, political consensus on 'strategic autonomy' remains limited to one sectoral item – defence industry – on which consensus was brokered in 2013 in the European Council, and

<sup>12</sup> Libek, E., [European Strategic Autonomy: A Cacophony of Political Visions](#), RKK-ICDS, 2019.

<sup>13</sup> Franke, U., Varma, T., [Independence play: Europe's pursuit of strategic autonomy](#), ECFR, 2019.

<sup>14</sup> Lippert, B., von Ondarza, N., Perthes, V. (eds.), [European Strategic Autonomy Actors, Issues, Conflicts of Interests](#), SWP, 2019.

<sup>15</sup> See Leonard, M. and Shapiro, J., 2019.

<sup>16</sup> Anghel, S., Fogel, B., [The European Council's 'rolling agenda' on European defence cooperation](#), EPRS, European Parliament, 2018; Fiott, D., [Uncharted Territory? Towards a common threat analysis and a Strategic Compass for EU security and defence](#), EU ISS, 2020.

reconfirmed since. EU leaders then [recognised](#) that a 'more integrated, sustainable, innovative and competitive defence technological and industrial base (EDTIB)' can contribute to enhance the EU's 'strategic autonomy and its ability to act with partners'. This made it possible in time to launch Permanent Structured Cooperation (PESCO) and to introduce the European Defence Fund (EDF), two tools intended to enable the development of capabilities and therefore to contribute to the development of a more strategically autonomous EU.

More recently, in March 2019, EU leaders recognised that the Union [needs](#) a long-term vision and assertiveness in its industrial policy, but did not at that point in time refer to this as a key element in achieving 'strategic autonomy'. The European Commission, in its [joint communication](#) on EU-China relations prepared with a view to the March 2019 European Council, stressed that 'the EU should foster industrial cross-border cooperation, with strong European players, around strategic value chains that are key to EU industrial competitiveness and strategic autonomy'. The [2019-2024 strategic agenda](#) adopted by the European Council in June 2019, recognised that the EU has to 'increase its capacity to act autonomously' in order to be able to defend its values and protect its interests, opening the possibility for the negotiation of a broader, cross-policy, political consensus on 'strategic autonomy'.

The coronavirus crisis has further exposed the vulnerabilities and some external dependencies of the EU in a horizontal, cross-policy, manner. It might act as a catalyst allowing the formation of a cross-policy political consensus on 'strategic autonomy', as the EU tackles the challenges of post-crisis recovery. EU leaders [have begun to recognise](#) that foreign direct investment screening and the protection of strategic assets 'from foreign investments that could threaten legitimate public policy objectives' 'will contribute to the EU's strategic autonomy, during the crisis and afterwards'. The [roadmap for recovery](#) jointly presented by the President of the European Council, Charles Michel, and the President of the European Commission, Ursula von der Leyen, confirmed that industrial policy and economic policies were key enablers of strategic autonomy. In his remarks following the video conference of the members of the European Council on 23 April 2020, President Michel [indicated](#) that it was of 'utmost importance to increase the strategic autonomy of the Union and produce essential goods in Europe'.

## 2.2. EU's capacity to act autonomously

Intertwined internal and external vulnerabilities hamper the EU's capacity to act autonomously. The EU's difficulty to get its 'internal act together'<sup>17</sup> represents a vulnerability due to the length of the decision-making process and, in certain cases, inability to reach consensus as a result of persisting diverging national interests, thus placing the EU in a situation where its main global 'strategic rivals' – Russia, China or even sometimes the USA – could seek to capitalise on divergences of Member States' views in order to pursue their own interests. To mitigate this risk, the EU could streamline the existing decision-making process by moving to qualified majority voting (QMV) on a wider range of issues, including foreign policy, thus allowing for a swifter decision-making process. However, Member States' appetite to extend QMV to additional foreign policy items remains low.

There are cases when the EU manages to find a common position on an issue rapidly, but nevertheless faces difficulties in protecting and defending its interests internationally, as in the example of the Joint Comprehensive Plan of Action (JCPOA) (hereinafter, the Iran nuclear deal). The European Council was successful in building and maintaining unity in support of the Iran nuclear deal between May 2018, when the USA pulled out of the deal, and January 2020, when France, Germany and the United Kingdom (UK) [triggered](#) the dispute resolution mechanism on grounds of

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<sup>17</sup> See Lippert, B., von Ondarza, N., Perthes, V. (eds.), 2019.

non-compliance by the Iranian regime. However, the EU Member States have been unable to counter the US' threat to sanction EU companies trading with Iran. A few EU Member States – France, Germany and the UK – established a dedicated mechanism in early 2019 – the Instrument in Support of Trade Exchanges (INSTEX) – aimed at supporting European companies willing to engage in trade with Iran, and shielding them from the consequences of US' secondary sanctions. However, the impact of INSTEX since its creation remains marginal, as it has been used only [once](#) so far, largely due to continued US threats to sanction any company using it. A 'strategically autonomous' EU should be able to infuse trust and show ability to protect. It is therefore rather urgent to carry out an in-depth, cross-policy, reflection on the means necessary to protect EU interests.

The EU can further [strengthen](#) its capacity to act and build its 'strategic autonomy' by 'unlocking' – across the entire spectrum of EU policies – the 'underused' and 'unused' potential of the Lisbon Treaty. In recent years, several treaty provisions have been activated, some having a horizontal impact on different strategic policy areas, as is the case with PESCO, which, in addition to defence, touches upon industry, transport and infrastructure. Using the full potential of the Treaty may lead to deeper integration in certain areas whilst also boosting the EU's strategic autonomy. An example here is the EDF, a mechanism at the crossroads between research policy, industrial policy and defence policy. The EDF represents a mix of community method and intergovernmental elements, thus contributing to deeper EU integration. A European Parliament [resolution](#) stresses the EDF's potential to enhance the 'technological autonomy of the Union's defence industry thereby contributing to the Union's strategic autonomy'.

Unlocking this treaty potential may sometimes prove to be a long-term endeavour. This is the case with the [European patent with unitary effect](#) (hereinafter, the 'unitary patent'), established under enhanced cooperation in [EU law](#) over half a decade ago. Its dispute resolution mechanism – the [Unified Patent Court](#) (UPC) – is subject to an international agreement and still awaits ratification. The non-ratification of the UPC agreement delays the application of the [European patent regulation](#), resulting in the non-implementation of the 'unitary patent'. Patents are at the confluence of industrial policy, research policy, and even defence policy, having by their strategic dimension, the potential to boost the EU's strategic autonomy. The European Parliament has [called](#) on EU Member States to implement 'without delay' the 'unitary patent'. It has also stressed 'that technological development is a sensitive and vulnerable sector', that 'intellectual property rights (IPRs) are an essential component of a knowledge economy' and that a unified patent regime can contribute to countering internal market fragmentation.

The EU constitutional framework may prove an enabler of or an obstacle to the Union's quest for 'strategic autonomy'. The current mix of intergovernmental and community method elements makes it difficult for the EU to achieve 'strategic autonomy', particularly in those policy areas where the intergovernmental dimension prevails and Member States consensus is required, as is the case with the foreign and security policy.<sup>18</sup> The more Member States fall back on intergovernmentalism, the more they put on hold, on grounds of national sovereignty, the quest for EU 'strategic autonomy'. Conversely, the deepening of the EU integration process, by pooling, and not by transferring, sovereignty could boost EU 'strategic autonomy'.

It remains to be seen if the upcoming Conference on the Future of Europe will consider the type of political and constitutional project the EU would wish to pursue in the years to come. The Future of Europe debate held in the plenary of the European Parliament between January 2018 and February 2019 confirmed, as expected, that some of the Member States would favour a deepening

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<sup>18</sup> See Lippert, B., von Ondarza, N., Perthes, V. (eds.), 2019.

of the EU project.<sup>19</sup> The Prime Ministers of Croatia, [Andrej Plenković](#), of Luxemburg, [Xavier Bettel](#), and of Spain, [Pedro Sanchez](#), spoke in favour of deepening the EU project by 'pooling sovereignty'. The President of France, Emmanuel Macron, has been the most ardent [defender](#) of a European sovereignty that is complementary to the 'individual sovereignty' of the Member States, and which protects EU citizens in an increasingly volatile global environment. More recently, during the coronavirus outbreak, President Macron has [stressed](#) on several occasions that, in order to reduce existing dependencies and safeguard its sovereignty, the EU needed to build its 'strategic autonomy', focusing on a wide range of areas, including industry. In so far as the concept of 'strategic autonomy' is slowly gaining consensus among Member States, the concept of European sovereignty, which has the potential to renew the 'tradition of European federalism',<sup>20</sup> raises sensitivities. In their June 2020 [conclusions](#) on defence, Member States [avoided](#) using the term 'sovereignty' in Council and invoked the term 'independence' instead, which is enshrined in the Lisbon Treaty.

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<sup>19</sup> Drachenberg, R., Kotanidis, S. (eds.), [The Future of Europe debates in the European Parliament 2018-19: A synthesis of speeches by EU Heads of State or Government](#), EPRS, European Parliament, 2019.

<sup>20</sup> Heine, S., [European sovereignty and federalism: a necessary alliance to rescue political agency](#), Egmont, 2015.

### 3. The benefits of building/pursuing effective 'strategic autonomy'

The question is not only whether the EU should move towards building 'strategic autonomy', but also what advantages could result. By building an 'effective strategic autonomy', the EU could reduce existing dependencies, better promote its interests and values worldwide and multiply its economic benefits while reducing risks.

#### 3.1. Reducing existing dependencies

The EU is part of a globalised environment characterised by interdependence, which is at the heart of its multilateral action, and therefore, of its foreign policy action. Disruptions that transform interdependencies into dependencies lead to imbalances and could be countered through the building of an effective 'strategic autonomy'. The greater the dependency in specific strategic policy areas the more vulnerable and unable the EU is to pursue its interests and defend its values. One example is the trade relationship with China, which, in the words of President von der Leyen, is [characterised](#) by 'asymmetry' in market access and dysfunctionalities as regards the level playing field. A more robust EU industrial policy and foreign direct investment screening are tools that could contribute to remedy this asymmetry. They could raise the EU's capacity to act autonomously, not only in relation to China but also to other partners.

The coronavirus outbreak highlighted some of the EU's dependency on China for health equipment and medicine supply. It [has shown](#) how vulnerable the EU could be when it comes to a strategic domain such as the health sector. As argued previously in this study, the pandemic could offer a unique opportunity to build political consensus on 'strategic autonomy' and place it at the centre of the recovery process. This makes it important to act, not only on health policy, but also concomitantly on climate and energy, industrial policy, foreign policy, development, economic affairs, monetary policy, defence, international trade, transport, infrastructure, artificial intelligence, research or intellectual property rights. Each of these domains is of strategic importance for an EU that, unless it builds its capacity to act autonomously, risks being caught in the middle of the game of global powers at a crucial juncture.

Reducing dependencies is not an easy exercise; it requires maintaining and renewing the existing political consensus. Quick legal or institutional solutions might be tempting, but these solutions only represent the means of reducing dependency and must come second – as a way to implement political will. In practice, the European Council has first to reach, and then to maintain, a political consensus on the formulation and implementation of policies, to ensure that the Member States fully adhere to the whole process. An interesting example is the EDF, the creation of which would have been impossible without a prior political consensus forged at the European Council on the need to share the burden of transatlantic security and address the growing risk of technological obsolescence in Europe. The EDF – a dedicated instrument intended to boost European defence research and defence industry – can only prove its added value and contribute significantly to the building of the EU's strategic autonomy<sup>21</sup> if it is provided with sufficient resources in the years to come (see also section 4.4.2).

An example of a common external vulnerability caused by existing dependencies is the energy sector. The EU's external energy dependency, all energy types included, [rose](#) from 56 % in 2000 to

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<sup>21</sup> Csernatoni, R., Lațici, T., [Empowering the European Parliament: Toward More Accountability on Security and Defense](#), Carnegie Europe, 2020.

58 % in 2018, this despite the European Council's 2014 [call](#) to reduce dependency from outside sources, in particular in the gas sector. Russia remains the main external supplier in the case of both crude oil (30 % of EU imports) and natural gas (40 % of EU imports) (see also section 4.1.1). Analysts point to a tacit understanding, reached between the largest western European countries prior to 1989, to limit, for strategic purposes, their gas dependency (at the time) on the then Union of Soviet Socialist Republics (USSR) to a maximum of 30 % of their consumption; this tacit understanding is still respected today.<sup>22</sup> One way to further reduce dependency across the EU-27 and ensure security of supply is by diversifying sources of energy, reducing fossil fuel consumption, while also increasing the share of liquefied natural gas (LNG). Increasing LNG would result in reducing the share of gas supplied by pipelines, for which Russia is the main supplier. LNG is generally more expensive than gas supplied through pipes. Yet, in order to reduce dependencies and boost strategic autonomy, the economic cost of diversification needs to be considered in the broader context as a long-term investment towards the EU and its Member States' strategic interest. Such a move is expected to result in a multiplication of sources of energy, particularly renewable, in a diversification of suppliers, to lead to lower prices, and to offer Member States a negotiation leeway. Renewable energy is at the core of the [EU Green Deal](#), which is a transformative project for European economy and society, aiming to allow the EU to play a leading role internationally in the fight against climate change.

## 3.2. Protecting the EU's interests and values in the world

Strategic autonomy holds limited value – and even less potential to reap benefits for the EU – without a clear linkage between the pursuit of strategic autonomy and the pursuit of specific EU interests, including its interest in protecting the values on which it is built. The pandemic has highlighted the crucial link between the welfare state, the open market economy, democracy and the rule of law, solidarity, freedom of movement and human rights. These are just few of the European fundamental values that have been challenged by the coronavirus outbreak.<sup>23</sup> In situations of crisis – of which the pandemic is only one of many – critical dependencies can demand compromises in terms of interests and values. Thus, a degree of autonomy consistent with a strategic level of ambition – in defence and beyond, for example in technology, protection of intellectual property rights, energy and medical equipment – can serve as a protective mechanism for values and interests.

As [stated](#) in Article 3(5) TEU 'in its relations with the wider world, the Union shall uphold and promote its values and interests and contribute to the protection of its citizens. It shall contribute to peace, security, the sustainable development of the Earth, solidarity and mutual respect among peoples, free and fair trade, eradication of poverty and the protection of human rights'. Adding the element of synergies to the EU's foreign policy, the Treaty [continues](#) that the EU must 'work for a high degree of cooperation in all fields of international relations, in order to safeguard its values, fundamental interests, security, independence and integrity'. Strategic autonomy can serve as a tool for protecting these interests and values internally, and promoting them in the world. As a 'shaping power',<sup>24</sup> a strategically autonomous EU could use all its weight – derived from its policies, regulatory capacity and commonly shared principles – as a means for international influence and as a shield against elements attempting to weaken its values and hurt its interests.

Even before the pandemic, the rise of geopolitics and great power competition as well as the return of nationalism had begun to challenge fundamental EU interests and values, most notably

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<sup>22</sup> Franza, L., van der Linde, C., Stapersma, P., [Europe's Energy Relations](#), Clingendael International Energy Program, 2018.

<sup>23</sup> Shea, J., [The coronavirus: What could be the strategic implications?](#), Friends of Europe, 2020.

<sup>24</sup> Grevi, G. (a), [Shaping power: A strategic imperative for Europe](#), EPC, 2019.

multilateralism,<sup>25</sup> democracy and liberalism. The rise of competing models of governance and regional orders, based more on spheres of influence, rather than on cooperation and on the concept of 'diffuse reciprocity'<sup>26</sup> challenged the fundamental premises of the EU's model. The pandemic has exacerbated trends<sup>27</sup> in the global geopolitical environment in that direction; the sense of a vacuum in global leadership, an expanded and multidimensional threat environment, a relative decline in multilateralism,<sup>28</sup> the retreat to the nation state and the weaponisation of global interdependence<sup>29</sup> have become characteristics of the 'new normal'. Global inequality, already [reported](#) to be on the rise in early 2020, is expected to worsen in the post-coronavirus environment, endangering human rights. In a world that has rapidly become much more virtual, the right to privacy and [data protection](#), which are fundamental to the EU, have become extremely vulnerable, requiring stronger norms for cyberspace to protect democratic principles and values. Sustainable development, the fight against climate change<sup>30</sup> and the clean energy transition could be stalled or even abandoned in parts of the world due to the economic crisis caused by the pandemic, which can lead to changes in government priorities. The EU actively [supports](#), via climate and development funding, climate action in third countries and is to date the main international provider of such funding.

Strategic autonomy, accompanied by the language of power – a language that clearly iterates the EU's interests and protects its values – as well as the [tools and means](#) to make that language credible is a prerequisite for the EU to avoid being caught in the growing strategic rivalry between the USA and China, and their respective values and interests. In the [words](#) of High Representative/Vice-President (HR/VP) Josep Borrell '[t]he pressure to choose sides is growing. As the EU, we should follow our own interests and values and avoid being instrumentalised by one or the other'.

The [new geopolitical Commission structure](#) set up in 2019 reflected the intention to promote the EU's interests and values – internally and externally – by creating a dedicated portfolio for the promotion of 'the European Way of Life' and by emphasising EU values and interests externally within the mission of the High Representative. In her [mission letter](#) to Vice-President Margaritis Schinas, Commissioner for Promoting the European Way of Life, Commission President von der Leyen set a reinforced agenda including: a new pact on migration and asylum; the coherence of internal/external dimensions of migration; a European Security Union ensuring coherence of all security-related policies, internal and external; and building resilience to hybrid threats across sectors and coordinated responses to prevent, detect and respond to such threats. The 2020 Commission [work programme](#) included initiatives to combat election interference, disinformation, terrorism and various forms of hybrid threats (including acquisition of critical infrastructure) which threaten democracy and freedom, core values of the EU. The EU has been actively working to [uphold](#) its values and way of life by countering these hybrid threats, a central element of the Global Strategy.

In its external action, the EU aims to promote and defend its values in the global context through its leadership and support of multilateral formats in the areas of trade, climate, security, human rights, health, and development, also contributing to the (further) development of rules-based multilateral governance for issues such as artificial intelligence, cyberspace and space. Financial instruments, such as the [Partnership Instrument](#) in the previous MFF and the new Neighbourhood, Development

<sup>25</sup> Lazarou, E., [The future of multilateralism: Crisis or opportunity?](#), EPRS, European Parliament, 2017.

<sup>26</sup> Keohane, R., [Reciprocity in International Relations](#), *International Organization*, 40(1), 1986.

<sup>27</sup> Lazarou, E., [Foreign policy consequences of coronavirus](#), EPRS, European Parliament, 2020.

<sup>28</sup> Haas, R., [The Pandemic Will Accelerate History Rather Than Reshape It](#), *Foreign Affairs*, 2020.

<sup>29</sup> Farrell, H., Newman, A. L., [Weaponized Interdependence: How Global Economic Networks Shape State Coercion, International Security](#), 2019.

