

European View

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Navigating through renewed economic uncertainty

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Mikuláš Dzurinda

According to legend, the late British Prime Minister Harold Macmillan was once asked by a young journalist what the greatest challenge for a statesman was. His famous reply: ‘Events, dear boy, events.’

The EU has certainly had to deal with more than its fair share of challenging events over the past two decades. First, there was the 2008 global financial crisis and the related eurozone debt crisis, both of which damaged people’s livelihoods across Europe and even threatened to cause the collapse of the common European currency—the euro. Then there were the 2011 Arab Spring revolutions and the subsequent bloody civil wars in Libya and Syria. Next, with Ukraine forging closer ties with Europe and the West, Russia reacted in 2014 by launching a hybrid campaign against its western neighbour and illegally annexing its Crimea region. This was the first time that borders on the European continent had been changed by force since the Second World War. In July 2016 the citizens of the UK voted in favour of Brexit, and after bitter and tense divorce negotiations, Britain left the EU in 2020. Brexit marked the first case of EU ‘de-enlargement’ since the process of European integration began. And of course, there was also the 2015–16 Mediterranean migration crisis, caused by people fleeing civil wars and a lack of opportunities in the Middle East and North Africa.

And now we must add to this list of events the current economic downturn that Europe is having to deal with. In 2022 inflation rose sharply to double-digit figures in multiple European countries, causing consumer prices to rise rapidly and damaging people’s purchasing power. In addition, energy prices rose to new highs, causing fears that some

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people might not be able to heat their homes or have enough money for food during the demanding winter months. This caused governments across Europe to adopt temporary measures to protect vulnerable members of society from the sudden economic turmoil. Fortunately, a full-blown crisis was averted because the winter was milder than some had initially predicted.

This economic turmoil has been caused partly by Russia's unprovoked and unjustified attack on Ukraine in February 2022. At the time of writing, the war is still ongoing and the Ukrainian people are fighting heroically to defend their homeland. Ukraine has also received a significant amount of military support and other assistance from its Western partners, including lethal capabilities such as main battle tanks. In addition to providing Ukraine with military hardware, European countries have responded to the war by cutting their dependency on Russian hydrocarbon exports, such as oil and natural gas. This has been necessary to dispel Europe's previous energy *naïveté*. There used to be a sense in Europe that economic relations with Russia could be compartmentalised, and more specifically, separated from Moscow's broader foreign and security policy. However, the war in Ukraine has demonstrated how dangerous such thinking was for Europe's security and overall resilience as an international actor.

The downside is that Europe's sudden detox from Russian hydrocarbon exports has caused energy prices to rocket in the global markets, hurting the pockets of ordinary European consumers. While this has caused understandable anxiety, frustration and anger across Europe, the good news is that the phenomenon will be short-lived: once Europe has managed to cut Russia from its energy mix and to replace its hydrocarbon exports with alternative energy sources, such as liquified natural gas, the Union will be more resilient, and its citizens more secure and prosperous as a result.

Given the need to deal with the current challenging economic times, we at the Wilfried Martens Centre for European Studies decided that this Spring 2023 issue of our biannual *European View* journal should focus on the economy and the challenges that we are currently facing. In my opinion, there is a need to understand the root causes of our contemporary economic problems and—more importantly—to develop solutions to tackle them. The importance of developing such solutions is increased further by the looming 2024 European elections, during which citizens across the EU will again have an opportunity to choose their elected representatives in the European Parliament and influence how the top EU positions are allocated following the elections. We therefore need to offer people a positive, uplifting and pro-European economic message. In my view, it is only through effective cooperation at the European level that individual European countries will be able to navigate the current economic challenges.

I hope that you enjoy reading the various articles, in both the main section and the current affairs section, that make up this issue of the *European View*, and that they provide you with plenty of food for thought. They are part of the Martens Centre's contribution to dealing with Europe's current economic challenges and boosting the Union's overall economic resilience.

Author biography

Mikuláš Dzurinda is president of the Wilfried Martens Centre for European Studies and a former prime minister of Slovakia (1998–2006). He has also held the positions of minister of transport and minister for foreign affairs.



European integration in times of economic hardship: Lessons from history

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Abstract

The EU's integration history is closely linked to economic challenges, particularly hardship. Over the course of more than 70 years, the economy has played a central role in both the narratives of the integration project (as a source of legitimisation) and its various episodes, from the Schuman Declaration to the Green Deal Industrial Plan. This article evaluates the importance of the internal market's promise of 'prosperity' and describes some of the main responses to economic hardship, both failures and successes. Based on these, it concludes with a list of internal and external factors that always seem to be part of the way that further European integration offers answers in times of economic hardship. Given the crucial need to protect the internal market, the role of the EU is to look for (and beyond) what is necessary to supplement and to empower (but not to replace) the role of the member states. If opposing views are channelled towards a synthesis that strengthens the common good and integrates the interests of all stakeholders, economic hardship could ultimately strengthen the EU.

Keywords

European integration history, Economic integration, Social market economy, Member states, Narrative, Internal market

Introduction

'This is a war on our energy, a war on our economy, a war on our values and a war on our future', Ursula von der Leyen (2022) boldly claimed on 14 September 2022 before the

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Members of the European Parliament in Strasbourg. In her State of the Union Address, the Commission President emphasised the role of the EU in supporting Ukraine against Russia as well as the impact of the war on Europe's economy, particularly the rising energy prices and inflation figures. In the aftermath of the Covid-19 crisis, the war is further testing the EU's economic resilience and its remedies for the pandemic, such as the NextGenerationEU recovery fund. Interestingly, von der Leyen combines an appeal for change—'to a digital and net-zero economy'—with a strong belief in the existing, Christian Democratic inspired model: 'As we embark on this transition in our economy, we must rely on the enduring values of our social market economy' (European Commission 2022).

Making the link between European integration and economic challenges—with a mixture of old and new—is as old as the EU itself and part of the Union's DNA. To see this, one has only to refer to the internal market, which is linked with so many other areas, including trade, digitalisation, Brexit, enlargement and state aid rules. Over the course of more than 70 years, the economy has been central, both in times of crisis—as currently, with the war in Ukraine—and in less turbulent times. This article first evaluates its importance given the other central concepts that have dominated the discourse about European integration. Furthermore, it brings some crucial episodes of economic hardship to mind, from the Marshall Plan and the European Coal and Steel Community to the more recent Green Deal Industrial Plan (European Commission 2023). Finally, the article concludes with a list of factors that are always part of the way in which the European integration process provides answers to economic hardship.

One of five narratives

Many ideas have been used to legitimise the European integration process. First and foremost, peace (and war) was central to the first serious attempts immediately after the Second World War to finally end the spiral of violence and revenge on the European continent. After three generations had died on the battlefield and the fight for dominance between France and Germany had brought Europe to the abyss, confrontation was replaced by integration. Because the latter seemed too 'indispensable to the preservation of peace', new organisations, institutions and rules were created (EU 2023). Interestingly, the way considered best to achieve this goal was through a critical part of the economy: its basic resources—coal and steel—which had been central to the war economy. In other words, from the outset the economy was considered essential to building the fundamentals of further European integration.

It is therefore no surprise that alongside the narrative of peace—that is, no more war thanks to European integration—the economy itself became a source of inspiration and legitimisation. After the failure of the 1954 plan to set up a European Defence Community (to which peace was key), attention shifted towards the so-called lower politics of economic integration. The 1957 Rome Treaty formalised this agenda by establishing the well-known 'foundations of an ever closer union among the peoples of Europe', immediately followed by the decision 'to ensure the economic and social progress of their

countries by common action eliminating the barriers which divide Europe' (Treaty Establishing the European Economic Community, Preamble). Prosperity became a central goal of European integration, next to preserving peace, through the establishment of the four freedoms—goods, services, capital and persons—but limited to the project of market integration.

It was only in the 1990s that solidarity became a central concept too, emphasising the need for efforts to establish social progress. Social policy existed (on paper in the Rome Treaty and through other means, such as the establishment of the European Social Fund), but it had never been a core topic or focus of the integration project. Amidst public criticism, shifting political salience and a strong belief that social progress cannot be separated from economic policies, solidarity gained importance, among both member states and citizens. A new source of legitimisation was found; one that could easily accompany and often soften the purely economic perspective of European integration.

Other old narratives existed too, but did not have as strong an influence as peace (and war) or prosperity and solidarity. Religion, for instance, was largely avoided because it seemed too divisive. From the very beginning it had proved to be a contentious issue as Protestant politicians felt uneasy about the dominance of Christian Democrats among the founding fathers of the European integration project (Chenaux 1990). This sensitivity is still present but has now changed character. Now the Christian heritage of Europe itself is a topic of debate, given the strong rise of pluralism, Christian secularisation and the Islamic faith.

Not as controversial as religion, culture could have become a source of inspiration for European integration. In reality, it never has. The emphasis has always been more on cultural diversity, although initiatives have taken place to enhance exchange and debate. With the exception of some specific economic needs (such as protecting the European film industry from the dominance of Hollywood), culture has never been a sphere of integration. This certainly applies to a common European history. With the accession of countries in Central and Eastern Europe, attention has shifted and the horizon has certainly broadened, but using history as a source of integration is widely seen as too risky. This does not, however, exclude initiatives to 'celebrate' the existing diversity and attempts to explore what is common (House of European History 2023).

In the late 1980s another narrative became increasingly important: democracy (often accompanied by human rights and the rule of law). Interestingly, this had close links with the economy and the single market as it was long claimed that the one cannot be established without the other. The most recent concept used as a source of inspiration and legitimisation is 'crisis'. In this narrative European integration is generally justified as the common answer to multiple crises (migration, Covid-19 etc.). But here too, the economic perspective is always present, often even dominant, as the way in which challenges are handled by the EU is to use its toolbox of economic integration instruments. This is the result of 70 years of market integration, in good times and bad, as the EU's history shows.

Ten of many episodes

After the Second World War, European integration was largely the result of the Cold War between the US and the Soviet Union. Western European countries were vulnerable given their military exhaustion, political decline and economic ruin. The continent was divided and Stalin's Red Army was only 500 kilometres away from The Hague, Brussels and Paris. The US came to the rescue, not entirely altruistically: loans had to be repaid and the exportation of consumer goods to Europe would certainly help the American economy to make the change from war to peace. Alongside the establishment of NATO, the US Secretary of State George Marshall proposed an economic relief programme, the European Recovery Programme. Better known as the Marshall Plan, in 1948 it became a permanent organisation with the aim of stimulating further economic integration. However, this did not get off the ground until the Schuman Declaration of 1950. The creation of the European Coal and Steel Community—supranational in nature and focused on sectoral integration—was the first real success for economic integration in Western Europe. Not insignificantly, the British remained outside the Community, but the Americans wholeheartedly supported this French initiative to counter post-war economic hardship.

The Rome Treaty built on its success. To further integrate the German recovery while compensating for the loss of colonial power, the scope of economic integration was broadened. In 1958 the European Economic Community was launched. Its goal was to realise an internal market in 3 stages within 12 years. Moving away from merely a customs union required a common external trade policy as well as a common competition policy and triggered integration in areas such as transport and agriculture. Since then, the integration train has not stopped, and has increasingly involved all kinds of economic sectors and certainly new ones such as telecommunication.

The idea of strengthening the internal market by moving to an economic and monetary union had emerged by the end of the 1970s but failed due to the effect of a decade of economic and social crisis. Rising energy prices and the subsequent upsurge in inflation tore the member states apart. The power was in the capitals, not the Brussels institutions. A common response seemed politically impossible. The '*sauve qui peut*' adagio brought integration to a standstill—this stagnation being dubbed 'eurosclerosis' (Giersch 1985)—despite the (mainly economically driven) enlargement with Denmark, Ireland and the UK in 1973.

A breakthrough took place in the second half of the 1980s under the leadership of European Commission President Jacques Delors. The 1985 Dooge Report paved the way by critically assessing the state of the Community's economy, which was 'now in a state of crisis and suffer[ing] from serious deficiencies. In addition, however, the Member States [had] become caught up in differences which [had] obscured the considerable economic and financial advantages which would be obtained from the realization of the common market and from economic and monetary union' (Ad hoc Committee for Institutional Affairs 1985, 11). Supported by the European Roundtable of Industrialists

and with the support of national governments, a new treaty—the Single European Act—provided the means to relaunch the economic integration project. To be able to compete with the US and Japan all kinds of barriers had to be removed to create a true single market by the beginning of 1992. This project was called Objective 1992 and pushed the internal market to a new level. A few years later it was supplemented by the Maastricht Treaty, which introduced an Economic and Monetary Union (EMU) to avoid the further dominance of the German economy and its currency over the economies of Western Europe. The EMU, however, was designed according to a German model, with an independent central bank that was expected to keep inflation low.

The Stability and Growth Pact, which entered into force in 1999 to monitor economic and fiscal discipline within the euro area, largely failed in the first decade of the EMU. Member states that did not comply got away with this in the absence of coercive measures or sanctions. The same was true of the Lisbon Strategy (or Agenda), a plan to make ‘the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion’ by 2010, as the EU was ‘confronted with a quantum shift resulting from globalisation and the challenges of a new knowledge-driven economy’ (European Council 2000). The ‘open method of coordination’, in which member states voluntarily cooperated to achieve certain goals based on benchmarking and soft instruments, had clearly failed.

The financial crisis, which triggered a sovereign debt crisis within the euro area, revealed the weak spots in the EMU. Austerity measures further deepened the economic and social malaise, especially in member states such as Greece, Cyprus, Portugal, Spain and Italy, as well as Ireland and Hungary. Lessons were learned in two ways: flaws in the design of the EMU were repaired while Keynesian politics returned to the heart of EU decision-making. Eventually the decision was taken not to issue ‘Eurobonds’; instead the Juncker Commission launched its ‘Investment Plan for Europe’, focused on strengthening ‘the real economy’ through, for instance, public infrastructure projects. On his accession as Commission President, Juncker (2014) stated,

[D]uring the crisis, which was not a crisis of the euro but a debt crisis, we had to repair a burning plane whilst flying. This was not easy . . . but we did manage to keep the whole Eurozone intact. . . . But we also made mistakes. Repairing a burning plane mid-air is no simple matter; you sometimes get your fingers burnt.

Brexit did not undermine the internal market. On the contrary, under the leadership of the European Commission the member states stayed united in defending the interests of Ireland as well as the integrity of the single market. Brexit did, however, lead to economic disruption but, compared to the EU, much more harm was done to the UK itself. The Covid-19 pandemic proved to be a much greater challenge for the European economy. However, very quickly a taboo-breaking recovery plan was set up, named ‘Next Generation EU’ (NextGenEU), which involved the issuing of common debt and the introduction of EU-wide taxes to finance this. The money is meant to be spent on the ‘twin transition’: towards a digital and carbon-free Europe by 2050. In other words, it is a plan to fundamentally change the economy.

The Russian invasion of Ukraine has put this agenda, but also the European economy in general, under severe pressure. Rising energy prices and high inflation rates risk transforming our societies in a way that makes them less social and less oriented towards renewables. To respond to unfair Chinese competition and the attractiveness of the US's Inflation Reduction Act, von der Leyen has recently launched the Green Deal Industrial Plan, which emphasises the continuity of the EU's economic model, 'Because the strength of our social market economy will drive the green and digital transition' (von der Leyen 2022).