<sup>30</sup> Blondeel, M., [COVID-19 and the Climate-Energy Nexus](#), Egmont, 2020.



and International Cooperation Instrument ([NDICI](#)) in the proposed new MFF, explicitly link financing for cooperation with partners with the values and interests of the EU. A revised approach<sup>31</sup> (methodology) for enlargement, adopted in 2020, also targets more effective implementation of reforms in candidate countries, in line with EU values – and in the interest of peace, security and stability in its neighbourhood.

There is little doubt that the promotion of the EU's strategic interests requires unity and coordination, not least in order for the EU-27 to collectively agree on what these interests are. The necessity for cooperation, also highlighted by the response to Covid-19, shows the intrinsic link between solidarity internally and strategic autonomy in the world. Similarly, an assertive and effective foreign policy can only be based on the joint determination to promote shared interests. In this context, experts as well as the European Parliament itself have been calling for a coherent strategic approach embodied in a key strategic document.<sup>32</sup> In June 2019, the Council tasked the European External Action Service (EEAS) with carrying out a strategic reflection on security and defence and soon after followed with a proposal on a '[strategic compass](#)', which will aim to clarify the level of ambition defined in the Global Strategy. Most importantly, in its preparation, the Council has implicitly acknowledged that the Achilles heel of the EU's foreign policy is the lack of a shared threat/challenges assessment, which would constitute a prerequisite for commonly defensible interests.

The EU's approach to Russia has been highlighted as a case in point, where [major differences](#) among Member States have prevented the EU from assuming a more assertive stance towards an actor that has challenged international law and democracy, although the European Council showed unity in introducing and maintaining sanctions following Russia's illegal annexation of Crimea.<sup>33</sup> Today, the focus on a robust and unanimous new strategy on China, reflecting EU interests and protecting its values, is a challenge and a necessity that has been repeatedly [highlighted](#) by High Representative Borrell. Concern over potential dependence on China for the provision of critical 5G technology, has been compounded by the [exposure](#) of the EU's dependence on China for some imports of crucial intensive care drugs, as well as for some raw materials for generics and innovative medicines. The revised [MFF](#) proposals unveiled by the Commission in May 2020 emphasise the need for investments aimed at reducing such dependencies, which risk compromising EU interests and values. The proposal for the new MFF, which comes amidst the major health crisis generated by Covid-19, explicitly links these investments to strategic autonomy, recognising that the ability to decide and to act freely in an interdependent world, is more urgent now than it has been in decades.

### 3.3. Widening the scope of economic possibilities

Beyond political and institutional reasons for more EU strategic autonomy, the potential economic costs and benefits of pursuing on this path in various policy areas should also be considered. Moving towards more strategic autonomy could indeed bring substantial economic benefits, but it could also mean additional costs if it leads to international tensions and protectionism. A comprehensive and prudent strategic evaluation is thus always needed.<sup>34</sup> With the right strategy in place, the EU

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<sup>31</sup> Stanicek, B., [A new approach to EU enlargement](#), EPRS, European Parliament, 2020.

<sup>32</sup> Mauro, F., ['EU Defence: the White Book implementation process'](#), DG EXPO, European Parliament, 2018.

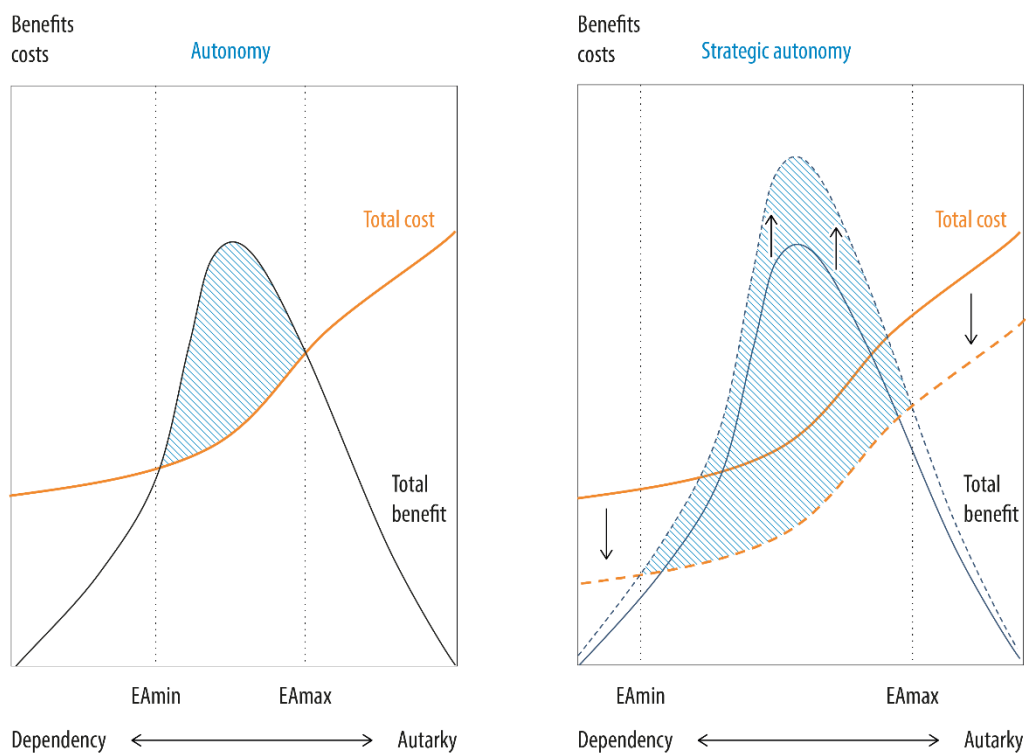
<sup>33</sup> Anghel, S., Drachenberg, R., [The European Council under the Lisbon Treaty: How has the institution evolved since 2009](#), EPRS, European Parliament, 2019.

<sup>34</sup> Howorth, J., [Strategic autonomy. Why it's not about Europe going it alone](#), Wilfried Martens Centre for European Studies, 2019.

could reinforce its autonomy and become a compass in an [uncertain, rapidly changing and complex international environment](#).

Conceptually (see 'Autonomy' in Figure 1), as dependency is gradually reduced by benefiting from common policy and by developing common goods, the benefits of more autonomy increase faster than the costs until point  $E_{Amin}$  where benefits are higher than costs. This corresponds to a situation of beneficial economic autonomy, in which the resources generated allow for autonomous decision-making and mutually beneficial global interactions. However, as the process is pushed ever further towards autarky, cooperation inevitably becomes more difficult, as openness is reduced. This leads to point  $E_{Amax}$ , where the costs of more autonomy start to outweigh the benefits. The decision-making process is then constrained by conflictual and costly global interactions, until full autarky, where economic autonomy proves extremely costly.

Figure 1 – From economic autonomy to economic strategic autonomy



Source: EPRS.

Compared to a situation of economic autonomy, where one aims at a beneficial level of autonomy (i.e. a point between  $E_{Amin}$  and  $E_{Amax}$ ), a situation of economic strategic autonomy is one where an actor has the power to widen the scope of possibilities (see 'Strategic autonomy' in Figure 1). It is thus not as constrained by the existing equilibrium (i.e. surface hatched in 'Autonomy' in Figure 1), as by its strategic actions. It could shift the curves of potential costs and benefits, thus potentially reaping a higher level of net benefits. This could for instance be achieved through the development of new productive capacities, through efficiency gains, through the provision of additional public goods and services, through better managing of externalities or through induced spill-overs. This could also prove mutually beneficial externally, when multilateralism is pursued because each actor improves productivity and enters into a beneficial cooperation with partners, rather than only narrowly competing through cost cutting and standard lowering for short-term unproductive market share gains.

An economically autonomous and strategic EU should therefore constantly assess how, building on current strengths, it can improve its productive capacity, whilst positioning itself in an interdependent global arena. From that perspective, a first advantage of strategic autonomy is that it allows an actor to be a global economic player rather than a playground. A second advantage is that choices are less constrained, thus preserving the EU from having to arbitrage between binary choices. Another advantage is that it offers the opportunity for a larger presence in a greater variety of economic activities and a positioning at key points of the value chains. The economic complexity within the successful strategic autonomous actor is therefore larger, potentially allowing for greater levels of added value extraction from the global value chains and ultimately higher potential growth.

Moving away from sterile dependency or isolationist postures requires increased joint and concerted strategic action at the EU level. This would allow the EU to reap the full dividend of its integration. Potentially, it could lead to economic gains of up to €2 trillion per year<sup>35</sup> and could prove timely, as the EU share of global GDP is expected to continue declining from 14 % in 2019 to around 11 % in 2030 – if the UK is included – and to 9 % without the UK.<sup>36</sup>

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<sup>35</sup> Teasdale, A., (ed.), [Europe's two trillion euro dividend: Mapping the Cost of Non-Europe, 2019-24](#), EPRS, European Parliament, 2019.

<sup>36</sup> Guillemette, Y., Turner, D., [The Long View: Scenarios for the world economy to 2060](#), OECD Policy Paper 22, 2018.

## 4. Opportunities for more (effective) strategic autonomy

Pursuing strategic autonomy on a horizontal basis requires the EU to act on each of its policies in an interlinked manner. Some domains, such as climate and energy, offer the Union and its Member States the possibility to further reduce existing external dependencies through the promotion of an ambitious policy, thus strengthening the EU's ability to act autonomously. Critical dependency in key areas is conducive to compromises, whilst a reduction of dependency may offer more opportunities to protect interests and values. This is key, particularly, in the foreign and security policy domain, where the EU faces an increasingly challenging international environment, with global and even regional powers exacerbating their rivalry. Thus, building strategic autonomy on a mix of 'soft' and 'hard power' tools might offer the EU the opportunity to maximise its ability to act autonomously and to effectively protect its values and interests in the world. Other domains, such as the economy, if strengthened through the promotion of a robust industrial policy, the completion of the banking union, the deepening of the European monetary union (EMU), or sustained work towards completing the internal market, could allow the EU to maintain its global weight and ensure that its voice continues to count internationally.

### 4.1. EU energy policy and climate action

EU's climate ambition is at the centre of the Union's transformative project for the years to come. Through their [2019-2024 strategic agenda](#), the Heads of State or Government have recognised that the EU must engage 'in an in-depth transformation of its own economy and society to achieve climate neutrality'. Member States, with the exception of Poland, have in the interim committed to meet this political objective by 2050, for which the [European Climate Law](#), presented by the European Commission, will create a legally binding framework, when adopted.<sup>37</sup> The European Parliament [considers](#) that 'a legally binding EU commitment to climate neutrality by 2050 at the latest will be a powerful tool to mobilise the necessary societal, political, economic and technological forces for the transition' and has stressed the key role to be played by the Member States in meeting the EU's climate level of ambition by 2030 and 2050. Meeting this climate ambition would allow the EU to support a green economy and potentially further reduce the share of conventional energy sources – gas and oil – which continue to represent the main source of external dependency in the energy sector. As a result, the EU would stand by its Paris Agreement commitments, and would also be able to act more autonomously and better protect its interests and values worldwide.

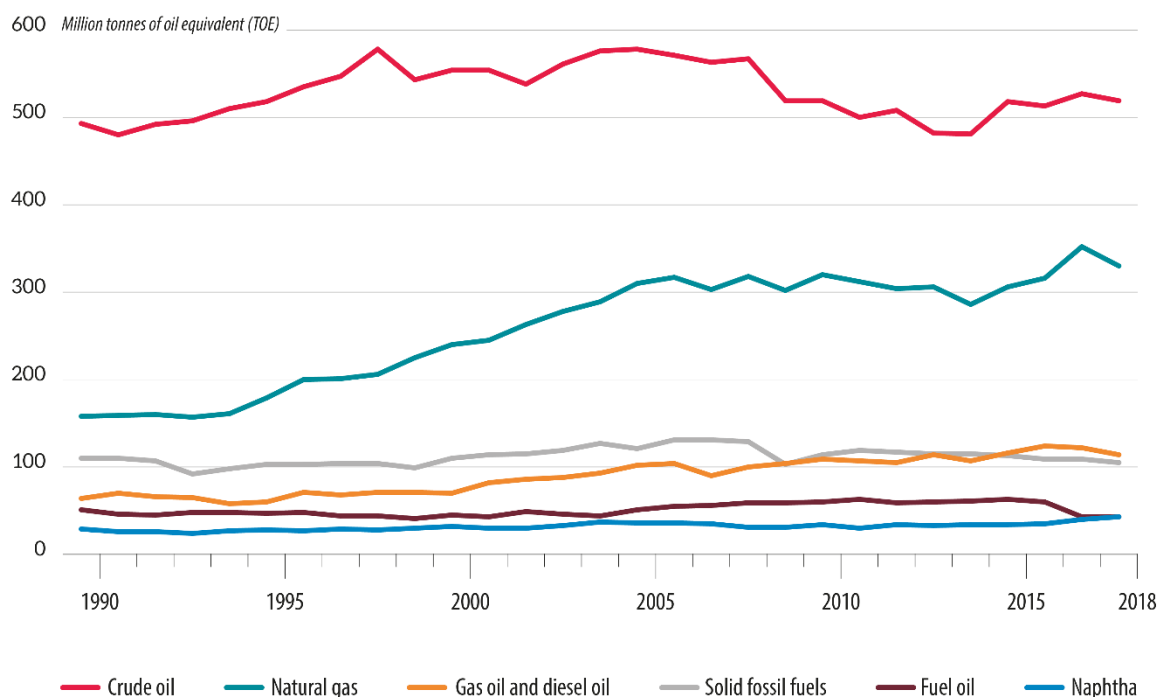
#### 4.1.1. Energy supply and security

Asserting strategic autonomy in the energy field has traditionally been difficult for the EU, partly because of its high and growing reliance on energy imports. This is particularly the case with fossil fuels. Primary energy production in the EU has declined over the past two decades. This decline appears to be accelerating – between 2008 and 2018, primary energy production in the EU fell by 9.2 % according to Eurostat [data](#). Declining EU energy production has been accompanied by a steady increase in imports from third countries (see chart below). The largest increase has been in the natural gas sector – between 1990 and 2018, natural gas imports more than doubled from 164 Mtoe (million tonnes of oil equivalent) to 369 Mtoe. The two main gas producing countries in the EU – the Netherlands and the UK – have seen sharp falls in production as their offshore reserves in the North Sea become depleted, while public opposition has [curbed](#) onshore gas production in

<sup>37</sup> Drachenberg, R., Anghel, S., [Outcome of the meetings of EU leaders, 12-13 December 2019](#), EPRS, European Parliament, 2019.

the Netherlands, notably in the Groningen fields. Between 1990 and 2018, crude oil imports to the EU saw a more modest increase from 536 Mtoe to 564 Mtoe, whereas gas and diesel oil imports doubled from 66 Mtoe in 1990 to 131 Mtoe in 2018 (see Figure 2). Coal imports declined only slightly (from 121 to 112 Mtoe), despite the fact that more environmentally conscious EU countries have sought to phase out coal use entirely in their energy systems.

Figure 2 – Imports of selected energy products, EU-28, 1990-2018



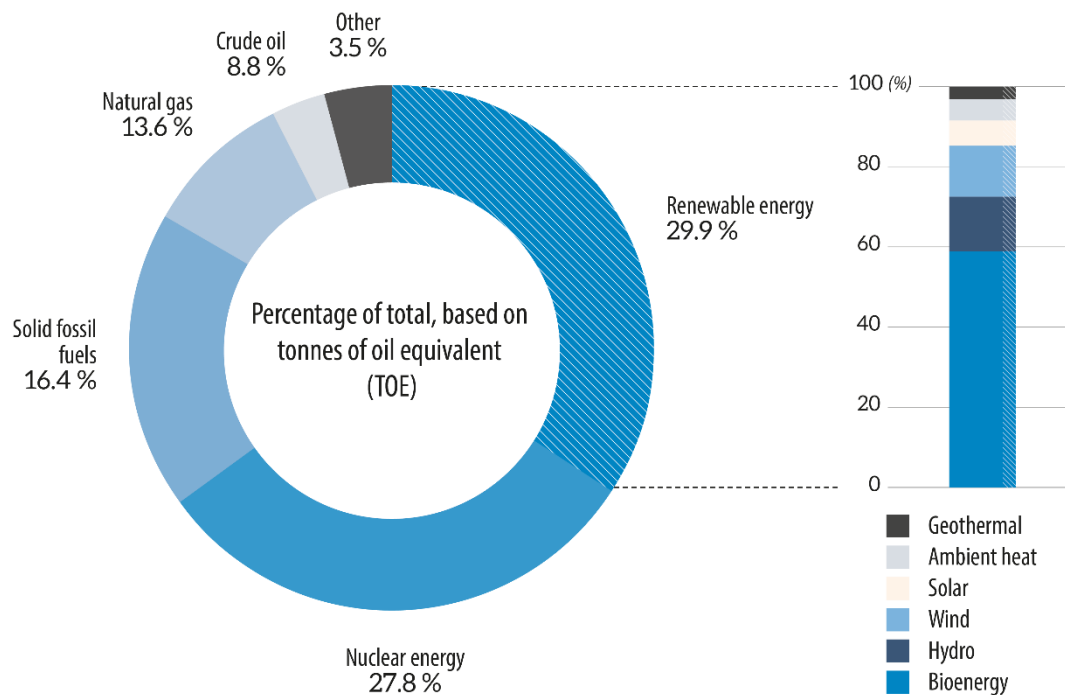
Source: Eurostat.

Dependence on imports is a genuinely EU-wide phenomenon. Eurostat data [reveals](#) that all Member States are now net importers of energy, albeit to varying degrees. Russia has become the leading supplier of energy imports to the EU and now accounts for around 30 % of oil imports, and close to 40 % of natural gas and hard coal imports. This is the main reason that energy security is considered to be one of the biggest risks facing the EU, according to the EPRS/Institute for Economics and Peace 'Normandy Index'.<sup>38</sup> The picture is more positive when focusing on low-carbon energy production from renewables and nuclear power. The chart below shows that well over half of EU primary production of energy is now generated from renewables or nuclear energy (see Figure 3). The growth in renewable energy production in the EU has been particularly remarkable over the past decade, whereas nuclear energy use has remained broadly stable and is present in the energy mix of just 13 EU Member States (plus the UK). Some of these EU countries are looking to phase out nuclear power when existing reactors are decommissioned, and only a few are building new reactors. For some EU countries, nuclear is a reliable solution to decarbonising electricity production, whereas others see it as a major health and environmental risk. This confirms the view that encouraging a higher share of renewables in the EU energy mix, which is a cornerstone of the

<sup>38</sup> Bassot, E., Nogaj, M. (eds.), [Mapping threats to peace and democracy worldwide: Introduction to the Normandy Index](#), EPRS, European Parliament, 2019.

[European Green Deal](#), is essential to the clean energy transition and will also have a positive impact in terms of boosting EU energy production, curbing reliance on imported fossil fuels, and improving security of energy supply.

Figure 3 – Production of primary energy, EU-28, 2017



Source: Eurostat.