Conclusion

What lessons can be learned from the EU's economic history, its narratives and various episodes? First of all, European integration is not triggered by economic growth or success. Rather, the opposite is true. As in most policy areas, the EU steps in when member states fail to overcome their own problems. However, this is a necessary but not sufficient condition for European 'intervention', as is shown by the period of eurosclerosis. Other factors matter greatly too, particularly competition with other economies, such as those of the US, Japan or China. The race to stay competitive or even strengthen the EU's position in the global economy has clearly been a powerful trigger for European integration. Furthermore, hostile political conditions—that endanger the geopolitical role of Europe—are also important, as was proven during the Cold War, and more recently during the Russian invasion of Ukraine.

More endogenous factors matter too, for instance, quantitative decline, such as the shrinking demography, lack of raw materials and labour shortages, which have to be compensated for by the 'quality' of the internal market (i.e. trade intensity, high-skilled labour or business-friendly regulation). Divergence among national governments—particularly about the role of the state in the economy—is a serious challenge to a common approach, and it also causes internal competition between the member states. The latter often proves to be short-sighted (offering immediate benefits) and therefore is not easily matched by the strategic thinking (long-term gains) proposed by EU institutions, especially the European Commission. A common plan with a catchy title (e.g. Objective 1992, the Lisbon Agenda or NextGenEU) certainly helps to sell projects of further economic integration to the wider audience.

Often the right circumstances are needed to make an idea fly. For instance, during the European Convention, '... Germany was strongly opposed even to addressing the question of what economic governance might look like at the EU level; a decade later, it was Germany that took the initiative to promote a legal framework based on fiscal discipline' (Vitorino 2012, i). Equally, economic integration may take place during a crisis that is not economic in origin, such as the health crisis caused by the Covid-19 pandemic. Given its crucial role to protect the internal market, the task of the EU is then to look for (and beyond) what is necessary to supplement and to empower (but not replace) the role of the

member states—which still hold key competences and instruments—as they deal with economic hardship. Further integration can bring opposing views towards a synthesis that strengthens the common good and integrates the interests of all stakeholders, including the smaller member states, small and medium-sized enterprises, and vulnerable groups in society. When this happens, economic hardship can ultimately strengthen ‘the enduring values of our social market economy’ (von der Leyen 2022).

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Protecting Europe's youth during the cost-of-living crisis as key to winning young voters

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Abstract

This article tries to give an overview of the challenges which the European youth faces regarding the rising cost of living and how the centre-right agenda can respond to this problem. The concerns of young people were identified in European surveys both after the 2019 elections and more recently during the European Year of Youth. The article suggests that there is an alignment between these concerns and the political proposals of the European People's Party. In addition, the article explores the potential of young voters to be game changers at the ballot box, underlining how important it is to attract them as voters in the 2024 European Parliament elections. The article concludes by offering suggestions in two main areas: how to reach young citizens and gain their trust and votes, and how communications to them regarding the 2024 elections should be managed.

Keywords

European elections, Cost of living, Young voters, Rising living costs, Turnout

Introduction

Youth is a special period of our lives. The almost unlimited possibilities in front of us, along with the number of different paths we could choose, make it a very significant life stage for most people. Nonetheless, it is also a time of huge uncertainty, as most do not have the financial security that older generations usually have. The possibilities are immense, but the challenges are no less, and that is probably why it is so special. This

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article gives an overview of the challenges the European youth faces regarding the rising cost of living, and in particular rising house prices and their effects across society. It examines how the centre–right agenda can address this problem and how it should communicate around it for the 2024 elections.

The rising cost of living is affecting everyone, especially those on lower incomes as they have to spend more of their income on basic living expenses such as housing, food and utilities. However, the younger generation tends to be more affected than most, because young people usually have less stable jobs, receive lower wages and may struggle to find decent housing solutions. Citizens are demanding answers and the centre–right needs to deliver and show consistency in order to build a winning alliance for the 2024 European elections.

Challenges and risks of 2023

The year 2023 is likely to bring severe challenges. Foremost of these is the war in Europe, which has brought suffering and large economic and social impacts for many, and which, of course, is not yet over. Rising prices, supply chain problems and high energy prices are also taking their toll on the global economy, and the risk of a recession is still hampering confidence in the markets.

As duly noted by the World Bank (Gill and Nagle 2022), Russia and Ukraine are among the largest exporters of several important commodities including gas, oil, coal, fertilisers, wheat, corn and seed oil. The dependence on Russia and Ukraine for wheat imports among the major economies of Europe, Asia and Africa means that there is significant disruption to supplies as well as higher prices for these commodities, resulting in hunger and food insecurity.

As a result, higher interest rates, put in place to curb inflation and likely to remain for some time (World Economic Forum 2023), are also making it harder for younger generations to buy homes or cars. Inequality is increasing which fosters bitterness and anger, and is leading to growing clashes with decision-makers.

In education, for instance, universities are preparing for record numbers of students to drop out as a result of the cost-of-living crisis. Students are in trouble and under pressure from rising prices and many cannot access enough family support as their families are also struggling. Unsurprisingly, many are reassessing their decision to go into higher education. In some cases, higher education institutions are offering innovative solutions in terms of the financial support available, but in many cases this will not be sufficient to prevent young people from dropping out or deciding not to invest further in their education (World Economic Forum 2022).

At the same time, private companies are facing their own challenges as they encounter mounting pressures from the workforce, shareholders and customers to tackle a variety of relevant social duties—from climate change, to diversity and staff well-being.

Sustainability can no longer be part of the strategy, but must be at the centre for businesses to survive. Furthermore, the jobs market is changing, which is directly impacting who is entering employment, while at the same time Europe needs an ambitious agenda to transform and improve the current labour market to ensure a more modern, efficient and well-being-driven future.

To these problems, we must add rising geopolitical tensions and technological wars, as both the conflict in Ukraine and rising tensions with China have reduced confidence. Today we are living in a world in which different types of conflicts occur, leading to the risk of a new kind of cold war. We are also seeing less trust among nations and leaders, and the decline of multilateralism.

The challenges are not only complex, but in a number that is forcing citizens, organisations and leadership to navigate a constantly changing environment. In 2023, multi-risk management and resilience to shocks are more important than ever.

The European People's Party: addressing citizens' concerns

The first and most important mission of a political party is to address citizens' concerns. This means proposing concrete solutions to people's problems. This is the case whether the party has been given the responsibility of governing or is building a political alternative in opposition. The European People's Party (EPP) and its members are in both situations across Europe. Therefore, the first step in any political strategy that aims to mobilise citizens and meet their expectations must be the rigorous and objective assessment of the reality in which people are living.

There are three major dimensions that must be taken into account when evaluating the decision-making framework, the drivers of public opinion, and the window of opportunity for a party or ideological agenda. First, a transparent diagnosis of people's expectations; second, the political situation; and third, the context in which the proposals are to be made and applied.

First, in terms of people's expectations, we rely on a valuable ally: public opinion studies and polls. As we enter a decisive year, where does public opinion stand? According to the Eurobarometer Parlemeter (Eurobarometer 2023), the European Parliament's autumn 2022 survey, there are five major concerns for European citizens: the rising cost of living (93%), poverty and social exclusion (82%), the potential spread of the war in Ukraine to other countries (81%), the climate change emergency (also 81%) and the risk of a nuclear incident (74%). It is only natural that the corresponding priorities are the fight against poverty and social exclusion (37%), the promotion of public health (34%) and the fight against climate change, in association with concrete support for the economy and the creation of jobs (31%).

Second, the political situation must be considered. Within the 27 EU member states, political frameworks differ significantly. In the European Parliament, the EPP has been

the biggest political group since the first European elections and is the major driver of European integration. Today, the EPP holds 23% of the chamber, with 176 members (European Parliament 2023). In the European Council, the EPP is also the party of the majority of the heads of state and government, with nine leaders, compared to six for Renew Europe, six for the Socialists, and three conservatives and three independents (European Parliament 2022). The Council of the EU is being led by an EPP government, from Sweden, for the first half of the year; the second semester will bring a Spanish presidency that will start with a socialist leader, but could end with an EPP-led government.

Third, there is the context. According to the autumn economic forecast from the Commission (European Commission 2022a), the European economy is facing a difficult situation, although some recent projections and declarations offer a more optimistic perspective. In any case, the inflationary pressure remains on households and companies, affecting people in an unequal way. This is unequal in social terms, as the poorest households are most affected, and territorially unequal, as the reality varies radically from member state to member state (with inflation rates ranging from 5.5% to 25%) (Menyhert 2022). Furthermore, it is economically unequal, as the capacity to respond to the inflationary pressure is strictly linked to national budgetary capacities, and countries have significantly different contexts regarding public debt, deficits, GDP growth and so on.

It is clear, therefore, that the EPP has an increased responsibility to address citizens' concerns. We understand the fears and expectations of European citizens, we are the most representative political party in Europe, and we have concrete proposals to tackle the difficult economic and social context that we are facing.

The centre–right response: from ideology to practical answers

The times we are living in and the new era of political communication often lead us to look at ideology as a secondary dimension of our political intervention, prioritising pragmatic approaches based on the urgent matter of the month, the controversy of the week or the scandal of the day. As the leading force of the centre–right in Europe, the EPP must not only rescue the value of ideology, but also transform such ideology into practical answers to citizen's expectations.

The EPP is the stronghold of Christian Democracy in Europe and history speaks for itself when it comes to evaluating the contributions of our ideas and parties to the peace process after 1945, to European integration, to the fall of the Soviet Union, to the fight against terrorism and to a values-based approach to globalisation. It is now time to deliver on the challenges of the present time. It is true that we have a clear vision for Europe, outlined in our Congress documents (EPP 2017) and electoral manifesto (EPP 2019), but the EU of today exists in a different political reality than that of 2019.

When poverty and social exclusion topped the list of citizens' concerns, the EPP Group in the European Parliament presented concrete solutions to the rising cost of living (EPP Group 2022b). When organised crime stole billions of euros from the EU and national budgets and threatened our security, we proposed greater ambition in tackling this (EPP Group 2022c). When the autocratic Russian regime, under Putin's totalitarian leadership, invaded Ukraine in an illegal, immoral, illegitimate, unjustified and brutal way, we stood with our allies and friends on the front line of freedom and democracy (EPP Group 2022a; 2022d).

It is now time to maintain our strong commitment to the proposals we have made, but also to address the challenges arising in such an important year as 2023. The EPP stands for responsibility, accountability and transparency in economic and monetary affairs, so we want to revise EU economic governance accordingly. Not only because we have well-known and historical positions on this, but because we understand the mood of the time and the need to guarantee full respect for the principle of intergenerational solidarity.

The EPP is also the leading force behind the twin transition: green and digital. We have to reform our economies and societies with proportionate and ambitious approaches, but keep the focus on job creation and the promotion of investment opportunities for EU and non-EU companies. Changing the structure of our economies is not only an ideological goal, but a pragmatic and urgent need to safeguard our common future.

The EPP is the most relevant and representative political force in European politics. Our ideology has been forged through decades of dedication to the European cause. Our ideas are well-known and focused on the future. Our mission now is to follow through with our commitments to our parties, our voters and the citizens whose confidence we work every day to win and preserve.

How can the centre-right response impact the 2024 European elections?

As noted above, the 2024 elections will be another test of European democracy, of the relationship between voters and their political representatives. These elections will be marked, as with most recent electoral moments, by another crisis. Europe is suffering from very high inflation rates of above 10% (Eurostat 2023), while seeking to recover from the impact of the Covid-19 pandemic, and has a war at its borders, which has caused an energy crisis.

It is in this context that responses to people's concrete problems must follow two vectors of action:

1. *A comprehensive political response.* This needs to be transversal and to seek a common response to the problems of the population (as opposed to the political

agendas of the European left, which are very focused on solving the problems of small groups). The centre-right needs to promote an integrated, holistic policy, which is always more coherent and effective than a policy that results from the sum of its parts.

2. *An economic growth recovery agenda.* The ageing of the European population and migratory pressures, within an increasingly permanent context of successive economic crises, has promoted more distributive public policies focused on combating social and economic disparities. These policies are more focused on social support measures (here I include health care and concerns about social support), foregoing an economic growth agenda that generates more opportunities. This has contributed to a full generation of political orphans, mostly in the middle class, who feel that politics does not address their concerns.

The younger generation feels that politics is not concerned with its future (Vasques 2022) but fundamentally only with the present, while the digital world is expanding the universe of expectations of younger generations in terms of consumer goods and living standards like never before. Faced with the impossibility of achieving their expectations, in an increasingly complex world that requires ever higher levels of knowledge to navigate due to innovation, the younger generations focus their frustration on the lack of a political response and therefore divorce themselves from their representatives. As a result, they discredit democracy and the democratic system.

Electoral participation of young people

Some data do however give us hope about the political role of young people in European democracy. The 2019 European elections showed a return to the polls, with an overall turnout of 50.6%, the highest since 1994. The results of the Eurobarometer survey (European Parliament 2019) show that this increase in participation was mainly driven by the younger generation across the EU. Specifically, citizens under the age of 25 (+14 percentage points) and the young adult generation between the ages of 25 and 39 (+12 percentage points) participated in greater numbers than previously. These results should be consolidated at the next European elections, so continuing to attract young people to participate politically could result in a very significant political bonus.

According to a study by the European Council on Foreign Relations (Zerka 2019), there are at least three reasons why pro-European parties should appeal to young people in their campaigns:

1. Projections indicate that youth participation could translate into gains of around 10% or more due to youth votes.
2. Young voters are often relatively green and liberal, but this is not always the case. In some countries, a significant number of young people are attracted to far-right

or anti-establishment parties. The centre–right should thus be able to present an agenda that is attractive to younger people.

3. Paying attention to young voters is important to rejuvenate Europe’s politics and rebuild confidence in the European project, as well as to build its competitiveness vis-à-vis other geographies.

Capturing the attention of the younger audience is critical to political engagement between the centre–right and its constituents. The vote of younger people is often considered to be more radical, in an assumption that young people are idealistic or politically inactive when young, before becoming more conservative, pragmatic and politically engaged later in life. However, there is a growing consensus among social scientists that people’s political orientations are set early in life and tend to change little as they age, as the study by Zerka (2019) notes. Therefore, there is an electoral bonus that can be exploited by the centre–right, one that could impact the elections in 2024.

What do the data tell us?

The most recent Eurobarometer survey (Eurobarometer 2022) reveals that most young people are active in the societies in which they live (58%) and have participated in the activities of at least one or more youth organisations in the last 12 months. This is a 17 percentage point increase since the last Eurobarometer survey in 2019.

The same study highlighted that young people’s expectations for the 2022 European Year of Youth were that decision-makers listen more to their demands and take action on them. Concerns centred on young people’s need for support, and personal, social and professional development (72%). Russia’s war of aggression against Ukraine has reinforced young people’s conviction that preserving peace, strengthening international security and promoting international cooperation should be the EU’s first objective (37%).

These concerns, especially in times of crisis, are deeply linked with the fulfilment of young people’s everyday needs such as access to food, health care and housing, and achieving a foundational income that provides security and convenience and helps to eliminate threats to their basic needs. According to Ojeda (2018), ‘The opportunity cost of participation therefore increases as demands arise and resources are diverted away participation’. These factors are relevant to overcoming the income–participation gap to create a political agenda that attracts young voters.

It is possible for the centre–right to present and deliver a commitment to address the concerns of the younger generations in a way which is aligned with the political agenda of the centre–right. Indeed, the concerns of young people are the concerns of the EPP itself. The findings of the Eurobarometer report on the European Year of Youth (Eurobarometer 2022) are consistent with those of the 2019 European Parliament post-electoral survey in terms of the main concerns for young people and voters:

1. *Jobs*. Increase employment opportunities for young people (33%);
2. *Social justice*. Fight poverty and economic and social inequalities (32%); and
3. *Environment*. Promote environmentally friendly policies and combat climate change (31%).