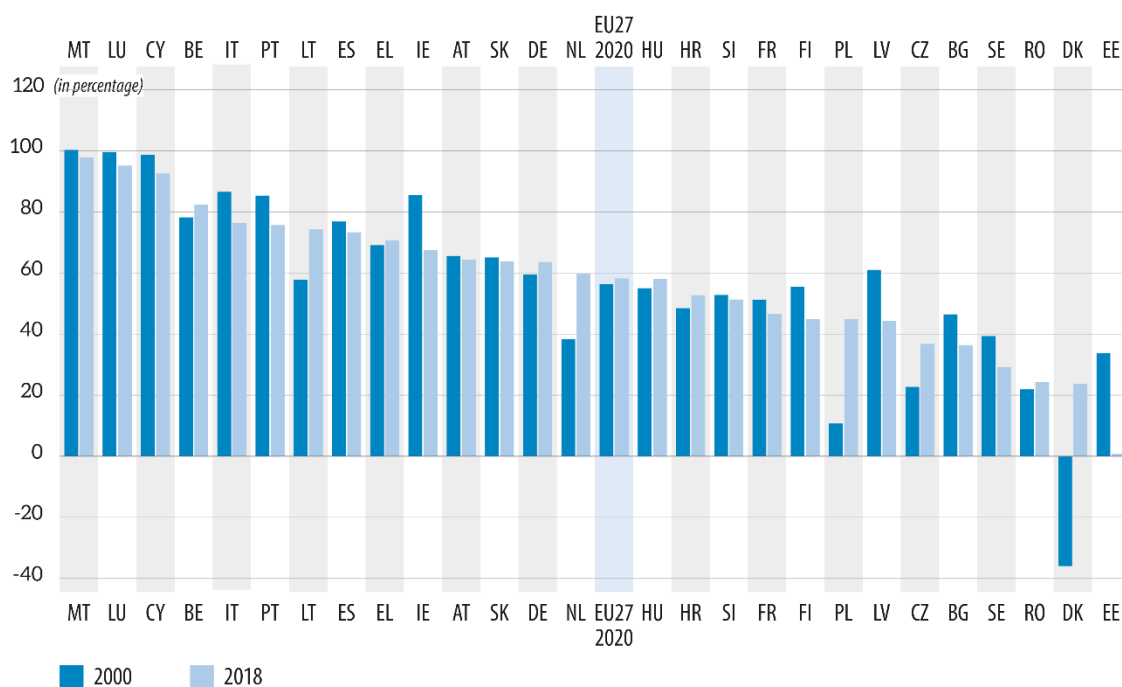
High reliance on energy imports is not necessarily a problem for the EU's strategic autonomy in the energy field, even as many EU countries are dependent on third countries for a majority of their energy supplies (see Figure 4). This dependency has grown over the past two decades. Nevertheless, the European Commission has taken the market-based approach that it is more important that Member States can access energy imports at market rates from a wide range of potential suppliers, thereby limiting their dependence on a single supplier. This is already the case for oil and coal supplies, which are imported from a range of third countries at competitive prices based on international benchmarks, and where security of supply is not a particular concern for the EU. Russia is still the leading supplier of oil and coal to the EU, but the bloc also imports a growing share from Colombia and the USA, as well as other producers. The situation with natural gas is much more complex due to the greater challenges and costs of gas transport and storage, and the role that geopolitical considerations play in questions of gas supply. This is evident from the ongoing conflict over the Nord Stream 2 underwater pipelines connecting Russia to Germany, construction of which has been put on hold due to US sanctions,<sup>39</sup> but which earlier faced legal obstacles<sup>40</sup> from the European Commission and strong objections from several Member States. On the Nord Stream 2 issue, the EU did not present a united front in its negotiations with Russia, and is now belatedly facing the fact that US actions to block Nord Stream 2 are also linked to the promotion of American

<sup>39</sup> Belkin, P., Ratner, M., Welt, C., [Russia's Nord Stream 2 Pipeline: A Push for the Finish Line](#), CRS, 2020.

<sup>40</sup> Wilson, A. B., [Common rules for gas pipelines entering the EU internal market](#), EPRS, European Parliament, 2019.

LNG exports and not only to genuine concerns about security of supply in Europe. Nord Stream 2 project evolution to date has already shown the relevance of EU strategic autonomy in the energy field, which as a minimum, should include the ability to decide the source and terms of access for energy imports from third countries.

Figure 4 – Energy dependency rate %



Source: Eurostat.

The EU is historically reliant on pipeline gas supplies (rather than liquefied natural gas), mainly from Russia and to a lesser extent from Norway and Algeria. These three countries together account for almost 75 % of EU gas imports. Security of EU gas supply has been heavily impacted by the [difficult relations](#) between Russia and its neighbouring countries, as well as political instability in Algeria and conflict in Libya. Gas still plays a varied role in the energy mixes of EU Member States. Some are heavily reliant on gas for both electricity and heating and/or are increasing the share of gas in the energy mix, often as a way to reduce reliance on more polluting fossil fuels such as coal. Other countries make only limited use of gas or are reducing their use of gas in favour of other energy sources, whether renewables or nuclear or other fossil fuels. As EU countries access their gas from different suppliers and supply routes, they are exposed to different degrees of risk and this has made it more difficult to develop a unified EU position. This problem also has a clear geographical dimension, with some countries in eastern and south-eastern Europe, including in the Western Balkans, being more dependent on Russian pipeline supplies, whereas northern and western Europe tend to have more diversified supply routes and countries. The most serious disruptions in gas supplies to the EU occurred in 2006 and 2009, as a direct consequence of geopolitical disputes between Russia and Ukraine, which also resulted in the physical interruption of gas supplies in several Member States. Countering an effective EU response to security of energy supply risks is hampered by the reality that Member States have very different political and economic relations with Russia. Some see potential benefit in maintaining political dialogue and stable economic relations, and may additionally see this as a way to ensure reliable energy supplies. Other countries favour a different approach by supporting a more distant economic relationship and taking active

steps to reduce their energy dependence. Reconciling these positions is necessary if the EU wants to take a clear strategic position on the geopolitical dimensions of its energy policies.

Nevertheless, the global gas market is changing in ways that could potentially give the EU greater strategic autonomy. Security of supply is an EU level competence and the principle of solidarity and gas sharing in an emergency has become an integral part of the EU policy framework.<sup>41</sup> Gas interconnection between EU countries is improving and reverse flow capacity is reducing the risks of physical interruption of supplies. Member States are [building more terminals](#) to import liquefied natural gas (LNG) from a range of third countries, as well as improving their gas storage capacity and broadening its access to neighbouring countries, in line with a 2016 [EU strategy on the subject](#). While LNG is usually more expensive than pipeline supplies, this price relationship is not constant and the very fact that an EU country has access to alternative LNG supplies means it is in a better position to bargain favourable terms with pipeline suppliers, because it has an alternative source of supply in case there is an interruption of pipeline supplies or unfair price hike. The European Commission has gained a growing role in scrutinising energy supply contracts between Member States and third countries to ensure their compatibility with the EU single market.<sup>42</sup> Since the third EU energy package was adopted in 2009, Member States have connected their energy markets more closely and built some of the infrastructure needed to achieve deeper interconnection. This reduces their dependence on a single supply source for their gas or electricity, and allows the EU to more effectively mitigate the negative consequences of another supply disruption, for example through reverse gas flows.

Declining EU production of energy from fossil fuels could even prove advantageous in terms of its future strategic autonomy. Europe is now less wedded to polluting forms of energy than other parts of the world, and may therefore face fewer difficulties in phasing out the use of fossil fuels and investing in renewable or other low carbon energies. This should allow the EU to reach its objective of net zero greenhouse gas emissions by 2050, as [endorsed](#) by the European Council in December 2019 and supported by the European Parliament in its resolutions on [climate change](#) (March 2019) and the [European Green Deal](#) (January 2020). The EU is already a world leader in terms of developing renewable energy technologies, ranking [second](#) after China in 2020, in terms of both capacity and production of renewables. Whereas solar panel and related technology production has now largely shifted to China, the EU remains a leader in wind energy technologies and is responsible for the bulk of global offshore wind power capacity. To retain global leadership in the clean energy field and guarantee its strategic autonomy, the EU should ensure tighter control of wind energy technologies and ensure their production does not shift *en masse* to third countries, as occurred with solar panels. Through national initiatives as well as the next [Horizon Europe](#) programme for research and innovation (with its focus on clean energy), the EU hopes to develop and ultimately commercialise many of the technologies that will allow mass generation of power from ocean and tidal energy,<sup>43</sup> as well as renewable gases like hydrogen or biogas. The EU is also pioneering initiatives to develop battery storage technologies, and hoping to bring carbon capture and storage technologies to the stage where they are commercially viable. A more active EU industrial policy may be necessary to ensure that the full value of these technologies is captured and the EU avoids becoming entirely reliant on third country technologies and production in these emerging and critical sectors.

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<sup>41</sup> Wilson, A. B., [New rules on security of gas supply](#), EPRS, European Parliament, 2017.

<sup>42</sup> Erbach, G., [Intergovernmental agreements in the field of energy](#), EPRS, European Parliament, 2017.

<sup>43</sup> Scholaert, F. (ed.), [The blue economy: Overview and EU policy framework](#), EPRS, European Parliament, 2020.



The economic crisis caused by the coronavirus pandemic has had an immediate impact on energy markets.<sup>44</sup> Coronavirus contributed heavily towards a collapse in the oil price as well as related falls in other fossil fuels, together with temporary disruptions in the supply chains for energy production because of the shutdown of economic activity. While some renewable energy investments have been delayed, the impact of the economic crisis has been more profound for fossil fuel investments, making many of these unviable and threatening some energy companies with potential bankruptcy. The picture in the long-term is more unclear, although as a sustained period of low fossil fuel prices, together with severely strained public finances, could discourage new investments in renewable energy and hamper the clean energy transition in Europe. This is why the EU has repeatedly stressed the central role of the European Green Deal in setting the priorities for EU economic recovery from the coronavirus. This includes the [Next Generation EU](#) (NGEU) recovery instrument (€750 billion), the most striking aspect of the recent agreement in the European Council on the 2021-2027 MFF. Furthermore, clean energy priorities will continue to form an integral part of all mainstream EU programmes in the next MFF to support regional development, research and development, industry and the environment. Clean energy has also become the main priority for EU-wide lending by the European Investment Bank.

There is still unused potential in the Lisbon Treaty when it comes to energy policy.<sup>45</sup> The Treaty (Article 194 TFEU) outlines EU competencies in the field of energy policy, while also specifying that Member States have the sole right to determine their energy mix, structure of energy supplies, and conditions for exploiting their energy sources. In the longer-term, more ambitious and unified EU actions in the energy and climate field may be possible by using the *passerelle* clause in Article 192 TFEU that allows Member States to transfer additional energy competences to the EU on environmental grounds. However, this clause requires unanimous agreement among Member States to be activated. Another area is EU-wide energy taxation, which currently requires unanimity among Member States to reach any kind of legislative agreement. This means the EU's Energy Taxation Directive remains stuck in its unsatisfactory incarnation of 2003, which does not contain clear incentives (and in fact contains certain disincentives) for clean energy transition and requires major revision to align it with the goals of the European Green Deal. This is a topic on which the EU institutions have agreed to seek a solution during the current legislative term, and will be a test of their political willingness to implement the Green Deal in its entirety.

#### 4.1.2. EU climate action

To meet its long-term goal of net zero greenhouse gas (GHG) emissions by 2050, the EU has agreed challenging [intermediate goals](#) in GHG emission reductions, energy efficiency improvements, and the share of renewables in the energy mix by 2030. This level of ambition has made the EU a global leader in taking concrete action against climate change. The EU remains autonomous in setting its own energy and climate targets and should be able to meet them through the right mixture of incentives and regulation. Nevertheless, this huge effort will count for relatively little in the fight against climate change unless the rest of the world, within the framework of the Paris climate agreement, makes a comparable effort. In February 2019, the Council of the EU adopted [conclusions](#) on climate diplomacy that fully endorse the United Nations Framework Convention on Climate Change (UNFCCC) Paris Climate Change Agreement and its related processes and priorities, with the overarching objective of ensuring that global warming remains well below 2 degrees Celsius. However, EU climate diplomacy faces a number of obstacles. There will be competition from countries that did not sign the Paris Agreement (notably Iran and Turkey), or have started the

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<sup>44</sup> Wilson, A. B., [Impact of coronavirus on energy markets](#), EPRS, European Parliament, 2020.

<sup>45</sup> Bassot, E. (ed.), [Unlocking the potential of the EU Treaties: an article-by-article analysis of the scope for action](#), EPRS, European Parliament, 2019.

procedure to withdraw from its application (USA), and this in turn could affect the choices of other countries. Together with other developed economies, the EU therefore needs to make meaningful long-term contributions in climate finance to support the energy transition in less developed countries that will struggle to make the necessary investments alone. In this vein, the EU and its Member States have pledged to work with other developed economies to jointly mobilise US\$100 billion for climate and mitigation purposes for every year between 2020 and 2025.

Effective climate action requires a sustained commitment to multilateral global fora where the EU can act as a bloc and exert concerted pressure for positive change. However, it is also vital that the EU takes safeguards to protect its own domestic industry from imports of products from third countries that are not making comparable commitments to climate action. This will ensure continued public acceptance of EU climate action measures and encourage other countries to be more ambitious in decarbonising their economies. The imposition of a [border carbon adjustment mechanism](#), as promised by the European Commission, aims to ensure that the carbon content of imported goods does not present unfair competition for EU producers. The challenge in terms of EU strategic autonomy will be to design an adjustment mechanism that is effective in terms of targeting the carbon content of imported goods, encourages climate-conscious industrial solutions to be adopted in third countries, proves simple and cost-effective to administer, and remains compatible with the EU's global trade objectives, which include a commitment to open trade and multilateral institutions. This balancing act is particularly tricky because legitimate EU actions taken to protect the environment could nevertheless be interpreted as measures taken to protect domestic producers from foreign competition. For example, the recent EU decision to phase out palm oil as a renewable fuel by 2030 has caused diplomatic tensions and is being [contested](#) by producing countries in the World Trade Organization (WTO). Others argue that it should be possible for the EU to use trade as leverage with third countries to collectively tackle climate change, as proposed in a report by Think 2030<sup>46</sup> as well as in EPRS analysis.<sup>47</sup> The EU could seek greater ambition from its trade partners in terms of tackling climate change, to ensure their approach is complementary to, rather than undermining, the EU effort.

The withdrawal of the UK from the EU could pose a further complication for climate action. While the UK government remains committed to the same decarbonisation goals as the EU, the geographical proximity of the UK and its close integration with EU markets means that special attention needs to be paid to the potential impact of future UK decisions on EU energy and climate policies. This will require some kind of 'level playing field' [provisions](#) to be introduced in the proposed agreement governing future relations between the UK and the EU, which should include a system of carbon trading in the UK that is coordinated with the EU's emissions trading scheme (ETS) system.

EU Member States have closely guarded their prerogatives in the energy field, particularly their direct relationship with energy companies and consumers. Furthermore, although Member States may agree on the broad direction of travel towards a cleaner energy system with reduced use of fossil fuels, they may disagree about the pace, priority and source of funding for this objective. EU Member States have very different energy mixes and clean energy sources play different roles in their energy systems. Several EU countries have a residual attachment to coal or other highly polluting energy sources. Member States also disagree profoundly about nuclear energy and whether it should play an important role (or not) in the clean energy transition.

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<sup>46</sup> Dröge, S., Schenuit, F., [Mobilising EU trade policy for raising environmental standards: the example of climate action](#), Think 2030, 2018.

<sup>47</sup> Titievskaja, J., [Using trade policy to tackle climate change](#), EPRS, European Parliament, 2019.

### 4.1.3. EU actions in the neighbourhood

While climate action is a collective endeavour requiring extensive global collaboration, the EU has a particular opportunity to show strategic leadership in its European neighbourhood. The Commission is due to adopt a green agenda for the Western Balkans in [2020](#), to help these countries to reduce their dependence on fossil fuels (particularly coal), promote the use of renewables, and modernise ageing energy infrastructure to accommodate a higher share of decentralised production of renewable energy.<sup>48</sup> The Energy Community,<sup>49</sup> an intergovernmental organisation the main purpose of which is to expand the EU energy *acquis* to candidate and aspiring countries in the Western Balkans and the Black Sea region, is an important tool for the EU to spread its norms. Energy Community countries are committed to following the key principles of EU energy law and ultimately adopt its content into their national laws. However, Energy Community countries are only now in the process of adopting the third energy package (2009), whereas the EU recently adopted a clean energy package (2018) that is far more ambitious in terms of renewables and reducing fossil fuel consumption. The Energy Community is also equipped with few mechanisms, apart from peer review, to enforce [implementation](#) of the EU energy *acquis* among its member countries, some of which face major governance problems. The green agenda will therefore need additional tools to ensure the energy transition takes place in the Western Balkans and the Black Sea region, including dedicated funding from the EU budget as well as substantial loans from the [European Investment Bank](#). Enhanced intergovernmental efforts through the Central and South Eastern Europe energy connectivity (CESEC) initiative could help to accelerate the integration of gas and electricity markets in the region. While some Energy Community countries have an inherent incentive to align their legislation with the EU as part of negotiations to secure EU membership, most of these countries are far from ready to begin accession negotiations. The EU will therefore need to provide other incentives to ensure that market alignment takes place and the region as a whole moves forward in the energy transition. Strategic dialogue with Ukraine has already helped to engineer a shift in its gas market model,<sup>50</sup> which now aligns much more closely with the EU internal energy market. The EU could also look to developing stronger financial incentives for the take-up of renewable energy sources in the Middle East and North Africa (MENA) region, which has a close energy relationship with the EU and considerable potential for renewable sources that nevertheless remains greatly underutilised, particularly in the field of solar power.

## 4.2. Economic policy and financial markets

As highlighted by the Organisation for Economic Co-operation and Development (OECD) long-term projections, the EU's share of global GDP, a good indicator of the relative power in global relations, could be reduced to less than 10 % in 2030 and to around 7 % in 2060.<sup>51</sup> Moreover, the coronavirus outbreak has [profoundly](#) affected European economies and global supply chains, while the challenges of climate change and an ageing workforce have also to be addressed. In the meantime, the emergence of new centres of activity along with the development of new technologies are also increasing the competitive pressure for established economic actors, which is leading to a reshaping of spheres of economic influence.

In such an uncertain, complex and rapidly changing environment, it appears that when it is united the EU can deliver more benefits for its citizens, as well as more effectively and efficiently – as shown

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<sup>48</sup> Popov, J., [European Green Deal: Bringing in the Western Balkans](#), ECFR, 2019.

<sup>49</sup> Wilson, A. B., [Energy Community: Prospects and challenges](#), EPRS, European Parliament, 2015.

<sup>50</sup> Pirani, S., [Adversity and reform: Ukrainian gas market prospects](#), The Oxford Institute for Energy Studies, 2017.

<sup>51</sup> See Guillemette, Y., Turner, D., 2018.

by the building of the single market or the EMU. These historical achievements prove to be key assets in ongoing global competition, as they provide a level of strategic depth that no individual Member State, or even group of Member States, can achieve on their own. An [intensive debate](#) has therefore started on the need to move decisively towards greater risk-sharing and more strategic autonomy.