Conclusion

The centre–right must take into account the EU Youth Strategy and, if possible, go further, with greater ambition in the commitment it makes to younger voters in order to gain their trust. The EU Youth Strategy focuses on three main areas of action, which are expressed in the terms ‘engage’, ‘connect’ and ‘empower’ (European Youth Portal 2023). While the EU is working on joint implementation in all sectors and on the 11 points of this strategy, we should consider that this document offers a path for the formulation of political proposals. These proposals do, however, have to be translated into concrete, tangible and measurable actions.

Another decisive aspect is the communication of these political proposals in view of the protagonists of this transformation: who can young people count on? The move that the European Commission has made in regard to implementing an EU External Action to strengthen engagement with young people worldwide (European Commission 2022b) has interesting intentions. But before we look abroad, the European institutions must improve matters at home.

The centre–right now knows that young people vote, that young people count and that young people can be a key factor for victory in elections. But it needs to capture their attention and speak to them on their level without being patronising, in the spaces where they are, that is, on digital platforms. This strategy for involving young people with the centre–right still lacks a decisive aspect: protagonists. Currently only 1.6% of members of parliament worldwide are in their twenties and less than 12% are in their thirties. Young voters need to identify with someone who can represent them at the centre of the decision-making process. Centre–right policies and proposals need to be consistent with the candidates leading these reforms, candidates with whom young people identify, who they know and in whom they see themselves. This is the most consistent (albeit difficult) way to attract the next generation during the upcoming 2024 elections.

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How to reduce Europe's energy dependence on authoritarian regimes?

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Abstract

In 2022 the EU made remarkable progress in drastically reducing its energy dependence on Russia. However, serious challenges remain. Europe still buys a significant amount of liquified natural gas (LNG) from Russia. Furthermore, most of the alternatives to Russian LNG come from authoritarian countries. The EU's planned green energy transition is challenged by its dependence on supplies of critical raw materials from China, Russia and other autocracies. This article suggests practical ways to minimise the EU's energy dependence on authoritarian countries. These range from boosting the production of indigenous offshore natural gas to supporting projects in democratically inclined countries outside Europe, with the aim of increasing the production of LNG and the critical minerals required for the green energy transition.

Keywords

EU, Energy, Russia, China, Natural gas, Energy transition, Critical raw materials

Introduction

Since the commencement of Vladimir Putin's barbaric aggression against Ukraine in February 2022, the EU has made remarkable progress in drastically reducing its energy dependence on Russia. However, serious challenges remain. While the EU has managed to stop buying Russian pipeline gas (with a few exceptions), it has increased purchases

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of Russian liquified natural gas (LNG), and LNG supplies overall are dominated by imports from authoritarian countries. Natural gas will remain important as a ‘bridging fuel’ for Europe until the continent completes its ongoing green energy transition.

There is another challenge associated with the green energy transition: Europe and the rest of the world are heavily dependent on certain critical raw materials that are mainly produced in dictatorships, primarily China and Russia. Therefore, the question that needs to be asked is, how can these problems be addressed in a way that makes Europe less dependent on critical supplies of energy-related materials from China, Russia and other authoritarian regimes?

This article proposes practical ways to minimise the EU’s energy dependence on authoritarian countries. These range from boosting indigenous offshore natural gas production to supporting projects in non-European, democratically inclined countries, with the aim of increasing the production of LNG and the critical minerals required for the green energy transition. It argues that the EU should focus on enhancing its resilience by prioritising sourcing energy and raw material supplies from democratic states—as this approach presents much less risk of future energy disruptions due to geopolitical tensions. The rest of the article is divided into three sections. The first suggests how the EU could reduce its energy dependency on authoritarian countries, while the second explains how the Union could enhance its resilience in the area of critical raw materials supply. The third and final section concludes the article.

Reducing Europe’s energy dependency on authoritarian countries

To begin with, the dramatic reduction in purchases of Russian pipeline gas by the EU in 2022 should not create the illusion that Europe has been completely decoupled from Russian gas. While piped gas flows shrank, Europe has greatly increased purchases of Russian LNG: imports grew by nearly 38% year on year in 2022, to over 15 million tonnes, or 16% of the EU’s total LNG imports. Over 50% of Europe’s LNG imports come from authoritarian countries—either Russia or dictatorships in the Middle East and Africa. Just 41% of the LNG imported in 2022 came from the US (Elijah 2023).

How can Europe reduce its dependence on LNG supplies from authoritarian countries? First, the Union needs to look more closely at its offshore natural gas development potential, which offers the opportunity to increase the EU’s indigenous natural gas production by tens of billions of cubic metres per year (for details, see Milov 2022). Offshore gas drilling has been snubbed by many countries due to climate concerns, but the current crisis leaves Europe with little choice but to reconsider that approach. Some of the countries which have proceeded with offshore drilling—that is, Romania and Turkey—have achieved considerable progress on the road to energy independence. Offshore natural gas production has a certain synergy with the green energy transition—gas platforms at smaller fields can be transformed into offshore wind platforms at the end of their

lifespan. Such an approach has been taken in Croatia, where oil and gas company INA is planning to install offshore wind farms in the northern part of the Adriatic Sea after closing its natural gas platforms in 2025 (Durakovic 2022).

Second, the EU needs to assist with the implementation of LNG production projects in countries which are either stable or relative democracies. Many increases in LNG production capacity are planned among the EU's like-minded partners—the US, Canada, Australia and so on—in the coming years. However, other countries with significant potential for the expansion of LNG exports—Indonesia, Senegal, Peru, Trinidad and Tobago, and Papua New Guinea—could also be considered vital partners that could present a serious alternative to dependence on LNG imports from Russia or the authoritarian states of the Middle East and North Africa.

Learning from the painful Russia lesson, the EU should focus on building its energy relations by prioritising supplies from democratic states—this approach presents much less risk of future energy disruptions due to geopolitical tensions. One of the recent examples of problems arising beyond Russia is the crisis in relations with Qatar following the European Parliament corruption scandal (Cooper and Zimmerman 2022). In 2022 Qatar supplied over 14% of the LNG imported by Europe (Elijah 2023). The EU could do a lot to assist democracies to bring specific new LNG production projects on stream, thus boosting energy security as LNG will continue to play a vital role as a bridging fuel while the energy transition is in progress.

The critical raw materials challenge

It would also be wise to prioritise building supply chains with providers of raw materials critical to the green energy transition, again prioritising democratic countries. Much has been said about the world's significant dependence on authoritarian powers, including China and Russia, for supplies of mineral resources such as lithium or nickel, which are crucial to battery performance, longevity and energy density, or rare earth elements, which are essential to the permanent magnets used in wind turbines and electric vehicle motors. However, according to US Geological Survey data, the share held by China and Russia in the global reserves of critical raw materials is lower—often considerably—than their current share in the global supply of these materials (US Geological Survey 2022) (Table 1).

Table 1. Shares of Russia and China in the production and global reserves of critical raw materials.

	Platinum group metals	Lithium	Nickel	Cobalt	Rare earth elements
Share of Russia and China in production, %	37% for palladium, 11% for platinum	17%	14%	6%	59%
Share of Russia and China in reserves, %	6%	7%	11%	4%	47%

Source: Data from US Geological Survey (2022).

In other words, countries other than Russia and China could achieve a greater market share in the supply of critical raw materials for the green energy transition, if they were assisted to do so.

Many of the untapped reserves of critical raw materials are located in countries which are either fully or partly free according to the Freedom House index (US Geological Survey 2022). Some of these countries include South Africa (rich in platinum group metals), Chile (lithium), Indonesia (cobalt, nickel), India (rare earth elements), Philippines (cobalt, nickel), Papua New Guinea (cobalt), Brazil (rare earth elements, nickel, lithium), Argentina (lithium), Bolivia (lithium), Mexico (lithium) and Greenland (rare earth elements).

With its proposed Critical Raw Materials Act (European Commission 2022), the EU is currently pushing for a systemic policy approach aimed at building a more resilient critical raw materials supply chain. Some of the proposals include empowering the European Commission to list strategic projects within the EU member states—which would be labelled as being of European interest—based on proposals from member states.

It is worth considering also listing projects in democratically inclined countries beyond the EU which are rich in the relevant critical resources. Countries involved in the development of these new supply chains of critical materials—independent of Russia, China and other authoritarian powers—might then be able to count on various forms of European support, development aid, and market and sustainable finance access in return for their role in building sustainable global markets for critical resources.

The recent debate on Europe's energy independence has been significantly focused on a much narrower range of 'like-minded countries', primarily meaning developed democracies such as the US, Canada and Australia. However, a broader focus on building sustainable supply relations with countries which have achieved considerable progress in building a functioning democracy, or are leaning towards being democratic, would both provide incentives for democratic development and shield critical global supply chains from dependence on authoritarian states.

As a matter of fact, the proactive policies of authoritarian powers such as China have in the past done exactly the opposite: converted many countries into authoritarian allies through reliance on development assistance. China has been very active in self-promotion through initiatives such as the Belt and Road, has overtaken the US as South America's largest trading partner and has been Africa's largest trading partner for 12 consecutive years. Europe, so far, has missed the opportunity to become a major economic partner to the countries of Asia, Africa and Latin America. If this should change, it might help to reconfigure the global energy markets away from dependence on various autocracies.

Another benefit of such an approach is that it will help to boost democracy in the world. In its 2022 *Freedom in the World* report, Freedom House documented 16 consecutive years of decline in global freedom (Repucci et al. 2022). Much of this has to do with the proactive economic expansion of China and other authoritarian powers.

The energy transition offers Europe the perfect opportunity to regain its influence and promote the causes of democracy and human rights through economic means. The EU should prioritise imports of energy-related materials—both LNG and the raw materials needed for the green energy transition—from democratically inclined countries, and support projects that boost ties with democratic states around the world. This would also benefit these countries economically, and help to defend and expand the global territory of freedom, which, according to Freedom House, has been steadily shrinking for almost two decades.

Conclusion

To sum up, several key approaches will help to significantly reduce Europe's dependence on supplies of energy and energy-related materials from authoritarian countries:

- boosting its own indigenous natural gas production capacity through intensifying offshore natural gas drilling;
- supporting projects in non-European democratic countries—beyond the ‘usual suspects’ of like-minded developed democracies—related to LNG production and the mining of the critical raw materials needed for the green energy transition (rare earth elements, nickel, cobalt, lithium, platinum-group metals, etc.);
- prioritising democratic and democratically inclined countries as its partners in building LNG and raw materials supply chains; and
- expanding the list of strategic projects under the proposed Critical Raw Materials Act to include projects in democratically inclined non-European countries; and developing a set of incentives aimed at both implementing such projects and assisting the economic development of the relevant countries (through development aid, and assistance with infrastructure and access to markets and sustainable finance).

Europe also needs to find sustainable solutions which will help it to realise its own potential to produce critical raw materials, while minimising the environmental damage caused by mining activities. Regarding lithium, some of the EU member states—Portugal, Germany, Spain, Czechia, Austria and Finland—possess both sizeable reserves and potential resources. However, the development of these would create tensions with local communities, which fear that mining could damage their environment and livelihoods—as in Portugal after lithium exploration was approved by the Portuguese government (Kijewski 2022). The concerns of the local communities must be properly addressed—in the same way that concerns regarding offshore natural gas

exploration are currently being dealt with. However, the development of the EU's own critical minerals production is absolutely necessary to avoid paying the far greater price that arises from being dependent on dictatorships such as China and Russia for the supply of important resources. The perils of such dependency have been made amply clear by the experience of 2022.

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Author biography



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The EU and the new energy reality: Lessons learned from the vortices of 2022

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Abstract

The Russian invasion of Ukraine and manipulation of the gas flow have revealed Russian leader Vladimir Putin's malicious intentions and the EU's weaknesses in the energy sector and related policies. As time has gone by and the initial shock has faded, it has become obvious that the EU's policies need reform. Both the workings of the internal energy market and the fundamentals of current energy policy have shown themselves to be unfit for the increased geopolitical tensions that the EU is facing. This article takes stock of what led to the crisis, assesses these policy flaws, and suggests possible solutions for the functioning of the internal energy market and policymaking.

Keywords

EU, Russia, Internal energy market, Russian invasion, Gas supply crisis, Electricity price hikes

Introduction

The year 2022 was one to remember—sadly for Europe, for all the wrong reasons. The Russian invasion of Ukraine on 24 February marked a pivotal moment in the security field. However, the signs of the looming crisis had been visible for months before. As well as the massing of Russian troops at the Ukrainian borders, we saw unprecedented manipulation of the gas flow and spiking gas and electricity prices in Europe. The supply manipulations and realisation of how much of the oil and gas used in Europe comes from Russia were behind the initial post-invasion panic, further driving energy prices up. As time went by, stores were filled and alternatives acquired, it became apparent that the crisis was more a financial than a supply one. However, although the crisis has not caused

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blackouts and Europeans have not frozen, it has revealed several substantial flaws in the EU energy policy design.

The EU in crisis, or the story so far

In mid-2021 natural gas and electricity prices started to rise due to several factors. First, unlike in previous years, the Russian company Gazprom was not refilling the European storage tanks after the preceding winter. This sparked nervousness on the markets and drove spot prices up. Coincidentally, France was experiencing an extraordinary outage of its extensive nuclear capacity, with technical issues taking over half of its nuclear reactor fleet out of service and leaving the country's nuclear-based power output at a 30-year low, forcing it to import electricity. Losing the contribution of a significant electricity exporter, which typically supplies around 15% of the EU's power needs, was a significant setback for the market. Alongside this, Europe experienced serious droughts in 2021 and 2022, which undermined renewables-based power production. Therefore, the missing portion of the usually stable nuclear-based capacity, combined with a lower-than-usual hydro- and wind-based supply resulted in a significant supply gap. Naturally, the demand had to be met; therefore, the mostly gas-based back-up power capacity was put into operation. Given the price of gas in general, accentuated by the price hike mentioned above, electricity prices went through the roof.

The price hike put pressure on electricity providers, especially when they relied on spot trading, which had often been a profitable strategy up until that point. A similar problem occurred in the natural gas sector. Some utility firms had to turn to alternatives due to the high prices and went bankrupt or had to be saved by massive government help, as in the notable case of the German company Uniper (European Commission 2022b). Most significantly, though, the price hikes had a profound political impact, which is understandable for two reasons. First, even the distant notion of citizens freezing due to a lack of gas is clearly unacceptable. Any disruption to the supply of natural gas poses a considerable issue as any outage in heating threatens people's living conditions, even if it forms a relatively insignificant share of the energy mix. Second, the price hikes naturally put a financial strain on citizens and thus undermined any government support, sending political shockwaves throughout the continent.

As of February 2023, it can be said that the EU has got through the energy crisis relatively well so far, although not entirely unscathed. No major political upheavals have taken place, and the economy has not taken a nosedive, although it is not faring particularly well either. As a key characteristic of the often heated debate during 2022, we frequently heard claims that the electricity market had failed and must be reformed. Such a claim is partly untrue and partly deserves deeper elaboration.