#### 4.2.1. The need for a level of common resources in line with global ambitions

Analysts stress that 'priorities that are not underpinned by financial resources are not credible and will not be achieved no matter how often EU leaders express support for innovation, technology, security, defence or the need to tackle climate change'.<sup>52</sup> Reaching an ambitious level of strategic autonomy requires adequate means.

The European Council recently agreed on a potentially game-changing instrument – [Next Generation EU](#) (NGEU) – intended to infuse trust and support the recovery of regions affected economically by the pandemic. This decision was preceded by an ambitious [Franco-German proposal](#), and builds upon a [forward-looking resolution by the European Parliament](#). The NGEU<sup>53</sup> aims at raising money by temporarily lifting the EU own resources ceiling to 2.00 % of EU Gross National Income, allowing the Commission to borrow €750 billion on the financial markets. This additional funding will be channelled through EU programmes and repaid over a long period of time throughout future EU budgets. In addition, the Commission has also proposed a [revamped long-term EU budget](#) and a number of [new own resources](#) to complement the next generation EU proposal.

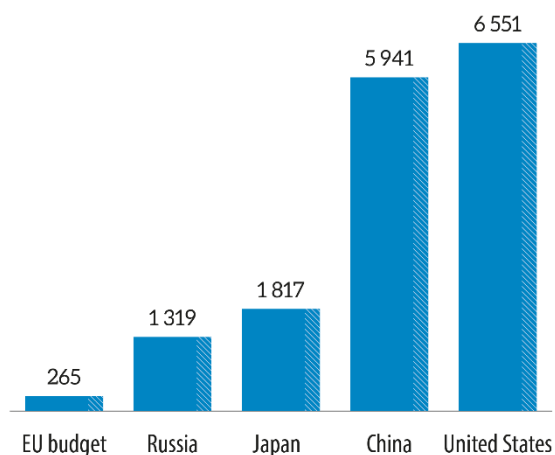
While NGEU would act as a powerful counter-cyclical instrument and would provide a boost to the international role of the euro, all the main global leading economies are gathering far more common budgetary resources in common than the EU (see Figure 5). As the NGEU package is temporary, it will therefore not be sufficient to raise European potential in the long-term. There is also a lack of understanding of the benefits that could be generated by common investments and aggregation of financial resources, thereby preventing EU businesses from benefiting fully from the economies of scale and efficiency gains offered by European integration.

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<sup>52</sup> EPSC, [Delivering on European common goods: Strengthening Members States' capacity to act in the 21st Century](#), 2019.

<sup>53</sup> D'Alfonso, A., ['Next Generation EU: A European instrument to counter the impact of the coronavirus pandemic'](#), EPRS, European Parliament, 2020.

Figure 5 – Scale of common budgetary resources in major jurisdictions (per year in € billion – purchasing power parity)



Source: [IMF, May 2020 Commission proposal for the 2021-2027 MFF](#), including NGEU.

To ensure a favourable position in current global competition and a minimum level of strategic autonomy, there is a need to start stimulating the EU to move decisively towards reinforcing key areas where common action is needed, is effective and brings add value. For that purpose, the EU has to revise some of its costly budgetary fragmentation. A solution suggested by the European Parliament in its [proposal for the next MFF](#), and with respect to the [NGEU package](#), is to equip the EU budget with the possibility of collecting new and existing own resources. Digital taxation has been under discussion for many years without significant progress to date,<sup>54</sup> and taxes on plastic, financial transactions, a [border adjustment mechanism](#) or the ETS are also under discussion.

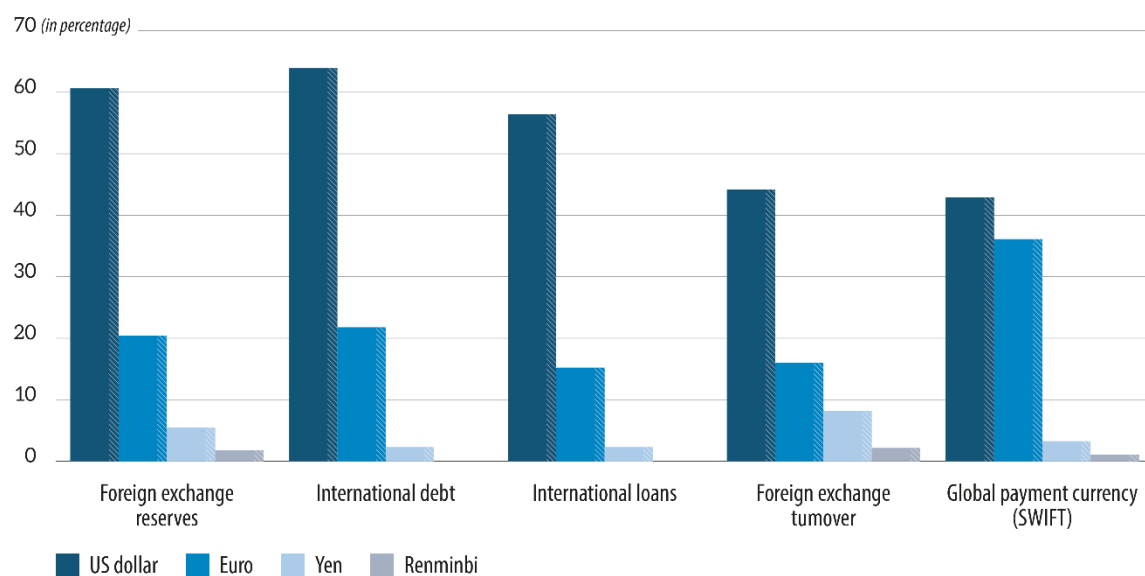
In this context, one of the key assets of EU integration has always been EU dedication to guaranteeing spending efficiency and ensuring budget responsibility at all levels. In that perspective, more action at EU level does not imply more spending or more debt, as sometimes incorrectly asserted. Rather, it expresses a preference for a more economically efficient and effective allocation of competences and budgetary resources between the different institutional levels, in line with principles of subsidiarity, proportionality and European added value. Member State expenditure on defence for instance might be – if counted collectively – sufficiently high, but its fragmentation prevents economies of scale and efficiency gains. The overall level of effective common goods in terms of EU defence is, as a result, much lower than an analysis based on the amount spent would suggest. This lack of strategic exploitation of economies of scale and common goods potentially offered by the EU integration process is not restricted to defence, but may also be observed in large economic sectors including research, higher education, energy and transport. Finally, subsidiarity does not mean EU action or no action, but rather leaving room for the most appropriate level of governance to assume its responsibility to act, in areas of non-exclusive EU competence. Whatever institutional arrangements are proposed – individual or combination of tools – more EU strategic autonomy will not be achieved without progress on the financing of the production of common goods.

<sup>54</sup> Szczepański, M., [Digital taxation: State of play and the way forward](#), EPRS, European Parliament, 2020.

## 4.2.2. Strengthening the international role of the euro and developing EU financial markets

The successful path taken towards a common currency and the adoption of the euro in 1999 were key EU milestones towards more strategic autonomy. As shown in Figure 6, the euro is today the second most important international currency, and according to the [European Commission](#), around 60 countries are either using, will use, or link their currency to, the euro. Since its introduction, the euro has also gained recognition on the international markets. It represents 20 % of international reserves of foreign central banks, and around 20 % of debt issuance and loans on international markets. In 2017, over 35 % of the value of international transactions [occurred](#) in euro, compared to about 40 % for the US dollar.

Figure 6 – The international role of the euro (percentage of the total in each area).



Note: the latest data are for the fourth quarter of 2019.

Source: [European Central Bank, 2019](#).

In addition to being a symbol of European aspiration to strategic autonomy, the euro also acts as a powerful internal common source of strength, with public support at a new high in 2019.<sup>55</sup> This might be linked to the fact that the economic benefits of the euro are becoming increasingly visible through stable prices, lower transaction costs for citizens and businesses, and increased trade integration. This might also be an effect of the inherent protective nature of a common currency against international shocks. For instance, thanks to the strategic depth allowed by the euro, the response from the European Central Bank (ECB) to the pandemic has been particularly dynamic.<sup>56</sup>

<sup>55</sup> According to the results of the latest [Eurobarometer](#) survey on the euro area of November 2019, 76 % of respondents think the single currency is good for the EU. This is the highest support since the introduction of euro coins and banknotes in 2002.

<sup>56</sup> Regarding immediate monetary policy, the ECB maintained its interest rates at [historical lows](#). The ECB also announced a series of [additional unconventional monetary policy measures](#) that can be used until the end of the year to purchase assets. They mainly consist of purchases under the [pandemic emergency purchase programme](#) (PEPP), with an overall envelope of **€1 350 billion**, which could still be extended if necessary. This is combined with an increased expanded asset purchase programme (APP) of **€120 billion** and with monthly purchases of **€20 billion**.

This high level of support for the euro is also an encouraging sign that citizens consider recent progress as going in the right direction. It also shows support for the European project, including tools that ensure higher levels of strategic autonomy. This is naturally not a cause for complacency, however, as the emergence of new economic powers along with the development of new technologies are challenging the status quo. The Chinese authorities have for instance taken initiatives to foster the international use of the renminbi through several projects under the umbrella of the Belt and Road Initiative.<sup>57</sup> The People's Bank of China has also recently filed a series of patents related to the issuance of digital currency with the objective of broadening the use of the Chinese currency for trade and financial exchanges. At the same time, governments' influence on central banks, or actions to use the international payment system for political objectives, are challenging prevailing international rules-based governance.

In this perspective, continuing to ensure the international role of the euro and developing EU financial markets both appear necessary objectives. A large body of research proposes possible [avenues](#) to further promote the use of the euro.<sup>58</sup> One such initiative, which has gained traction and is now discussed as part of the reform of the [Markets in Financial Instruments Directive \(MiFID II\)](#), is to allow for a greater role for the euro in trading commodities. In the short-term, this could, for instance, lead to adapting the current rules on commodity trading to reduce dependency on oil denominated USD benchmarks. This is a step in the right direction, but to achieve a broader international footprint, the euro will need corresponding deeper, liquid, and open financial markets. Reliable supply to accommodate global demand is indeed crucial to fostering confidence and stability. The euro has one of the strongest institutional settings, and therefore displays relatively open and robust financial markets. However, the euro still needs to progress when it comes to the liquidity and deepness of its underlying financial markets.

First, euro-area banking and financial markets are still fragmented along Member State lines. A completed Banking Union, drawing on policies [advocated](#) by the European Parliament, would safeguard financial stability in Europe, breaking the vicious circle between banks and sovereign borrowing costs in particular and reducing the duplication of regulations along national lines.<sup>59</sup> Progress with the Capital Markets Union (CMU) would reduce the current fragmentation of European financial markets and remove the barriers between investors' money and investment opportunities. It would also complement Europe's strong tradition of bank financing by providing alternatives to credit-based financing and better access to stock markets. An incomplete EMU architecture and a fragmented CMU will continue to undermine the potential for a larger role for the euro at global level.

Second, one key limiting factor for a stronger international role for the euro is the absence of a centralised [EU treasury](#). Unless fiscal policies are coordinated effectively, there can indeed be significant negative 'spill-over' effects between the Member States participating in an economic and monetary union. The international role of the euro would thus be enhanced by pursuing credible and sustainable coordination of public finances. However, current economic governance arrangements around the semester and the stability and growth pact (SGP) are very complex. Their

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The ECB also decided on a new series of non-targeted pandemic emergency longer-term refinancing operations (PELTROs) to support liquidity conditions.

<sup>57</sup> Blockmans S., Hu W., [Systemic rivalry and balancing interests: Chinese investment meets EU law on the Belt and Road](#), CEPS policy insight, No 2019-04 /21, 2019.

<sup>58</sup> Borio C. [The international role of the euro: down but not out](#), Hearing before the European Economic and Social Committee on 'Strengthening the international role of the euro: European and international perspectives', Brussels, April 2019.

<sup>59</sup> Stamegna, C., [Banking Union - Annual report 2019](#), EPRS; European Parliament, 2020.

effective impact has been limited,<sup>60</sup> as they have proved to be acyclical at best. As the European Parliament has [proposed](#), a treasury would equip the EU with greater capacity to apply the existing economic governance framework and to optimise the development of the euro area. The resulting improved fiscal coordination would increase sustainability and resilience in Member States and confidence between them. It would then make solidarity easier and more efficient, should it be needed in the case of a new economic and financial crisis.

Third, the market for US Treasury bonds is one of the deepest and most liquid in the world. There is no comparable market in the euro area and the prospects of developing safe assets at EU level remain limited.<sup>61</sup> The NGEU package could prove to be a landmark moment in the move towards more European integration in this area. It also represents a sizeable boost of confidence in the euro. Given unresolved concerns regarding the mutualisation of risks, however, opinions are not fully [aligned](#) on the question of whether this is a true 'Hamiltonian moment' for the euro area. Market reaction is however far more positive, as this already contributes to lifting the euro's global status, and could lead to the creation of [Eurobonds](#) in the long-term. European Parliament proposals for a deeper and more liquid financial market for the euro area could prove insightful in this respect,<sup>62</sup> and require further investigation.

#### 4.2.3. Developing and implementing a comprehensive European economic policy

As previously explained, from an economic point of view, strategic autonomy is about widening the scope of possibilities with a view to achieving a higher longer-term potential growth rate. This implies that the EU aim at reaching out to the world, anticipating and benefiting from moves from global competitors and partners, in a dynamic approach.

In particular, regarding innovation policy, [recent research](#) shows that without improved positioning in the knowledge economy, the EU risks being marginalised in its access to added value in the global markets in an increasing number of sectors.<sup>63</sup> For the EU to remain at the forefront of global competition, [analysts](#) highlight that there is room for improvement in the level of research expenditures, in the quality of research institutions and in regulatory efficiency. The EU is also lagging behind when it comes to providing its high potential SMEs and entrepreneurs with access to finance (market capitalisation, venture capital availability and financing of SMEs), when compared to the main international partners.<sup>64</sup> This apparent lack of risk-taking combined with a sometimes narrow focus on existing established national positions in some sectors makes it relatively difficult to lead in a world of rapid change and transformation. A continent that believes in its future as a strategic autonomous global actor should not only be ready to mutualise more resources, it should also be ready to accept a higher level of risk.

In addition, the ongoing digitalisation of the economy is generating changes in many aspects of people's lives. This has proven even more transformative during the coronavirus crisis, offering

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<sup>60</sup> D'Alfonso, A., Delivorias, A., Sapala, M., Stamegna, C., [Economic and Budgetary Outlook for the European Union 2020](#), EPRS; European Parliament, 2020.

<sup>61</sup> Habib, M. M., Stracca, L., Venditti, F., [The fundamentals of safe assets](#), ECB Working Papers Series, 2020.

<sup>62</sup> This is partly explained by the fact that the moral hazard linked to the instrument currently prevents any move towards more risk sharing in the EU without strong ex-ante risk reduction and implementation of risk prevention measures.

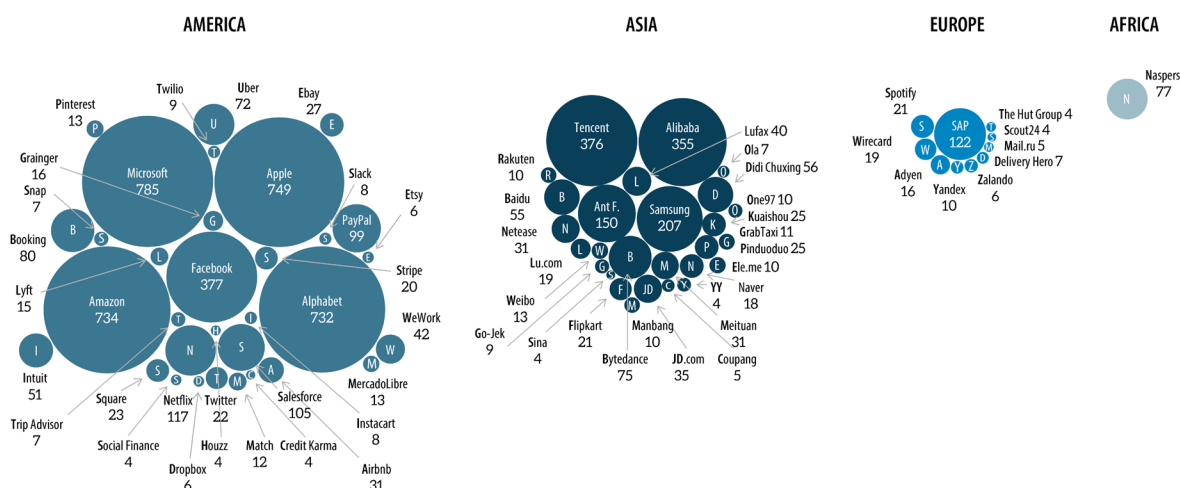
<sup>63</sup> For instance, the EU has indeed been slow at realising the potential of more involvement in key innovative areas such as space, AI, biotech, cybersecurity, 5G, quantum computing or fintech.

<sup>64</sup> For instance, EU Member States spend 10 times less than the US and five times less than China each year on venture capital.



possibilities for teleworking for millions of workers and wide access to goods and services. It is essential that EU businesses and governments start to grasp the full opportunities of producing digital technologies.<sup>65</sup> As shown in Figure 7, digital platforms currently mainly originate from China and the USA, a state of dependency that leads to the notion of a lack of EU digital sovereignty. Faced with two competing global visions of the internet, the EU therefore needs to further define, promote and advocate its own model. EU institutions have a central role to play in this respect, as digital market players usually operate trans-nationally and are not physically present in all Member States. The European Parliament's recent decisions on [copyright](#), the proposals on the [Digital Services Act](#), the [European data economy](#), and [artificial intelligence](#), are all encouraging steps. However, more will have to be done regarding a more aggregated and coherent EU digital single market, with common rules to ensure that digital business activities are taxed in a fair and transparent way and that sufficient competition is guaranteed. Joint standards for connectivity, in particular regarding the development of 5G networks, a common position on artificial intelligence and autonomous droids would also help trigger investments.

Figure 7 – Geographical distribution of the main global platforms in the world, 2018 (Market capitalisation in billion dollars)



Source: [UNCTAD, 2019](#).

The current EU approach to competition policy has benefited EU consumers and it has allowed some EU companies, hardened by stiff internal competition, to thrive on the international markets. Nevertheless, a strategic approach calls for adaptation when conditions change and when costs could outweigh benefits.<sup>66</sup> On the one hand, the EU should naturally continue to ensure an internal level playing field within the single market, and to promote a multilateral approach and open markets on the international stage by ensuring reciprocal access for EU businesses. In particular, the EU can no longer ignore emerging new large global competitors, mostly (but not exclusively) in the digital sector. Worryingly, some such competitors have strong links to government defence institutions and agencies in economies with a sometimes alternative vision of individual rights.<sup>67</sup>

<sup>65</sup> EPSC, [Rethinking Strategic Autonomy in the Digital Age](#), EPSC Strategic Notes, Issue 30, 2019.

<sup>66</sup> The French, German and Polish governments have thus recently made proposals for modernising EU competition policy. For a review see Bruegel, 2019.

<sup>67</sup> Deffains, B., d'Ormesson, O., Perroud, T., [Competition Policy and Industrial Policy: For a reform of European law](#), Policy Paper Fondation Robert Schuman, 2020.

The recently implemented [temporary framework](#) to enable Member States to use the full flexibility of State aid rules is a welcome step, as it allows a guaranteed sufficient level of liquidity for the businesses most affected by the economic impact of the coronavirus pandemic.<sup>68</sup> This raises the question of possible adaptations to current EU State aid or mergers and acquisitions policy.<sup>69</sup> The case of the Siemens-Alstom merger refusal highlighted the ongoing difficult balance between ensuring a robust competition framework and allowing for the emergence of large-scale global EU companies. As the changing nature of competition is rapidly redefining a certain number of established positions and redistributes the value added across economies, concepts such as market definition and the notion of [dominance and abuse](#) may need rethinking. Some competitors sometimes also benefit from protected internal markets and from levels of State aid that would not be allowed within the EU. Potentially, global competitors could thus benefit from foreign aid while competing and operating on the EU market, putting European companies at a disadvantage. Furthermore, EU merger control does not have a comprehensive provision to stop the acquisition of a European company solely because the acquirer benefits from foreign subsidies. The European Commission has therefore recently adopted a [White Paper](#) to deal with these distortive effects caused by foreign subsidies in the single market.

Furthermore, some strategic tools used as part of a renewed industrial policy by some global partners have recently attracted attention,<sup>70</sup> notably lower corporate taxation, the use of tariffs and quotas in various sectors, or the use of national security tools in the USA to protect some technologies and activities. Screening of foreign direct investment (FDI) has been substantially reinforced worldwide, while access to public procurement contracts has been restricted. China has also attracted a lot of attention following the publication of its 'Made in China 2025' industrial policy strategy, which plans dominance, rather than cooperation, for Chinese companies in key technologies. Progress between the EU and China on a [comprehensive agreement on investment](#) is slow and Chinese public procurement is one of the most restrictive in the world.<sup>71</sup> In this context, an EU aiming at strategic autonomy should move towards [a more holistic approach](#), encompassing the links between value chains and global interdependences. Furthermore, EU level tools to implement the [recently proposed](#) industrial strategy must be kept up to date.

In foreign direct investment for instance, the EU has one of the world's [most open FDI regimes](#) and the EU is a main source of and destination for FDI. The structure and sources of FDI to the EU has recently changed significantly, targeting high-tech and strategic sectors. Currently only 14 EU countries have FDI screening mechanisms, and these differ widely in their scope and design. In 2019, the European Parliament agreed to set up a [mechanism at EU level to screen foreign direct investment](#) on security grounds, to protect strategic sectors such as cybersecurity or pharmaceutical research. The mechanism includes a cooperation mechanism to include information exchange between EU Member States. The European Commission can also deliver its opinion to the country where the investment is planned. A more common EU approach to foreign investors based upon commonly agreed criteria would provide further clarity and harmonisation, while supporting

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<sup>68</sup> Karaboytcheva, M., [State aid and the pandemic How State aid can back coronavirus economic support measures](#), EPRS; European Parliament, 2020.

<sup>69</sup> Szczepański, M., [EU competition policy: Key to a fair single market](#), EPRS; European Parliament, 2019.

<sup>70</sup> In 2018, 18 EU Member States issued a joint statement calling for the EU to adopt a comprehensive vision for its industrial policy, in order to strengthen its strategic autonomy.

<sup>71</sup> Grieger, G., [Towards a new EU policy approach to China 21st EU-China Summit – April 2019](#), EPRS; European Parliament, 2019.

foreign investments<sup>72</sup> and could also help move towards ensuring a level playing field at the international level.

From a global perspective, European businesses still cannot always get equal access to public procurement markets outside the EU. The European Commission's recent [international public procurement initiative](#) to help enhance EU companies' access to global procurement markets is a step in the right direction. The Covid-19 crisis has again shown the added value of more unity when it comes to [European public procurement](#), as the Commission and the Member States have been able to step up efforts by launching joint procurement actions for medical supplies. A common EU public procurement agency could provide an additional strategic tool to ensure a more level playing field. In addition, an EU public procurement agency could also help correct some vulnerabilities at Member State level. In particular, it would provide efficient and effective administrative capacity to deal with public procurement in large transnational investment projects.

Without significant progress in implementing more advanced strategic tools, and given the ongoing international state of play, the EU's status as a global player will likely remain fragile, as weaknesses may persist and even increase. As a result, in this area, as in others, the EU has to consider the behaviour of other global players whilst continuing to strive for multilateral solutions. From this perspective, acting strategically means that the level of autonomy and the tools associated with this level have to be fine-tuned precisely and carefully timed, so that they ensure that the economic benefits of multilateralism continue to materialise.

### 4.3. External action

We are today witnessing a return to a more realist vision of the world, driven by geopolitical considerations, where global and even regional powers try to maximise their weight and challenge the established international order using both 'soft' and 'hard' power tools. The EU and the Member States are committed to multilateralism, in a world where some actors are beginning to reject it. This gives greater value to the EU's action in support of multilateralism, a concept that remains key to world peace and security. The EU must continue to rely on a wide range of 'soft power' tools – crisis management, sanctions, development or trade – that need to be strengthened. However, in order to be able to stand up for its values and interests in the world, the EU also needs to develop 'hard power' tools. Only through a mix of 'soft' and 'hard power' tools would the EU be able to act autonomously at any given time.

#### 4.3.1. A renewed approach to multilateralism

Multilateralism and the rules-based order were challenged even before the outbreak of the Covid-19 pandemic.<sup>73</sup> Recent years have been marked by the waning commitment of major countries to multilateralism, an issue which is of major concern to the EU.<sup>74</sup> In the area of security, this, among other things, is jeopardising the survival of important nuclear arms-control treaties, with potentially direct implications for Europe. The unilateral withdrawal of the United States from the JCPOA, a landmark agreement to ensure the peaceful nature of Iran's nuclear programme, over allegations that Iran was violating the spirit of the agreement, and the February 2019 announcement that both the USA and Russia would suspend their obligations under the 1987 Intermediate-Range Nuclear Forces (INF) Treaty, are cases in point. The INF eliminated and prohibited ground-launched intermediate ballistic and cruise missiles with ranges between 500 and 5 500 km; its suspension

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<sup>72</sup> Grieger, G., [EU framework for FDI screening](#), EPRS; European Parliament, 2019.

<sup>73</sup> See Lazarou, E., 2017.

<sup>74</sup> Linn, J., [Recent Threats to Multilateralism](#), *Global Journal of Emerging Market Economies*, 9(1-3), 2018.

leaves Europe potentially exposed to Russian intimidation.<sup>75</sup> More recently, the USA announced its withdrawal from the Open Skies Treaty, which permits unarmed observation aircraft to fly over the territories of its parties to observe military forces and activities, increasing trust and transparency.<sup>76</sup> However, the crisis of multilateralism extends beyond traditional notions of security, with the USA having also withdrawn from the landmark agreement on climate change, the [Paris Agreement](#), the [United Nations Human Rights Council](#) and, in May 2020 [announcing](#) its withdrawal from the World Health Organization in mid-pandemic. Beyond the world's major power's policy changes, the crisis of multilateralism is embodied in challenges faced by some of the most established international organisations, most notably the [World Trade Organization](#), as multilateral consensus becomes harder to reach. As UN Secretary-General António Guterres [emphasised](#) to the UN Security Council the observed rise in nationalism and protectionism is having detrimental effects for transnational trust and multilateralism.

For the EU, the promotion and protection of the multilateral rules-based order is a fundamental goal of its external action. Multilateralism lies at the core of the EU's identity, and of its strategy to promote its values and defend its interests. In the [words](#) of the former HR/VP Federica Mogherini: '...we achieved security through cooperation. We built peace with multilateralism. [...] This is the strength of the European Union experience'. As an example of multilateral cooperation itself, the Treaty on European Union stipulates that the EU 'shall promote multilateral solutions to common problems, in particular in the framework of the United Nations' whenever possible (Article 20(1) TEU). The first ever comprehensive [European Security Strategy](#) (ESS) – formulated in 2003 – made 'strengthening the United Nations, equipping it to fulfil its responsibilities and to act effectively' a European priority and placed advocacy of 'effective multilateralism' at the centre of the EU's strategic goals. The 2016 EU [Global Strategy](#) reiterates the EU's dedication to the promotion of 'a rules-based global order with multilateralism as its key principle and the United Nations at its core'. At the same time, it emphasises that 'the format to deliver effective global governance may vary from case to case', citing policy areas ranging from cybersecurity (where states, international organisations, industry, civil society and technical experts are actors to consider) and maritime policy (the UN, UN specialised agencies, NATO, strategic partners, and the Association of Southeast Asian Nations (ASEAN)), to humanitarian, development and climate policy (the UN, G20, new donors, civil society and the private sector). Where multilateral processes already exist, the strategy envisions strengthening them, and at the same time expanding fledgling international regimes in areas such as disarmament and international criminal law.<sup>77</sup> [Biodiversity](#) and [artificial intelligence](#) are also areas where nascent formats of multilateral governance can be observed.

Importantly, the EU Global Strategy acknowledged the need to reform multilateral structures and to address their weaknesses, while at the same time bolstering the spirit and practise of multilateral cooperation. It follows that for the EU, strategic autonomy is synonymous with a greater capacity to defend a principled commitment to multilateralism, rather than the aspiration to act unilaterally. The efforts to bolster the EU's credibility as a geopolitical actor with strategic autonomy should be seen as prerequisites to sustain multilateralism as a constitutive principle of 'a renewed vision of international order that is suited to today's world' – a world, in which the US-led liberal order, that encouraged multilateral cooperation on issues ranging from security to trade, is in crisis.<sup>78</sup> In the wake of major geopolitical and geo-economic shifts, countries like the USA or UK, who have done

<sup>75</sup> Immenkamp, B., [The end of the INF Treaty? A pillar of European security architecture at risk](#), EPRS, 2019.

<sup>76</sup> Woolf, A., [The Open Skies Treaty: Background and Issues](#), CRS, 2020.

<sup>77</sup> See Lazarou, E., 2017.

<sup>78</sup> Dworkin, A., Leonard, M., [Can Europe save the world order?](#), ECFR, 2019.

much to construct this post-war international order,<sup>79</sup> have quit multilateral formats, while competing powers may seek to weaponise them. This complex situation, where multilateralism is thwarted and contested<sup>80</sup> can represent an opportunity for European influence in the context of strategic autonomy. Despite internal divisions and structural problems, 'the EU remains the most consistent and best-resourced supporter of a strong multilateral system in the world today'. A united EU, defining and pursuing its strategic interests, can work towards a renewed approach to multilateralism as an alternative European model of global cooperation vis-à-vis American and Chinese leadership.<sup>81</sup>

In her [political guidelines](#), Commission President von der Leyen highlighted the intention to 'uphold and update the rules based global order' through assertiveness and a strategic approach, with the Union using its normative power to uphold multilateral decisions in both trade and climate through its [own legislation](#). Furthermore, within its 'stronger Europe in the world' priority, the Commission already announced its intention to launch an initiative on WTO reform in the context of the trade policy review planned for the fourth quarter of 2020.

The coronavirus pandemic has arguably been considered a wake-up call for multilateralism, and experts have suggested that it will provide the necessary push for much-needed reform and [reinvigoration](#) of multilateral cooperation. As a 2019 European Parliament [report](#) on the implementation of the Common Foreign and Security Policy (CFSP) states, it is for Europe to defend multilateralism and international law. In the wake of the pandemic, in a [hearing](#) at the SEDE sub-committee, HR/VP Borrell stated that: 'The world has never needed multilateral and cross-border cooperation so much, but unfortunately we do not have enough of it'. A strategic and autonomous EU would be able to leverage the partnerships needed in this effort. As Parliament has [stressed](#), 'the EU should switch from a responsive to an anticipatory approach and the importance of teaming up with like-minded EU strategic partners, in particular NATO and emerging countries, in order to defend the global rule-based order that is founded on international and humanitarian law and multilateral treaties'.

### 4.3.2. Sanctions

The overarching foreign policy principle of effective multilateralism with the UN at its core guides [EU sanctions](#), which remain a [tool](#) to achieve policy objectives. If used effectively sanctions may contribute to ensuring that the EU preserves its capacity to act autonomously and/or with like-minded partners to protect values and interests. With 44 sanctions regimes in place, [targeting](#) 34 countries, the EU is the world's second-most active user of restrictive measures, after the USA.<sup>82</sup> The EU implements three categories of sanctions: 1) mandatory UN sanctions, 2) supplementary measures going beyond UN sanctions adopted at EU level and 3) autonomous EU sanctions.<sup>83</sup> The last category allows the EU to adopt sanctions in situations where the UN Security Council cannot reach a common position. However, despite being called 'autonomous', EU sanctions that go beyond UN-level sanctions, are mostly implemented in tandem with the USA or other allied states, or regional organisations – such as the African Union (AU), ASEAN, or the League of Arab States (LAS) – to enhance their effectiveness.<sup>84</sup>

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<sup>79</sup> Colgan, J., Keohane, R., ['The liberal order is rigged'](#), *Foreign Affairs*, 2017.

<sup>80</sup> Morse, J, Keohane, R., ['Contested Multilateralism'](#), *Review of International Organisations* 9, 2014.

<sup>81</sup> Gowan, R., Dworkin, A., [Three crises and an opportunity: Europe's stake in multilateralism](#), ECFR, 2019.

<sup>82</sup> Russell, M., [EU Sanctions: A key foreign and security policy instrument](#), EPRS, European Parliament, 2018.

<sup>83</sup> Bierstecker, T., Portela, C., [EU sanctions in context: three types](#), EU ISS, 2015.

<sup>84</sup> Grieger, G., [Sanctions as an EU foreign policy instrument](#), Library Briefing, European Parliament, 2013.

Concerns about the humanitarian impact of wide-ranging economic sanctions have led the UN and the EU to adopt a more targeted approach to sanctions. Today, EU sanctions seek maximum impact on the person responsible for the behaviour at issue. Therefore, EU sanctions typically target the political and military leaders of a country. For this reason, the most commonly used EU sanctions are visa bans, asset freezes and arms embargoes. While such measures can be very inconvenient for the targeted individuals, they do not affect the population at large. Economic sanctions also exist; however, they are typically limited to one or two strategic sectors, rather than targeting the economy as a whole. A targeted approach also applies to development aid. The EU only very rarely cuts development aid altogether to sanction human rights abuses. Instead, the EU stops paying funds directly to the government, but maintains funding for NGO-led projects and humanitarian aid, such as in [Burundi](#) in 2016. The EU recently introduced two new 'thematic' sanctions regimes: chemical weapons (which currently targets several Syrian and Russian nationals, the latter in connection with the Salisbury attacks in the UK) and cyber-attacks. The EU is also looking into options for adopting a sanctions regime to target serious human rights violations.<sup>85</sup>

The [purpose](#) of sanctions is to bring about a change in policy or activity in the target country. However, whether sanctions work is often difficult to assess, since changes – when they occur – may also be due to other factors. Iran was an obvious sanctions success story, at least temporarily, with the country giving up on its quest for nuclear weapons in 2015, in exchange for sanctions relief.<sup>86</sup> In contrast, nearly 14 years of international sanctions have entirely failed to persuade North Korea to forego nuclear weapons. Sanctions are undoubtedly most effective when more countries support them. Western arms embargoes have had little effect on Syria and Myanmar, for example, which simply turned to Russia and China as alternative suppliers. EU sanctions policy has also been criticised for being inconsistent and overly influenced by European political and economic interests. Human rights abuses in countries that are allies or important trading partners are largely ignored.

The EU has succeeded in maintaining unity in its sanctions policy, even though this has been difficult at times. In July 2014, the EU introduced sanctions on Russia over its illegal annexation of Crimea, targeting the Russian energy, defence and financial sectors. Sanctions have remained in place, largely unchanged, ever since, demonstrating the strength of EU cooperation, even though EU Member States have strongly divergent positions on Russia and different degrees of economic ties with the country.<sup>87</sup>

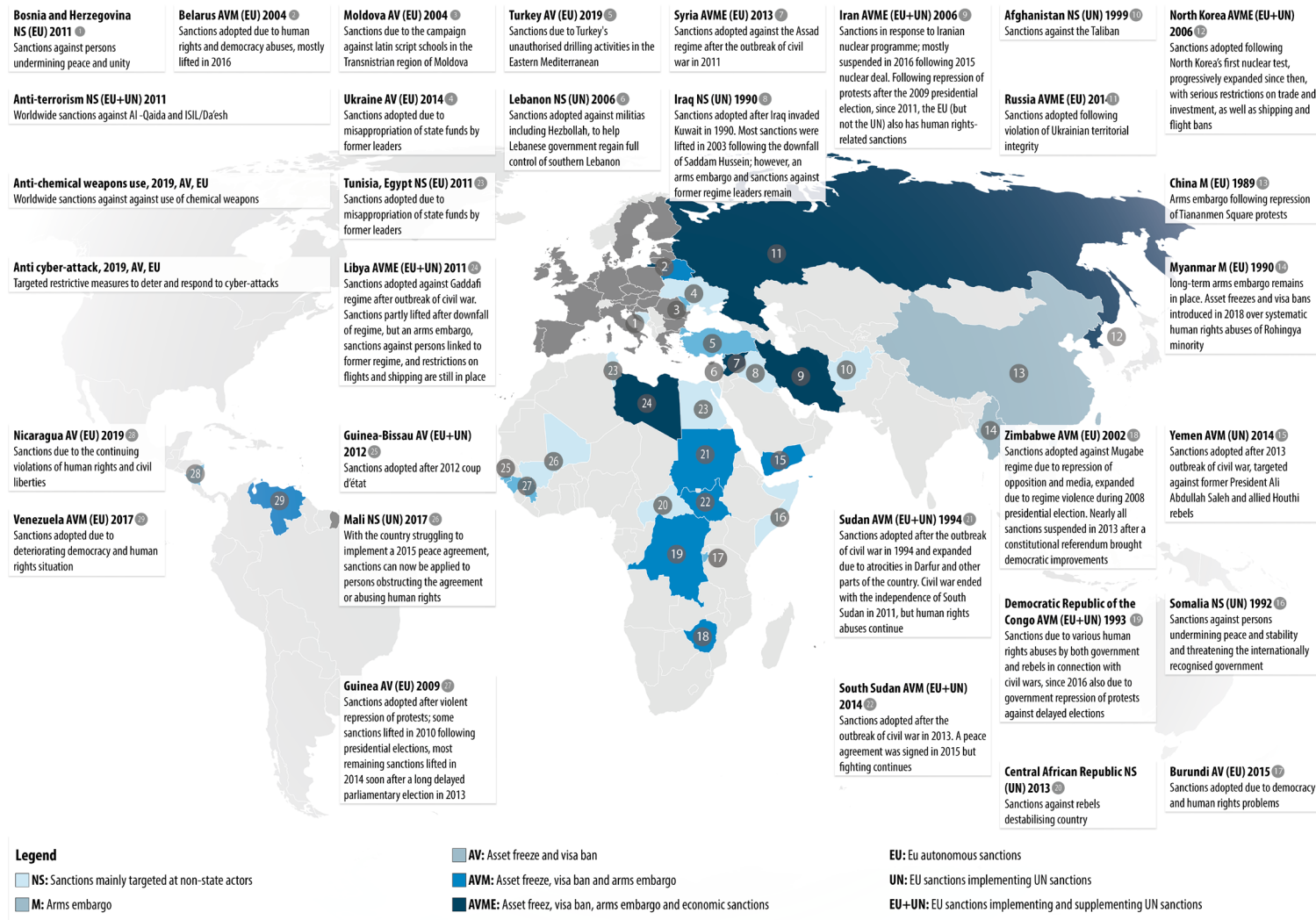
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<sup>85</sup> Russell, M., [An EU human rights sanctions regime?](#), EPRS, European Parliament, 2019.