First, the incorrect part: the market has not failed. It did exactly what it was supposed to do and what any market would do—it determined the commodity price based on the demand and supply nexus. When the gas supply to the market declined due to Russia's manipulation, the prices, expectedly, shot up. Later, once alternatives were secured and

it became apparent that there would be enough gas to meet demand, the prices levelled off and eventually even dropped to pre-war levels (Trading Economics 2023). The same was true for electricity prices, even though the pre-war prices were significantly higher than the long-term average due to the abovementioned combination of factors. The dizzyingly high levels of the summer of 2022 were gone, however (Statista 2023). Those who called it a market failure clearly do not understand the market's purpose, how it works or both. The market is designed to appreciate a commodity based on the amount thereof and the demand. If the supply is higher than the demand, the price drops, and vice versa. Anyone who called the price hike a market failure clearly does not understand this 'market workings 101' lesson. So the price hike clearly was not a market failure but a natural market reaction. The problem was that we did not like it as it was a stark deviation from what we were used to. In the months and years before, we had been used to prices so low that many had not even attempted to understand the market.

But what about the second part of the argument? The answer is a bit more complex. The fury of those citing a failure focused chiefly on the electricity market, which, according to them, needs reform. In recent years the market design has proved to be effective in transparently appreciating the commodity—electricity—and spurring on the development of renewable energy sources (RES) thanks to the 'merit order principle'. As many readers will know, this is a relatively simple mechanism that appreciates the most efficient sources. Based on actual demand, various sources are connected to the grid, starting with the cheapest, until the overall market demand is met. Naturally, the cheaper the source, the higher the profit margin. The most expensive source required to meet the overall demand sets the price level for all the sources on the market (i.e. indicating the highest price for which electricity can be sold, regardless of the source), making the cheapest sources the most profitable. Such a mechanism usually works best for sources with low running costs, which are generally low-carbon sources, most notably RES. Natural gas sources, as they tend to be among the priciest, tend to jump in only when production of the cheaper sources combined cannot meet demand, driving the overall price up to the gas-based level. As such a situation was becoming rarer due to the rising proportion of RES combined with cheap nuclear-based production, the electricity price had tended to be low most of the time. However, with a large portion of the French nuclear-based capacity out of service and similarly impaired RES capacity, gas-based production was needed at a time when the price of the commodity was high. In short, the abovementioned factors came together at the worst possible moment and were catalysed by the functioning of the market so that the price inevitably spiked. Hence, the market did not fail. Rather, it did not have the tools to tackle the perfect storm ignited by events outside its reach.

However, although the price hike does not mean that the market failed, the market was clearly unable to alleviate its impact, or capable of preventing its harmful effects. 'How come?', you may ask. The answer lies in how the market has evolved over the past three decades. After the end of the Cold War, it was widely assumed that the power of the single market would be so attractive that suppliers, including Russia, would not jeopardise their position within it with political meddling. Combined with the member states'

unwillingness to communitarise external foreign policy, the market tools focused solely on regulating the market. As well as the tools worked and achieved the goal of creating a competitive market, benefiting customers through low prices, they neglected the external dimension. Until recently, this had not appeared to be a problem as supplies were flowing to the market, and hardly anyone thought it could be otherwise. The logic was simple—the attraction of half a billion consumers seemed so great that even our enemies would want the gas to flow freely so that they could make money selling it to us. The logic seemed unshakeable. This was so much so that Germany was heavily pushing the Nord Stream 2 pipeline even after Russia's annexation of Crimea and many other events made it obvious that Russia was anything but a benign power.

It was thus an immense shock to discover that Russia would jeopardise its economic lifeline by attacking a European country—at least it was for the western part of the EU. The central and eastern European member states were not so surprised, as they had been warning against Russian revisionism and energy weaponisation well before the invasion. Given that energy policy remains a shared competence between the EU and the member states, with the energy mix dictating the actual content of the policy, the immediate reaction was driven by the states, with the EU focusing on the functioning of the market.

From the beginning it was clear that the European Commission did not want to commit to actions that would be difficult to repeal, or that would distort the functioning of the market. The main source of complaints and, hence, the focus of the Commission's activity, was the formulation of the electricity price. The merit order principle combined with the high gas prices meant a steep change in the spot price, especially for countries with a high share of low-cost sources, such as Spain and Portugal. For that reason, both countries were granted an exception and permitted to cap the natural gas price used for electricity generation, effectively decoupling gas and electricity prices (European Commission 2022a)¹. Later in 2022 the so-called Iberian exception was among the market-wide measures considered, but the Commission did not want to apply the exception en bloc as it would have likely distorted the functioning of the market and, probably even more importantly, could have resulted in an eventual increase in consumption. Several member states, mainly Germany, the Netherlands and Denmark, were not on the same page as the Commission. They were generally against the idea of capping the prices, a position they retained until December, when the price cap on traded gas was also negotiated (Taylor 2022; Van der Merwe 2022). Regardless of whether it was the electricity or gas price under discussion, the main argument against the price cap was that extensive cushioning of price increases would increase consumption and be politically sensitive to repeal.

Out of the vast array of harmful events and implications of Russian aggression, at least one thing can be considered positive. The invasion united the EU member states in understanding that the energy transition is, in fact, needed, and has to happen as fast as possible. While before the invasion, decarbonisation was pushed mainly by the 'old' western EU members, and central Europe was much less enthusiastic, both groups now seem to be on the same page, although their reasons for the effort differ. Environmental

concerns remain the main motivation for the West, with the recent geopolitical threats only adding momentum. It is the other way around for the central and eastern European members. Whatever the reason, they seem united for now. Hence, the time is ripe to implement reforms, on both the political and the practical levels. Now that the initial shock is over and Europe has clinched some remarkable achievements on the way to securing its immediate energy needs, it is time to take stock of what has to change so that old mistakes are not repeated. Or better yet, to look at what needs to be done to make the EU a more resilient, energy-secure space, facilitating sufficient and affordable energy supplies for its citizens.

What needs to be done

First, the EU must enforce the application of the market rules in contracts with external suppliers, mainly in natural gas. The liberalisation packages have proven effective against monopolies within the common market area, including Gazprom. The next critical step will be the rigorous application of the third liberalisation package on infrastructural connections to and from third countries. The EU should learn from its mistakes and revise the compromise decision of the spring of 2019, which saw the burden put on the German system operator, a solution that clearly ignored the spirit of the principle of solidarity. Moreover, in its effect, the non-systemic solution undermined the trust within the EU, especially among the central European members, as it effectively allowed the Nord Stream 2 pipeline to be built against their will.

Second, the EU has to come up with a viable framework for building energy infrastructure, especially the cross-border interconnectors within the EU. The goal should be to maximise the advantages given by the common market, for which a robust and flexible infrastructure is needed. In the natural gas sector, a multidirectional network capable of sending supplies to and from various countries is crucial to address irregularities in supply. In the electricity sector, there needs to be trans-border flexibility as well as flexibility within the member states. This is needed to balance supplies due to the rising share of intermittent RES. To transport the energy from the point of production to consumption, a robust network of power lines and the close cooperation of member states will be required. Here, the central European states are at the forefront of the effort as they have to facilitate the energy flows to the Union's border regions. Intra-state flexibility will be needed as power generation is becoming increasingly decentralised (mainly due to private RES installations), and consumers can sometimes become small-scale producers.

The EU already has the tool to foster infrastructure building in its Projects of Common Interest, a list of projects marked by the European Commission as crucial for infrastructural development. The biannually updated list includes projects that receive administrative, political and even financial support from the EU to increase their visibility, conduct the necessary studies and attract investors. However, the list is not without issues that undermine its impact. The main problem is the economically dubious rationale behind many of the listed projects, some of which are outright unviable. This applies mainly to projects in the natural gas sector where projects often overlap, target similar markets,

build on non-existent supply capacity or demand, and so on. The fluctuation of projects between individual iterations of the list over the years suggests that evaluation of the projects is clearly insufficient. As a result, the list does not do its job, that is, attract investors to sound investment opportunities.