<sup>86</sup> Immenkamp, B., [EU-Iran: The way forward - Can the JCPOA survive the Trump presidency?](#), EPRS, European Parliament, 2020.

<sup>87</sup> Russell, M., [Sanctions over Ukraine - Impact on Russia](#), EPRS, European Parliament, 2016.

Figure 8 – Overview of EU sanctions worldwide



Source: EPRS.

#### 4.3.2.1. The impact of divergent sanctions policies

The unravelling of the Iran nuclear agreement provides a sobering reminder that the sanction policies of Europe's most powerful ally can quite easily obstruct Europe's own efforts to forge an effective independent foreign policy.<sup>88</sup> In 2018, President Donald Trump announced the unilateral US withdrawal from the JCPOA, the landmark nuclear agreement signed by Iran and the E3/EU+3 – France, Germany, the UK and the EU plus China, Russia and the US – in 2015.<sup>89</sup> The US withdrawal led to the re-imposition of US economic sanctions on Iran that had been lifted as part of the implementation of the nuclear deal. Newly-imposed restrictive measures include wide-ranging secondary sanctions with extraterritorial effect, essentially making it illegal for EU companies and financial institutions to engage in a wide range of economic and commercial activities with Iran. Companies that disregard the US secondary sanctions face major fines and/or criminal charges in the USA, or even exclusion from the US market. As a result, European firms have mostly stopped trading with Iran, which has seriously undermined EU efforts to save the nuclear agreement with Iran. Iran agreed to enter into the nuclear agreement precisely because the country hoped to reap the economic benefits of renewed trade. Citing the absence of economic dividends, Iran has walked back its own commitments under the JCPOA. The EU has adopted counter-measures to encourage businesses to continue to engage with Iran, in the form of an update of the Blocking Regulation.<sup>90</sup> The Regulation was adopted in 1996 to protect EU businesses against the effects of the extraterritorial application of legislation adopted by a third country. It forbids EU persons from complying with extraterritorial sanctions, allows companies to recover damages arising from such sanctions, and nullifies the effect in the EU of any foreign court judgment based on them. However, due to worldwide reliance in financial and commercial transactions on the dollar and the importance of the US market for large banks and companies, the measure has proven entirely ineffective in countering the effect of US sanctions.<sup>91</sup> The USA has effectively forced European companies to join in the sanctions on Iran, despite specific EU legislation designed to offset US measures.<sup>92</sup> An increased international role for the euro, as proposed by the European Commission, would provide a [tool](#) to strengthen Europe's influence in the world, lowering the risk of trading internationally for European businesses, and giving European consumers and businesses greater autonomy.

#### 4.3.3. Development cooperation

Attention to development cooperation in the context of EU strategic autonomy has been relatively limited, but the transformation of global geopolitics and the return to a landscape of great power, has direct consequences for the shape of development policy – for donors and recipients alike. As several experts attest, in the context of great power rivalry, development is being instrumentalised to build zones of influence, as is seen by the presence of China in Africa and elsewhere.<sup>93</sup> China and, to a lesser degree, Russia are rapidly expanding their financial and political influence across Africa, while the United States' latest policy line on Africa under the Trump administration makes explicit its aim not only to promote American interests, but also to counterbalance Chinese influence in that

<sup>88</sup> See Leonard, M. and Shapiro, J., 2019.

<sup>89</sup> Immenkamp, B., [Future of the Iran nuclear deal: How much can US pressure isolate Iran?](#), EPRS, European Parliament, 2018.

<sup>90</sup> Immenkamp, B., [Updating the Blocking Regulation: The EU's answer to US extraterritorial sanctions](#), EPRS, European Parliament, 2018.

<sup>91</sup> See Grevi, G. (b), 2019.

<sup>92</sup> Beattie, A., [The EU cannot build a foreign policy on regulatory power alone](#), Chatham House, 2020.

<sup>93</sup> Niquet, V., [Un défi pour le multilatéralisme : l'instrumentalisation de l'Afrique par la Chine et ses conséquences sur les décisions de l'OMS](#), Note de la FRS n°21, 2020.



part of the world. It targets not only partnership, but also primacy on the continent.<sup>94</sup> At the same time, official development aid is [decreasing](#) globally while, both at the international and EU level, there are challenges in determining whether partner countries are making progress in implementing reforms linked to assistance provided and assessing the effectiveness of development cooperation.<sup>95</sup>

As discussed in previous sections, strategic autonomy is about 'setting objectives, making decisions and mobilising resources in ways that do not primarily depend on the decisions and assets of others'.<sup>96</sup> In this context, it is also about being able to promote and achieve objectives for cooperation and partnership, including in development cooperation, and promoting mutual interests. Cooperative autonomy – strategic autonomy with a strong cooperation element allowing to bring the EU and its partners together on a wide range of items – as [described](#) by former HR/VP Mogherini, is therefore relevant to development cooperation. This is reinforced by the fact that in 2019 the EU (with its Member States) remained the world's largest [donor](#) of development aid, making development cooperation a key element of its engagement with the world and its identity as an international actor. Less fragmentation and increased coordination on development aid<sup>97</sup> between the EU and the Member States would make action in this field more effective and could contribute to strengthening EU strategic autonomy.

The EU is committed to a principled approach to development, consistent with its values and with the promotion of the UN Sustainable Development Goals (SDGs). EU assistance to third countries seeks to ensure that no EU policies have negative effects on developing countries, but is also conditional on their respect for fundamental values, such as human rights, the rule of law and non-discrimination, with agreements often including a sanction mechanism for failure in this respect. The new [European Consensus on Development](#), adopted in 2017, sets out the principles which will guide the EU (and Member State) approach to cooperation with developing countries over the next 15 years. In line with the global strategy, the consensus also aims to link development cooperation with the achievement of the priorities of the EU's external policy, in particular building resilience and addressing the root causes of migration. The consensus stresses the rights-based approach to development cooperation with gender equality as one of its core underlining values and poverty eradication as the main goal. It is [structured](#) around the five axes of the [2030 Agenda](#):

- People: human development and dignity;
- Planet: protecting the environment, managing natural resources and tackling climate change;
- Prosperity: inclusive and sustainable growth and jobs;
- Peace: peaceful and inclusive societies, democracy and rule of law;
- Partnership.

EU development thinking has gradually begun to [shift](#) away from bilateral aid towards a partnership approach, with trade and investment at its core, for example with the 2017 [external investment plan](#). The renaming of the Commission development portfolio to 'Commissioner for international partnerships', now [held](#) by Jutta Urpilainen, is a signal of a strategic move towards a relationship going beyond development assistance, in particular where Africa and the new Africa-EU Alliance are concerned and where 'mutual interests' are considered. The Commissioner has embraced the

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<sup>94</sup> Schneidman, W., Signé, L., [The Trump administration's Africa strategy: Primacy or partnership?](#), Brookings, 2018.

<sup>95</sup> Pichon, E., [Understanding development effectiveness](#), EPRS, European Parliament, 2020.

<sup>96</sup> See Grevi, G. (a), 2019.

<sup>97</sup> Klingebiel, S., Morazán, P., Negre, M., [Scenarios for increased EU donor coordination: what is the right level of aid coordination?](#), Deutsches Institut für Entwicklungspolitik, 2014.

international partnerships concept, repeatedly stressing the need to move beyond the donor-recipient relationship, to adopt a positive vision for Africa and to build a relationship based on mutual interests.<sup>98</sup> This is consistent with the approach of a 'geopolitical' Commission, where all facets of external EU action are interlinked. Two examples, the policy for Africa and the new financing instruments for development, serve to illustrate how development policy is interrelated with a strategically autonomous EU with its own strategic culture, in a world of competing paradigms.

Africa occupies a particularly important space in the context of the EU's strategic future due to its geographic proximity and the subsequent interlinkages in areas such as energy, migration and security. In 2020, the Commission and the EEAS presented a new comprehensive [strategy](#) for Africa building on the 2018 'New Alliance for sustainable development and jobs', on the UN SDGs, the African Union's Agenda 2063, the Global Strategy and European Consensus on Development, as well as other international frameworks. The strategy proposes partnerships in the areas of green transition and energy access; digital transformation; sustainable growth and jobs; peace and governance; migration and mobility. As numerous countries in sub-Saharan Africa continue to attract the strategic and commercial interests of the EU's competitors – in economic and political terms – from established players such as China to emerging actors such as Turkey or Russia (which held its first Africa summit in October 2019), competing visions of Africa will form part of global competition for power and influence. With African economies severely hit by the pandemic,<sup>99</sup> the relevance of partnerships will become indispensable for the continent.

The new external financing instruments in the 2021-2027 MFF – currently under negotiation – will facilitate the EU's capacity to act autonomously and effectively, provided there is internal cohesion and consensus on the direction of that action. The Commission has proposed to regroup several EU instruments for external policy from the previous EU budget, as well as the European Development Fund,<sup>100</sup> into a single Neighbourhood, Development and International Cooperation Instrument (NDICI), allowing for more flexibility and a quicker response to third countries' needs. In its mid-term review of the 2014-2020 budget, the Commission [acknowledged](#) that 'limited resources and financial flexibility' hindered the effectiveness of EU external action. In the words of HR/VP Borrell 'power starts with financial power'; the EU must have the financial 'capacity to participate in the development of the countries on which we very much rely in order to ensure our security'. NDICI should enhance the readiness and coherence of the EU's external action in the areas of enlargement, neighbourhood, cooperation with strategic partners, and development cooperation.<sup>101</sup> An adequately equipped, flexible, and efficient financial framework is an essential element of enhancing EU strategic autonomy, as suggested by the European Council, which referred in its [2019-2024 strategic agenda](#) to 'making more resources available and better using those we already have at our disposal'.

#### 4.3.4. Openness to international trade relations

The EU economy relies considerably on imports and exports for its economic competitiveness. Currently, one in seven EU jobs is supported directly or indirectly by exports and the EU accounts for a considerable share of global trade flows.<sup>102</sup> The EU has over 40 free trade agreements (FTAs) in

<sup>98</sup> Teevan, C., Sherriff, A., [Mission possible? The geopolitical commission and the partnership with Africa](#), ECDPM, 2019.

<sup>99</sup> Pichon, E., Zamfir, I., [Coronavirus in Africa, A crisis with multiple impacts](#), EPRS, European Parliament, 2020.

<sup>100</sup> D'Alfonso, A., [European Development Fund](#), EPRS, European Parliament, 2014.

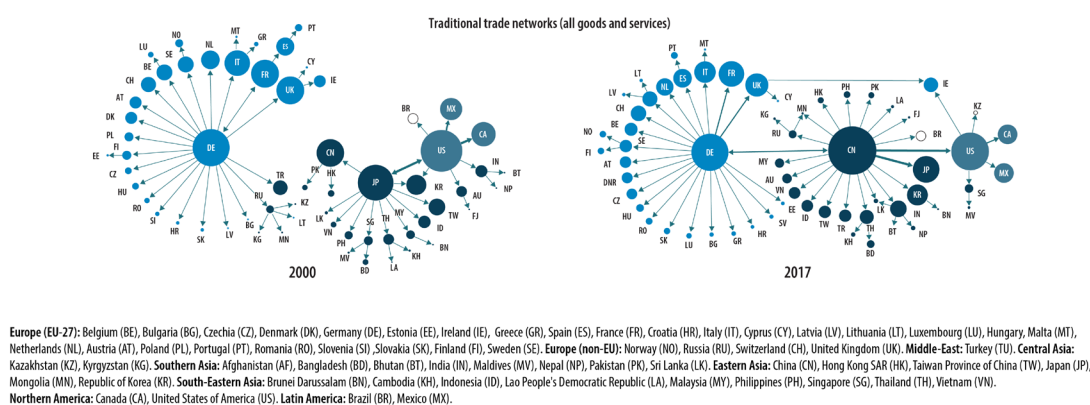
<sup>101</sup> Ioannides, I., [EU external financing instruments and the post-2020 architecture. European implementation assessment](#), EPRS, European Parliament, 2018.

<sup>102</sup> Almost 17 % of the world trade in goods and services in 2016.

force with countries on virtually all continents. Overall, thanks to EU trade policy initiatives, around 76 % of imports enter the EU duty free. Recent research has again [confirmed](#) that trade has a positive impact on growth and on the per capita income.<sup>103</sup> The recent rapid expansion of trade relations has also [benefited](#) the developing world, contributing to lifting more than a [billion individuals out of extreme poverty](#).

EU consumers benefit from free trade in many ways, notably from lower prices, more variety, and higher quality standards for goods and services. EU companies also strongly benefit from free trade through better access to international markets, more exports and higher competitiveness through the setting up of more efficient and integrated value chains. As a result, as shown in Figure 9 below, the EU is one of the main poles in today's global value chains thanks to its trade strategy. Figure 9 also highlights the rapid structural shift that occurred between 2000 and 2017, with the emergence of China as a key supply hub for Asia and a more integrated and stronger EU supply hub.<sup>104</sup>

Figure 9 – Strategic positioning and relative influence in value chain at global level



Source: [WTO – World Bank, 2019](#).

China, which joined the WTO in 2001, has however still not fully opened its internal market to external trading partners. State intervention to control and promote trade expansion in a series of strategic sectors have not entirely disappeared. China has also implemented a very ambitious development agenda, extending its reach through its [Belt and Road initiative](#). Participation in the [17+1 cooperation format](#)<sup>105</sup> could prove particularly challenging for an EU that aims at speaking with one voice.<sup>106</sup>

In addition, the USA has also started to increase the use of trade as a strategic tool in international relations. A series of tariffs imposed on partners and allies undermined reliance on multilateral organisations for the resolution of trade disputes. In particular, the blocking of the WTO Appellate Body and US renouncement of its participation in the Trans-Pacific Partnership, signalled a move

<sup>103</sup> Irwin D.A., [Does Trade Reform Promote Economic Growth? A Review of Recent Evidence](#), NBER Working Paper No 25927, June 2019.

<sup>104</sup> Complex GVC trade networks, all goods and services. The size of the bubble represents the share of a country's value-added exports in the world total value-added exports. The arrow of the linkage shows the direction of the value-added flow.

<sup>105</sup> The members of the 17+1 group include 12 EU Member States – Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Croatia, Slovenia and Greece – and five Western Balkan countries: Albania, Bosnia and Herzegovina, North Macedonia, Montenegro and Serbia.

<sup>106</sup> In its [strategic outlook](#) of March 2019, the EU exposed its own vision for a mutually beneficial relationship with China, through a more realistic, assertive and multi-faceted approach.

towards a bilateral form of negotiation, a situation in which the current US administration assumes that it has more leverage. The finalisation of a partial agreement with China in December 2019 and the negotiations announced with the European Commission are also a confirmation of this search for a new bilateral balance of power in US trade relations.

Global disagreements recently increased in the international trade arena – led by increasingly fractious relations between the USA and China – and the current coronavirus pandemic has the potential to exacerbate this process. Whilst the EU will obviously wish to defend itself against unfair competition, the Union's [trade defence instruments](#) were recently reinforced to give better protection against dumped or subsidised imports, for example – and ensure that its strategic interests are respected. The EU will also have a special responsibility to continue to defend the concept of [collective gains](#) based on a level playing field and a global environment that can bring benefits to all.

When it comes to trade policy, strategic and autonomous EU action should mean the EU remains open and strives for mutually beneficial trade agreements while seeking to build bridges with a view to reaping the benefits of its positioning under the overarching umbrella of the WTO. It is therefore crucial for the EU not to succumb to the 'siren song' of protectionism in updating the multilateral trade system and to assertively defend its interests. As part of the EU trade policy toolbox, the multilateral angle offers the best opportunity to achieve a broad-based set of trade rules, promoting EU trade interests. This is particularly relevant as the EU always strives to ensure that its trade agreements go hand in hand with respect for human rights, and labour, environmental, health and safety protection standards.

## 4.4. Security and defence

The current risk landscape is multidimensional and characterised by both conventional and novel threats:<sup>107</sup> from transnational crime networks and terrorism to the corrosion of arms control regimes, cyber-attacks and hybrid warfare, the scale and complexity of threats to peace and stability is such that [none](#) of the EU Member States 'has the strength nor the resources to address these threats' alone. In this context, the European Union's ability to independently and autonomously make effective decisions regarding the security of its Member States and its citizens, grows in importance. Building strategic autonomy on a mix of 'soft' – sanctions, development cooperation, trade – and 'hard' power tools, which still need to be politically agreed, could allow the EU and its Member States to respond to the threats and risks with which they are commonly confronted.

### 4.4.1. Contributing to global peace and stability

In an already volatile international context, the impact of the coronavirus outbreak is likely to [lead](#) to increased instability and to the multiplication of regional conflicts close to Europe and around the world. This will impact conflict areas disproportionately, increasing the vulnerability of afflicted populations and prolonging conflict in areas like the Middle East. It may also act as a 'conflict multiplier', as contestation over resources expands to include securing access to vital medical supplies, among other factors.<sup>108</sup> The pandemic is also likely to strain social relations and state-society relations, potentially leading authoritarian governments to increasingly undemocratic measures in reaction to social disorder.<sup>109</sup> Great power competition, redistribution of global power

<sup>107</sup> For more on this see Lazarou, E., [Mapping threats to peace and democracy worldwide: Normandy Index 2020](#), EPRS, 2020; Swain, A., *Understanding Emerging Security Challenges. Threats and Opportunities*, Routledge, 2013.

<sup>108</sup> Alaaldin, R., [COVID-19 will prolong conflict in the Middle East](#), Brookings, 2020.

<sup>109</sup> ICG, [COVID-19 and Conflict: Seven Trends to Watch](#), 2020.

and uncertainty about the future relevance of multilateralism will impact security and instability across the world, as discussed in previous sections of this study, potentially threatening global peace.

In this context, the promotion of peace – one of the main goals of the EU's external action as enshrined in Articles [3.5](#) and [21 TEU](#) – becomes even more challenging. It is in the EU's security interest to strengthen its capacity to act credibly as a global power. It can do so by developing capabilities, allocating resources, cooperating with partners or setting standards. Over recent years, the EU has embarked in a range of important reforms to develop strategic autonomy. It has been working to strengthen its ability to address critical developments in its neighbourhood and worldwide more coherently and to mobilise the required financial, civil and military resources. With various bilateral action plans, financial instruments, and over 37 operations and crisis management missions on three [continents](#), the EU could be considered an experienced global contributor to peace and stability. However, as the European Parliament has [stressed](#) in one of its resolutions, the challenge for the EU is to take a 'proactive rather than responsive approach to global affairs', including in areas pertaining to EU Common Security and Defence Policy (CSDP).

#### 4.4.1.1. Strategic planning and responsiveness

The effectiveness of the CSDP has been a subject of debate since 2016. Recognised weaknesses included: 1) the planning process for missions and operations which remained 'cumbersome and slow'; 2) the institutional setting of the EEAS which exhibited redundancies; and 3) the lack of centralised military planning and conduct structures which hampered the capacity for crisis response.<sup>110</sup> Since then, the political momentum to address these problems has led to several institutional reforms, such as the establishment of a permanent Military Planning and Conduct Capability (MPCC) in the EEAS in 2017.<sup>111</sup> In 2019, the EEAS further integrated its 'conduct pillar', that combines the responsibilities for the civilian and military planning capabilities (CPCC and the new MPCC), and its 'policy pillar' (concerning PESCO, or cyber security) into the Directorate for an Integrated Approach for Security and Peace, coordinated through the [Joint Support Coordination Cell](#) (JSCC). These reforms, among others, have the potential to further strengthen and streamline planning and coordinate activities.<sup>112</sup> In 2018, to assist in the efforts to promote peace and stability then HR/VP Mogherini and the Council proposed the establishment of an off-budget [European Peace Facility](#), which could [receive](#) €5 billion for 2021-2027. The European Parliament has [called](#) for proper parliamentary control over the Facility and regular briefings on related decisions and on its implementation, assuming the proposal is taken forward.

Beyond institutional, operational and financial innovations HR/VP Borrell has argued that the EU still 'lacks a common strategic culture' as an international actor. It has been suggested that strategic autonomy would provide this essential 'glue' to the EU's action for peace and security.<sup>113</sup> One proposal, which among other things would boost the EU's capacity to formulate coherent and rapid responses to global and regional crises is the [creation](#) of a European Security Council (ESC). An ESC would act as a governing body with authority over common positions, operations and strategy in

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<sup>110</sup> Anghel, S. Perruche, J. P., [The European Council and Common Security and Defence Policy \(CSDP\): orientation and implementation in the field of crisis management since the Lisbon Treaty](#), EPRS, European Parliament, 2016.

<sup>111</sup> Initially limited to non-executive missions, the Council expanded the command and control responsibilities of the MPCC to comprise also one executive operation by the end of 2020. See Besch, S., [The EU's Institutional Framework Regarding Defence Matters](#), DG EXPO, European Parliament, 2020.

<sup>112</sup> Tvevad, J., Lerch, M., Legrand, J., [Commitments made at the hearing of Josep Borrell Fontelles, High Representative of the Union/Vice-president-designate, 7 OCT 2019](#), DG EXPO, European Parliament, 2019.

<sup>113</sup> Witney, N., [Building Europeans' capacity to defend themselves](#), ECFR, 2019.

CFSP, contributing to strategic readiness.<sup>114</sup> The extension of qualified majority voting on CFSP issues, including the deployment of CSDP civilian missions in response to crises, would be part of the move towards strategic autonomy, and could also [contribute](#) to readiness and effectiveness in this area. The more recent launching of the [Strategic Compass](#) process, to be taken forward by the German Presidency in the second half of 2020 – aiming to also produce a shared threat assessment among EU Member States – holds significant value for the future of the EU's action in [countering threats](#) and promoting peace. In a strategically autonomous EU, effective decision-making regarding global peace must also be backed by consequential and proportionate operational capabilities. In his parliamentary hearing, HR/VP Borrell stressed 'we have to be more operational on the ground. We have to deploy forces, starting with our neighbourhood'.<sup>115</sup>

The EU's capacity to prevent crises, address ongoing conflicts and disasters, and provide post-conflict stability depends not only on an integrated approach towards crisis management, but also on agreement on the EU's long-term strategic goals and access to autonomous and independent foresight capacity, which would prepare the Union's instruments for evolving and complex scenarios.<sup>116</sup> The pandemic has made the relevance of anticipatory governance and preparedness more evident than ever before, as it has illustrated the compounding effects that a non-traditional threat can hold for the deterioration of peace and stability. The Commission acknowledged the increasing importance of strategic foresight to equip 'ourselves with the best possible knowledge on emerging risks' in its 2020 work programme and by creating a [Foresight portfolio](#) in the new Commission, held by Commissioner Maroš Šefčovič.

#### 4.4.2. EU's defence industry and defence market

At a milestone summit held in December 2013, the European Council reached political consensus on the importance of strengthening the EU's defence industrial dimension.<sup>117</sup> The Heads of State or Government [recognised](#) that a more integrated European defence technological and industrial base would help to overcome fragmentation, share costs, reduce existing and prevent further technological obsolescence and that it would contribute to enhancing EU 'strategic autonomy'. The EU Global Strategy [built](#) on this view and considered the EU's defence industry as a key element for 'Europe's autonomy of decision and action'.

The political consensus forged on the EU's defence industrial dimension enabled the European Commission to present a [European defence action plan](#) (EDAP) in 2016, which boosts joint research and the development of capabilities. The plan showed continuity with previous action as regards SMEs and the defence market, however, the most innovative element, symbol of a leap forward in integration, was the creation of the EDF, a new mechanism intended to support the joint development of capabilities. The EDF brought Community method elements together with a 'research window' funded from the EU budget, and intergovernmental elements with a 'capabilities window', allowing Member States to purchase certain assets in common, such as, for example, drones. A genuinely autonomous EU in defence would require deeper integration, particularly on joint development, procurement and use of capabilities. The EU needs to have a comprehensive approach to capabilities and to consider, when developing them, the purpose they would be

<sup>114</sup> Kaim, M., Kempin, R., [A European Security Council. Added value for EU foreign and security policy?](#), SWP, 2019.

<sup>115</sup> See Tvevad, J., Lerch, M., Legrand, J., 2019.

<sup>116</sup> Janez Lenarčič, Commissioner for Crisis Management, [stated](#) in this regard that it is important 'to strengthen our capacity to adapt to a changing environment. In light of climate change projections, protracted conflicts and increasing instability around the world, we – the European Union and its Member States – must work in an integrated manner'.

<sup>117</sup> Anghel, S., [Implementation of the European Council conclusions in Common Security and Defence Policy \(CSDP\) since the Lisbon Treaty](#), EPRS, European Parliament, 2016.

required to serve. The recent introduction of the [Coordinated Annual Review on Defence](#) (CARD) – a mechanism allowing identification of shortfalls in EU Member States capabilities, and the launch of [PESCO](#) – a mechanism contributing to joint development of capabilities, are important steps towards pursuing a comprehensive approach. However, technical solutions may prove insufficient unless EU Member States broaden the existing political consensus and agree on the purpose and the requirements of a European defence instrument. The finalisation of the ongoing 'strategic compass' exercise is therefore rather urgent, to take stock of the common threats and risks facing the EU as well as to identifying the type of capabilities needed to counter them.

Analysts consider the creation of a new [Directorate-General for Defence Industry and Space](#) (DG DEFIS) – part of the internal market portfolio of Commissioner [Thierry Breton](#) – as a step forward in applying the EU's community method to defence.<sup>118</sup> However, the EDF, the main *raison d'être* of DG DEFIS to date – has still to pass the implementation test. Success or failure in this respect could be determined by the amount of funding allocated to this instrument in the 2021-2027 MFF, as well as by the relevance of the type of capabilities developed with its support. It is too early at the time of writing to assess the importance and impact of capabilities developed with EDF support. A thorough assessment, outside of the scope of this study, would only be possible in several years' time.

The envelope allocated to the EDF in the next MFF is essential to guaranteeing its visibility, its relevance and allowing its potential as an accelerator of EU defence integration to materialise, at a time when analysts warn of the reversibility of the process.<sup>119</sup> Although HR/VP Borrell and Commissioner Breton have [called](#) for an 'ambitious budget' for the EDF, the European Commission has lowered its estimate by 30 % (from €11.4 billion in May 2018 to €8 billion in May 2020 at 2018 prices). The shift towards economic recovery and health following the coronavirus outbreak may have played a role in the European Commission's decision to lower its initial estimate. Lowering the figure might also have been an attempt to meet Member States' expectations. Already prior to the pandemic, some EU Member States demonstrated lower than expected appetite for EU budget spending on defence and for common budgetary spending in general. The amounts proposed in December 2019 by the [Finnish Presidency](#) and in February 2020 and July 2020 by the European Council President, [Charles Michel](#), cut the estimate by 50 % and 40 % respectively against that announced by the European Commission in 2018. The amount proposed by President Michel (€7 billion) was, in the meantime, [confirmed](#) by the European Council. By proceeding with this reduction, EU Member States seem to indicate that they wish to multiply armament cooperation channels and to maintain ongoing intergovernmental cooperation carried out outside the EU framework through the [Organisation for Joint Armament Cooperation](#) (OCCAR) (annual operational budget [€4 billion](#) in 2018). This instrument allows armament cooperation with the UK to be maintained close to current levels, independently of the outcome of the ongoing negotiations on future EU-UK relations.

The European defence industry is [unevenly](#) located across the EU Member States, with the largest Member States (France, Germany, Italy, Spain, and previously the UK) and Sweden counting for 80 % of its €100 billion estimated turnover in 2017. It counts a small number of large-scale companies and nearly [2 500 SMEs](#), which supply components. The European defence industry has traditionally been at the edge of research and development (R&D), including research and technology (R&T), developing applications with a single (military) or dual (civil-military) use. A long-term policy, R&D necessitates decades of development and funding from inception until equipment is ready for use. Existing European R&D is still largely the result of decisions taken decades ago. The reduction in

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<sup>118</sup> Csernatoni, R., [EU Security and Defense Challenges: Toward a European Defense Winter?](#), Carnegie Europe, 2020.

<sup>119</sup> Lopinot, Q., [Europe Is at War with the Coronavirus. Where Does That Leave European Defense?](#), CSIS, 2020.

financial allocations that occurred in the interim, particularly following the economic and financial crisis, has accentuated the risk of technical equipment obsolescence, putting the EU Member States at risk of losing existing know-how or of not being able to develop future generation equipment in time. The pandemic might deepen this process, should defence budgets [shrink](#) again.

Large-scale European defence companies operate globally, having a [share](#) of about 24 % of the turnout of the top 100 defence companies worldwide in 2017. This represents a decrease of 5 % in comparison to 2002, when their overall share was at 29 %. Between 2002 and 2017, companies other than those in the EU or US have nearly doubled their turnout share, from 9 % to 19 %. Member States remain the primary buyers of European defence industrial products. National defence spending cuts induce market contraction, leading to the reliance of European defence companies on arms exports.<sup>120</sup>

Big European defence companies rely on a wider network of suppliers than European SMEs alone, which, with some exceptions<sup>121</sup> operate locally and remain highly [dependent](#) on the large-scale companies they supply. At a point in time when defence budgets, which had barely recovered from the economic crisis of a decade ago, could once again face substantive cuts, it is critical to continue strengthening defence-related SMEs through both national and European efforts. Independently of their size, European defence companies' technical know-how is of strategic importance and no gain of autonomy is possible for the EU without preserving this. Furthermore, a European unitary patent, if and when in force, could contribute to building strategic autonomy, by offering small, medium or large companies in the defence industry simpler and more efficient EU-wide intellectual property protection for their R&D.

Joint collaborative projects and joint procurement remain the exception, despite commonly agreed targets and existing EU law provisions. In 2017, only 9 % of R&T (which is part of total R&D) was collaborative, far [below](#) the 20 % target agreed by the EU Member States in the European Defence Agency (EDA) and/or in NATO. Similarly, only 17 % – as opposed to the target of 35 % – represented collaborative equipment procurement. The two directives adopted in 2009 on [procurement](#) and on [transfers of defence-related products](#) aimed to support joint European procurement, to overcome the fragmentation in the defence market and to boost defence industry. Analysts agree that their implementation record is rather poor.<sup>122</sup> They emphasise that over 80 % of defence procurement remains national and that the Member States continue to rely on [Article 346 TFEU](#) to justify procurement conducted nationally, whilst this provision should be seen an exception rather than a way of justifying dominant practices.<sup>123</sup> They also stress that there is potential for 'a profound change in procurement practices'. The EDF 'capability window' could operate as a game changer should the EU Member States wish to use it at its maximum potential in the years to come. The directive on transfers of defence-related products [remains](#) an 'innovative and flexible tool' that 'has not yet been fully exploited'. It has [contributed](#) to 'some cost reductions', while 'potential for further reductions lies ahead, pending better implementation'.

Despite progress made so far, a number of open questions linked to the European defence industry and market persist and need to be addressed in the years to come if the EU wishes to build its

<sup>120</sup> Bailes, A., Depauw, S. (eds.), [The EU defence market: balancing effectiveness with responsibility](#), Flemish Peace Institute, 2011.

<sup>121</sup> Belin, J. et al., [Defence industrial links between the EU and the US](#), Armament Industry European Research Group, 2017.

<sup>122</sup> Briani, V., Marrone, A., Mölling, C., Valasek, T., [The development of a European Defence Technological and Industrial Base \(EDTIB\)](#), DG EXPO, European Parliament, 2013.

<sup>123</sup> Randazzo, V., [Article 346 and the qualified application of EU law to defence](#), EU ISS; 2014.

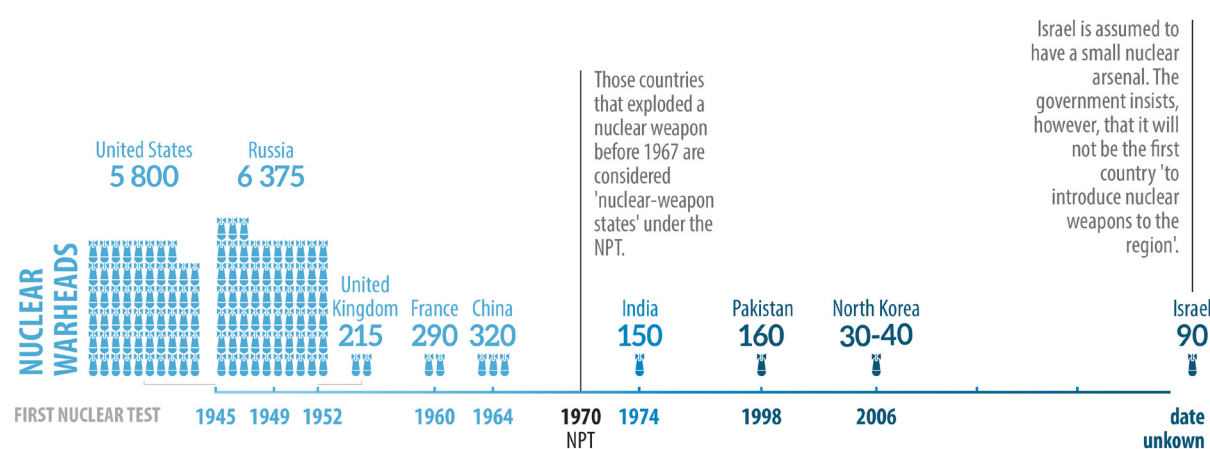


strategic autonomy. One such question is the issue of defence industry specialisation.<sup>124</sup> Analysts consider that specialisation should result from a common reflection of the EU Member States on the needs and means allotted to defence,<sup>125</sup> and should by no means be a default solution as a consequence of national defence spending cuts. Independently of technical arguments, which may overwhelmingly be in favour of specialisation,<sup>126</sup> there is an urgent need for EU Member States to achieve political consensus on this matter, which may prove difficult due to prevailing domestic positions.

#### 4.4.3. Addressing the future of non-proliferation and nuclear deterrence

The world has entered a 'new nuclear age'<sup>127</sup> that is very different from the Cold War, both in terms of characteristics and challenges. Two nuclear superpowers, Russia and the USA, still possess the vast majority of nuclear weapons (see Figure 10). The greatest challenge still lies in saving the bilateral agreements between them that have led to a very significant reduction in nuclear weapons over the past 30 years. However, the number of nuclear-armed states that determine whether and when nuclear weapons will be used has grown to include China, India, Israel, Pakistan and North Korea, and may soon comprise Iran. Pakistan and North Korea rank high on the list of [fragile states](#) (25th and 30th respectively). In this overall climate, where multilateral arms control has effectively been declared '(almost) dead',<sup>128</sup> Europe is at particular risk that any renewed arms race between Russia and the USA will play out on European soil. Moreover, even though the probability is [considered low](#), there is a persistent risk that a non-state actor may steal and detonate a nuclear weapon or seek to manufacture an improvised nuclear device.<sup>129</sup>

Figure 10 – Nuclear weapons worldwide



Source: SIPRI, 2019.

<sup>124</sup> Roth, A., [The size and location of Europe's defence industry](#), Bruegel, 2017.

<sup>125</sup> Mölling, C., [Pooling and Sharing in the EU and NATO European Defence Needs Political Commitment rather than Technocratic Solutions](#), SWP, 2012.

<sup>126</sup> Vagt, S. et al., [Solving the European defence market puzzle](#), ELF, 2018.

<sup>127</sup> Legvold, R., Chyba, C. F., 'Introduction: The Search for Strategic Stability in a New Nuclear Era', *Daedalus*, Spring 2020.

<sup>128</sup> Kühn, U., [Why Arms Control is \(Almost\) Dead](#), Carnegie Europe, 2020.

<sup>129</sup> Sokova, E., [Understanding Nuclear Weapon Risks: Non-State Actors and Nuclear Weapons](#), Middlebury Institute of International Studies at Monterey, 2017.

The recent demise of the INF Treaty,<sup>130</sup> a bilateral arms control agreement between Russia and the USA, may lead to the redeployment of intermediate-range missiles and put Europe once more in the line of fire of strategic nuclear weapons, for the first time since 1991. The EU called on both parties to save the agreement, but these efforts failed. The last remaining bilateral [strategic nuclear arms control agreement](#) between the USA and Russia, the 2010 New Strategic Arms Reduction Treaty (New START), will expire in 2021, unless both parties agree to extend it as part of negotiations that started in [June 2020](#). New START has been critical to continuing the trend of gradual reduction in the nuclear arsenals of the USA and Russia that started in the 1990s. Its demise could trigger a renewed nuclear arms race between Russia and the USA. At the same time, all nuclear weapon-possessing states continue to modernise their nuclear arsenals. The [USA](#) and Russia are investing [large sums](#) in the overhaul of their nuclear weapons systems<sup>131</sup> and are working on introducing 'low yield nuclear weapons' with a lower threshold for use. To make matters worse, the Nuclear Non-Proliferation Treaty, the cornerstone of the global non-proliferation and disarmament regime, is under threat, including from tension between supporters and opponents of the [Treaty on the Prohibition of Nuclear Weapons](#) (the Ban Treaty).

Based on the [Global Strategy for the European Union's Foreign and Security Policy](#), the European Union [Strategy against the Proliferation of Weapons of Mass Destruction and their Delivery Systems](#) and the [New Lines for Action](#), the guiding principle of the EU in the fight against the proliferation of weapons of mass destruction (WMD) continues to be effective multilateralism. This includes safeguarding the centrality and the promotion of the universality of the global non-proliferation and disarmament architecture, through diplomatic action and financial assistance to third countries and international organisations. EU Member States are signatories to the international treaty regime of non-proliferation conventions concerning nuclear, chemical and biological weapons. In addition, the EU actively promotes the [universalisation](#) of these conventions. However, the EU's effectiveness in maintaining and shaping the future of the international non-proliferation and disarmament architecture has been weakened due to internal divisions over the role of nuclear weapons. France is fully committed to step-by-step nuclear disarmament but considers nuclear weapons to be an essential part of its security strategies for now. A further 20 EU Member States are NATO members and covered by [NATO's commitment to nuclear deterrence](#). These include four hosts to US tactical nuclear weapons (Belgium, Germany, Italy and the Netherlands) and 16 that are covered by NATO's 'extended nuclear deterrence pledges', including all the central and eastern European Member States. In contrast, Austria, which is not a NATO member, was one of the key drivers behind the Humanitarian Initiative, which led to the adoption of the Ban Treaty. Among EU Member States, only Austria, Cyprus, Ireland, Malta and Sweden voted in favour of the [Ban Treaty](#), only Austria and Ireland signed it, and only Austria has ratified it. Consequently, there is no agreed EU position on the Ban Treaty, reflecting long-standing division on nuclear disarmament. The EU will have to overcome internal divisions over the role of nuclear weapons if it wants to regain the ability to speak with one voice in international non-proliferation and disarmament fora, give new impetus to the mission of the EU Special Envoy for Disarmament and Non-proliferation, and be able to act autonomously in an international environment characterised by an increased assertiveness from both global and regional powers.

The EU has been part of several global initiatives at the political level. This includes the adoption of [UN Security Council Resolution 1540](#), which establishes legally binding obligations on all UN Member States to have and enforce appropriate and effective measures against the proliferation of

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<sup>130</sup> Immenkamp, B., [The end of the INF Treaty? A pillar of European security architecture at risk](#), EPRS, European Parliament, 2019.

<sup>131</sup> Russia is believed to allocate 13 % of its [annual defence budget](#) to nuclear weapons, In the United States, in 2019, roughly 5 % of total military spending was allocated to [nuclear weapons](#).

nuclear, chemical, and biological weapons. It also includes the setting up of the Global Initiative to [Combat Nuclear Terrorism \(GICNT\)](#), the creation of the G7 Non-Proliferation Directors' Group and Global Partnership, and the convening of the [Nuclear Security Summit](#). To strengthen regional cooperation against proliferation of WMD, the EU launched the [EU Chemical Biological Radiological and Nuclear Risk Mitigation Centres of Excellence Initiative](#) in 2010. The EU also pursues close cooperation with individual countries to strengthen the international non-proliferation regime. An increasing number of the EU's bilateral relationships include a non-proliferation component. The EU has also contributed to promoting the highest standards and practices in nuclear safety applied in the EU in third countries, and continues to promote alignment with EU policies and priorities in the field of nuclear safety in non-EU countries. These efforts have [certainly](#) contributed to reducing the risk of non-state actors acquiring nuclear devices or the nuclear materials needed to manufacture them. However, the EU will not be able to prevent nuclear-armed states from sharing their nuclear technology and material with friendly states, as the USA did with [India](#) and [Iran](#), China did with [Pakistan](#), the former Soviet Union and China did with [North Korea](#), and France with [Israel](#). Both [Turkey](#) and [Saudi Arabia](#) have expressed an interest in acquiring nuclear weapons and nuclear-power competition among the USA, Russia and China may make it easier for both countries to procure the necessary technology.

To prevent the proliferation of WMD, the EU also controls the export of dual-use goods. Certain goods and technologies have legitimate civilian applications but can also be used for military purposes; 'dual-use' goods are subject to EU's export control regime. EU export controls reflect commitments agreed upon in key multilateral export control regimes such as the [Australia Group](#), the [Wassenaar Arrangement](#), the [Nuclear Suppliers Group](#) and the [Missile Technology Control Regime](#). The regime is now being revised,<sup>132</sup> mainly to take account of significant technological developments and to create a more level playing field among EU Member States. The EU is currently considering expanding the definition of dual-use items to include 'cyber-surveillance technologies' – which have been used in connection with serious human rights violations – and to create a new EU autonomous list of cyber-surveillance technology subject to export control that would be more restrictive than existing multilateral export control regimes.

There has been a reluctance among many EU Member States to pursue European strategic autonomy in the area of security and defence, which they perceive as potentially incompatible with anchoring Europe's defence in NATO. European NATO Member States are protected by NATO's collective defence clause. Article 5 of the [NATO Treaty](#) provides that an attack on one NATO member state is considered an attack on all. Three nuclear powers – the USA, France and the UK – ensure NATO's nuclear deterrence capabilities. According to [recent research](#), a significant number of EU capitals consider nuclear deterrence - as part of NATO's security strategy - vital for European security. In his [speech](#) on 7 February 2020 on [nuclear deterrence](#), French President Emmanuel Macron called on interested European countries to engage in a strategic dialogue on the role of France's nuclear arsenal in European security. It remains to be seen how other EU Member States will react in practical terms to the [proposal](#) to give French nuclear weapons a place at the [centre](#) of a more coordinated EU defence strategy.<sup>133</sup> Experts consider it 'conceivable' that the French nuclear arsenal could provide the basis of a 'Europeanised' nuclear deterrent, capable of deterring a nuclear attack on an EU state.<sup>134</sup> Following Brexit, France remains the only EU Member State with nuclear weapons. Given that the nature of future defence cooperation between the EU and Britain is yet to be defined, it is not clear whether the EU Member States will benefit from the UK's nuclear deterrence capabilities,

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<sup>132</sup> Immenkamp, B., [Review of dual-use export controls](#), EPRS; European Parliament, 2019.

<sup>133</sup> Vallée, S., [France and Germany Need a Dialogue on Nuclear Policy: No More Talking Past Each Other](#), DGAP, 2020.

<sup>134</sup> Lippert, B., von Ondarza, N., Perthes, V. (eds.), op.cit., 2019.

except through NATO, where the UK is a key ally and contributor.<sup>135</sup> In contrast, in light of existing divisions among EU Member States regarding the role of nuclear weapons, it is clear that the development of a 'European nuclear weapon' as part of a coordinated EU defence strategy is not even up for discussion.

#### 4.4.4. Strengthening EU resilience on security and defence

Resilience in foreign and security policy is a central element of the [EU Global Strategy](#), which has identified a number of non-conventional threats, including terrorism, hybrid and cyber. Most Member States' strategic documents mention these threats, which are likely also to be reflected in the upcoming EU Strategic Compass.<sup>136</sup> The majority of Heads of State or Government who took part in the [Future of Europe](#) debates in the European Parliament plenary recognised terrorism, cyber-attacks and disinformation as common threats to both the EU and the Member States and have called for a joint response, mindful of their dual internal and external dimension. In a [joint letter](#) addressed to their colleagues, the Ministers of Defence of France, Germany, Spain and Italy stressed that the pandemic had shown the 'relevance of a close coordination' and that EU Member States 'have to improve significantly their ability to counter hybrid-, disinformation or cyberattacks', to enhance communication networks as well as 'cyber-interoperability, security and resilience'.

To enhance resilience in facing hybrid threats, in the June 2020 Council Conclusions on Security and Defence, the EU [committed](#) to work towards an EU 'security culture' and to protect critical infrastructure. It has also committed to preserve its decision-making from 'malicious activities', thus enabling the Union to ensure it acts autonomously and remains fully operational at any time. The coronavirus outbreak challenged the EU and its Member States with a crisis of an unprecedented scale, which called upon their unity, tested their resilience and led them to consider building strategic autonomy as a way to overcome growing vulnerabilities and counter exposure to hybrid threats, including disinformation. President von der Leyen notably [pointed](#) to the spike in online disinformation activities and hospital-related cyber-attacks originating from China and linked to the coronavirus outbreak. Consequently, the European Commission published a [joint communication](#) on disinformation, in which it clearly indicated China, alongside Russia, to be among those actors promoting misleading narratives, related, for example, to the EU's support for third countries.<sup>137</sup> Early in the crisis, the European Council [recognised](#) that fighting disinformation with fact-based communication is a key element that allows it to 'reinforce the resilience' of European societies. Already prior to the pandemic, the European Council had regularly considered disinformation,<sup>138</sup> at that time mainly originating from Russia, and stressed that there was a need for a coordinated EU [response](#) in implementing the joint action plan on disinformation, which inter alia calls for a clear mandate and sufficient resources for the strategic communication teams within the EEAS. This requires rapid action and resources if the EEAS is to expand its strategic communication activity – so far mainly focused on Russia, the Western Balkans, the Middle East and North Africa and the Gulf States – to cover, in a more comprehensive manner, China.

Bolstering resilience to hybrid, cyber and terrorist activities is a key element of EU-NATO cooperation. Academics stress that 'collective defence' is and will remain the core task of NATO, but that the EU could and should play an enhanced role in the hybrid, cyber or counter-terrorism

<sup>135</sup> Lațici, T., [What place for the UK in Europe's defence labyrinth?](#), EPRS, European Parliament, 2020.

<sup>136</sup> See Fiott, D., 2020.

<sup>137</sup> Bentzen, N., Przetacznik, J.; [The EU's response to coronavirus in its neighbourhood and beyond](#), EPRS, European Parliament, 2020.

<sup>138</sup> Anghel, S., Bacian, I., Drachenberg, R., Vuković, M., [Key Issues in the European Council: State of play in October 2019](#), EPRS, European Parliament, 2019.

response.<sup>139</sup> The NATO summit in London displayed the [diverging views](#) of the different leaders on the future of the alliance; some of them, including French President Macron, being of the opinion that a [stronger European pillar within NATO](#) would strengthen both the EU and NATO and help share the transatlantic security burden. Analysts [concur](#) to say that staff-to-staff cooperation on technical aspects, including on hybrid and cyber aspects, is running smoothly and that the implementation of the 2016 Warsaw [EU-NATO Joint Declaration](#) and of the 2018 Brussels [EU-NATO Joint Declaration](#) led inter alia to [progress](#) on crisis preparedness, joint training and information exchange. Nevertheless, in the long-term, unless the current political blockage is overcome, it might have a negative impact on the implementation of the two joint declarations.

Resilience, defined as the ability to renew, resist and be 'crisis-proof' when faced with both internal and external threats, not only relates to non-conventional, but also to conventional threats.<sup>140</sup> One of the leading initiatives in building EU resilience in response to conventional threats is military mobility.<sup>141</sup> This initiative comprises a PESCO project led by the Netherlands, a European Commission [joint communication on improving military mobility in the EU](#) funded through the [Connecting Europe Facility](#) instrument as a dual-use project, and an EU-NATO initiative. The overall aim of the three components of the 'military mobility' initiative is to facilitate, if need be, the rapid movement of military capabilities (troops and equipment) from one side of the continent to the other. Military mobility is of [strategic importance](#) for both NATO and the EU; and it would require upgrading and/or the development of critical infrastructure as well as the harmonisation of national legislation requirements. The European Council's 2019-2024 strategic agenda [stressed](#) that the EU 'must give itself the means to match its ambitions, attain its objectives and carry through its policies'. Military mobility, as a new project funded from the 2021-2027 MFF has a total [envelope](#) of €1.5 billion, an amount reduced by 74 % if compared with the initial proposal of €5.76 billion, put forward by the European Commission in 2018.<sup>142</sup>

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<sup>139</sup> See Lippert, B., von Ondarza, N., Perthes, V. (eds.), 2019.

<sup>140</sup> Bendiek, A., [A Paradigm Shift in the EU's Common Foreign and Security Policy: From Transformation to Resilience](#), SWP, 2017.

<sup>141</sup> Lațici, T., [Military Mobility](#), EPRS, European Parliament, 2019.

<sup>142</sup> D'Alfonso, A., Pari, M., Sapala, M., [Negotiations on the next MFF and the EU recovery instrument Key issues ahead of the July European Council](#), EPRS, European Parliament, 2020.

## 5. The way forward

The coronavirus outbreak has challenged the EU and its Member States with a crisis of unprecedented magnitude, showed their vulnerability and pressed them to act in a swift, coordinated and united manner. Strategic autonomy became a key element of the [roadmap for recovery](#), accelerating a process already in motion prior to the pandemic, with the EU trying to shape a new approach towards China and other external partners, to boost defence cooperation, to renew its economic policy, and to strengthen its internal market.

This study outlines that two elements – political will and capacity to act – are prerequisites for achieving effective 'strategic autonomy'. The EU institutions and the Member States should operate based on a common understanding of strategic autonomy, which is still in the making. On several occasions, both prior to and during the pandemic, the European Commission showed that it was slowly moving towards a horizontal – cross-policy – approach to strategic autonomy, emphasising its importance for [industrial](#), [health](#), [internal market](#), [defence](#) and [climate](#) policy. EU leaders also [recognised](#) that the Union should strengthen its 'capacity to act autonomously'. The leap forward made in recent years with respect to defence industrial cooperation highlights that political consensus in the European Council is a precondition for progress. It also shows that technical solutions, which contribute to boosting the EU's capacity to act – such as the creation of the EDF – are only the means used to translate political will into action.

One possible step to build European 'strategic autonomy' is by further 'unlocking' the potential of the Lisbon Treaty, as has recently been the case in defence with the launch of PESCO. Several Treaty provisions pertaining to external relations, defence or energy policy could be set in motion, including moving towards a 'common defence' if the European Council reaches political consensus on the matter. Another possibility would be offered by the Conference on the Future of Europe, provided this process were to lead to a deepening of EU integration, which is rather uncertain.

The EU and its Member States risk becoming a 'playground' for other global powers unless they strengthen their ability to speak globally with one united voice, and increase cooperation with like-minded partners on a case-by-case basis at the bilateral and multilateral level. Strategic autonomy is about the EU's capacity to act with or without partners and its ability to stand by its values and protect its interests. In an increasingly complex world driven by geopolitics, where global and regional powers raise their game, it is important for the EU to also speak the 'language of power', fully relying on a mix of 'soft' and 'hard power' tools. Although the EU will continue to privilege the use of 'soft power' tools, such as trade, sanctions, development or climate diplomacy, there is also a need for more robust instruments, including a European common economic and defence approach allowing the Union to step up its response in case of further deterioration in the European security landscape. For as much as autonomous decision-making is important, the ability to effectively implement decisions is equally valuable and should continue to be strengthened.

The threats to security the EU and its Member States face are of both conventional and non-conventional nature, and a reflection on the common threats to security is currently being carried out as part of the Strategic Compass exercise. While the primary objective of the Strategic Compass is to overcome the absence of a common assessment of threats, also [outlined](#) in several European Parliament resolutions, the exercise may also lead to a new, possibly more demanding, [level of ambition](#), as well as to a clarification of the EU's understanding of the concept of strategic autonomy. A number of open questions, such as the EU's ability to speak with a united voice in international disarmament fora or specialisation in the European defence industry remain. Furthermore, there is an urgent need for common policy on Russia and China, to which Member States commit to

effectively observe to ensure that the two powers cannot employ internal divisions to hamper the EU's ability to decide and/or implement decisions.

There are multiple benefits from building effective strategic autonomy on a horizontal, cross-policy basis. A number of vulnerabilities, such as the lack of medical protective equipment, energy dependence on external actors, exposure to disinformation originating in China and/or Russia, or digital dependence on the USA and China, can be better addressed jointly by the EU and the Member States. Greater strategic autonomy would ensure that relations with partners are governed by mutually beneficial interdependency – and not by dependency, thereby allowing the Union to defend its values and promote its interests in multilateral and bilateral fora in an effective manner. Moving towards 'strategic autonomy' would allow multiple economic benefits, as long as the cost of autonomy does not outweigh its benefit. This study stresses that changes in the global gas market can also allow the EU to achieve greater strategic autonomy and that moving away from fossil fuel production can be positive, not only for the climate, but also for a more autonomous EU. Furthermore, agreement on the unitary patent could help counter internal market fragmentation, whilst a more assertive EU industrial policy would help avoid technological obsolescence, reduce dependency on external suppliers in certain strategic domains and help build next generation technology.

Strategic economic autonomy is increasingly a necessity for the EU. Completing the single market, deepening the Economic and Monetary Union by strengthening the euro, completing the Banking Union, as well as developing a comprehensive economic policy are essential elements to ensure that the EU can keep pace with global competitors in an increasingly geopolitical age, where risk-taking might become the norm. A number of outstanding questions linked to a more beneficial trade and investment multilateral regime could, once fully addressed, contribute to strengthening EU strategic autonomy. Strategic autonomy will not be achieved without an adapted level of common budgetary resources and without common dedication to constantly developing and upgrading EU innovation capacity. This could be particularly relevant in an area such as defence, at a moment when national budgets are likely to continue shrinking and common EU procurement is embryonic, thus putting the European defence industrial base in a precarious competitive position. Ensuring a level playing field is of strategic importance to the EU and its multilateral action. Building strategic autonomy in key policy areas, such as CSDP for example, or the euro, for which there is high public approval, could unite the EU and its citizens in support of the European project.

To achieve European strategic autonomy and ensure its effectiveness, there is need for consensus on objectives, means and resources. The EU also needs to show ambition and common vision. A forward-looking EU needs to go beyond short-term perspectives. If the objective is to reduce dependency on external actors and duplication among EU Member States, the means could be institutional – leading to the creation, for example, of an EU public procurement agency or of an EU treasury, whilst resources would have to be both financial and human. The [negotiated political agreement](#) reached in the European Council on the budgetary package (MFF and NGEU) for 2021-2027 allocates less than the Commission's initial estimated amount, supported by the European Parliament, for the funding of external relations, the green deal and defence, thus impacting the EU's ability to stand by its level of ambition as well as its capacity to build strategic autonomy. The European Commission strengthened its foresight capacity to allow advance detection of possible changes in the EU's future landscape. Foresight analysis needs to go hand in hand with a common understanding and political agreement on the EU's long-term strategic goals.

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In confronting the EU with an unprecedented crisis, the coronavirus outbreak is testing the bloc's unity, but may also accelerate the construction of EU strategic autonomy, as the roadmap for recovery is implemented. Political will, still in the making, and the capacity to act are key prerequisites for achieving effective European strategic autonomy.

The EU is increasingly at risk of becoming a 'playground' for global powers in a world dominated by geopolitics. Building European strategic autonomy on a horizontal – cross-policy – basis would strengthen the EU's multilateral action and reduce dependence on external actors, to make the EU less vulnerable to external threats; while promoting a level playing field that benefits everyone. The EU could thus reap the full dividend of its integration and possibly benefit from greater economic gains.

To build European strategic autonomy, the EU may choose to use the still 'under-used' or 'unused' potential of the Lisbon Treaty, with the European Council having a key role to play in triggering some of the Treaty provisions, particularly in foreign and security policy. European strategic autonomy may also result from a deepening of the EU integration process. Nevertheless, it remains to be seen whether the Member States will wish to grasp the opportunity offered by the Conference on the Future of Europe to deepen the European project.

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