Clearly, the Projects of Common Interest list could be a powerful tool to spur infrastructural development, but it needs reform. First, more rigorous scrutiny of the listed projects has to be introduced. Clear criteria have to be applied, particularly in the natural gas sector. These should include market testing, gauging the potential demand and supply, and assessing the needed infrastructure capacity. Only then can the list serve its purpose. Here, the Three Seas Initiative fund could serve as a model for such reform. It is a state-guaranteed investment fund and thus offers a low-risk financial facility capable of attracting investors. Admittedly, the logic works mainly for small- to mid-scale projects, for example, interconnectors, rather than large-scale projects such as new transit pipelines. However, such projects should not be needed in the natural gas sector as they will become obsolete with the phasing out of fossil fuels. Thus, the focus should be on smaller projects to alleviate immediate supply constraints while avoiding undesirable technological lock-ins.

Third, the solidarity principle must be applied to infrastructural development. Although EU energy policy is not ripe for fully fledged communitarisation, predominantly due to differences in members' energy mixes, this principle must be observed. Notably, although it has had a visible impact only recently, the solidarity principle is nothing new. It was enshrined in Article 149 of the Treaty on the Functioning of the European Union in 2009, even before the Nord Stream 1 pipeline was put into operation (Andoura 2013). The article received widespread exposure in 2021 when it served as the basis for the European Court of Justice's decision in the OPAL pipeline case. The decision concerned the utilisation of the OPAL pipeline, which connected to Nord Stream 1 on German soil. The court decided that Gazprom was barred from utilising 100% of the pipeline capacity as this would undermine the energy security of adjacent central European markets by squeezing out alternative supplies. The court ruled that when deciding on energy infrastructure, the broader impact on other member countries and the market must be considered, positing that such decisions must be made consensually. This should be regarded as a binding precedent, and all decisions on infrastructure or supplies should be made with this ruling in mind.

Fourth, similarly, a joint approach from EU member states to key suppliers is necessary. Again, given the varying needs among the member countries, a universal approach is likely impossible; however, aggregating demand is viable. In fact, such a measure was agreed upon in October 2022 under the Czech Presidency of the Council of the EU. Under this logic, gas demand can be aggregated and gas purchases then coordinated, even to the extent of using a joint purchasing platform. Currently, purchasing gas via the joint EU purchasing platform is voluntary, with the exception of 15% of stored gas, which is required to avoid unnecessary competition. A flexible platform for joint gas

purchases is precisely what the EU needs. The magnitude of the aggregated demand of several states has the potential to outweigh other significant buyers on the global scale. In this regard, individual EU states would be in a much worse position than a cluster of members.

Fifth, over the course of 2022, EU members applied a plethora of measures to alleviate the impact of the energy crisis. There was not much time to think about the immediate reaction, and thus the blanket application of solutions was understandable. But we have learned that long-term support for the economy to bridge the more prolonged effects of the crisis has to be more targeted. Energy crises usually impact households and industries differently. In fact, there can be vast differences even within sectors. A blanket approach also does little to address the issue of energy poverty, which can be environment- and time-specific. For instance, some regions may be more sensitive to price hikes than others, especially in times of higher demand.

It is understood that the current crisis is providing a uniquely formative experience that will determine the future development of the European energy landscape. It also offers a catalyst on the path to a decarbonised economy. For environmental and security reasons alike, decarbonisation is necessary, but so is the need to alleviate the impacts of the transition on those who may feel negative effects in the process.

Last but certainly not least, the EU and its members must change their very understanding of energy policy. The past three decades since the end of the Cold War have been marked by the unprecedented development of the EU's common market, which has also branched into the energy sector. The EU's energy policy and the energy policies of the member states were built around market-based logic, which suggested that the demand–supply nexus offers the best way to determine the distribution of supplies. This thinking was based on the assumption that suppliers naturally would not want to jeopardise their position and would always strive to supply the market with the contracted volumes. Since foreign policies, and thus also the external dimension of energy security, remain under the member states' control, the EU lacks tools outside the market. Consequently, in the wake of the Russian supply manipulations, the EU as an actor was left powerless.

In the past, the market-based approach, building on free competition among market actors, helped to secure cheap energy. However, the approach created an environment unfit for making long-term decisions. The demand–supply nexus provides information about the situation at a given moment but can hardly be used to make strategic decisions, which can thus be rendered unviable. As the crisis has shown, making decisions solely on short-term financial logic is not always wise. Hence, the member states, and perhaps the EU as such, needs to incorporate more strategic thinking. Building large-scale infrastructural complexes such as pipelines and storage facilities or capital-intensive energy sources such as nuclear power plants might be seen as unviable in the short term, but may prove invaluable in the long run or in times of crisis.

Conclusions

The EU learned a lesson in 2022. It was a lesson about its past *naïveté* and subsequent rude awakening. The Russian aggression against Ukraine shed light on how short-sighted the energy policies of the Union and the member states had been. It also revealed the fundamental weakness of the functioning of the market, embedded in the logic of short-term economic viability. This approach had undermined the countries' ability to make strategic decisions and, consequently, their preparedness to face supply manipulations. It also became apparent that the impact on various societal groups was uneven, and that the states' reactions did not always reflect this. Nevertheless, in hindsight, several recommendations can be made:

1. The EU must be adamant about asserting the market rules even in trade relations with external suppliers. The flawed application of the internal energy market rules on the Nord Stream 2 pipeline must not be repeated.
2. The EU needs to fix its Projects of Common Interest policy to foster infrastructure building. The thorough screening of supported projects will increase investment attractiveness.
3. The solidarity principle has to be asserted in matters related to the energy market. No decisions with ramifications for other members or the market at large should be taken unilaterally.
4. Although the interests of individual members naturally differ based on their needs and energy mixes, the EU should consider a joint approach to external supplies, at least on the basis of state clusters. Aggregation of demand within groups of member states would secure a better position for negotiations with suppliers in an ever more competitive environment.
5. Blanket support schemes have an uneven impact and do little to alleviate systemic issues such as energy poverty.
6. The thinking about energy policy has to change. More long-term planning and strategic considerations have to be infused in the process, along with an understanding of energy security within the framework of all the EU members concerned, not just within the individual member states' borders.

Note

1. The measure was made possible by two factors. First, as stated above, the usually low electricity price was driven exceptionally high by the gas price hike, causing a grave increase in the electricity price. Second, the Iberian Peninsula is largely isolated from the rest of Europe, which alleviated the risk that the state aid would give Iberian utilities an unfair advantage on the market.

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The problem of stagflation: How should the European Central Bank respond to the increase in inflation?

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Abstract

Inflation began to increase rapidly all around the world towards the end of 2021, and it remained elevated throughout 2022. Higher energy prices contributed significantly to the increase in inflation. However, core inflation, excluding the direct contribution of energy prices, was also significantly above the European Central Bank's inflation target, which was partially due to the highly expansionary monetary policy implemented during the pandemic. Drawing on historical evidence, this article discusses how the European Central Bank should respond to the increase in inflation. Higher interest rates are necessary to counteract the Bank's previous expansionary policy. However, when the economy faces significant headwinds, a monetary policy that is too tight may cause a severe recession. Lessons from earlier periods of inflation suggest that, from a long-term perspective, contractionary monetary policy is preferable despite the short-term pain. To limit the negative consequences, this contractionary policy should be coupled with supply-side reforms aimed at stimulating economic growth and increasing the resilience of the European economy.

Keywords

Inflation, Monetary policy, ECB, Supply shock, Money supply, Supply-side reforms

Introduction

Consumer prices began to increase rapidly towards the end of 2021 and remained elevated throughout 2022. This outbreak of inflation is a global problem, but Europe has been more affected than, for example, the US. In the euro area, inflation reached 10% in

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November 2022, which was well above the European Central Bank's (ECB) inflation target of 2%. Higher energy prices due to the war in Ukraine contributed to the rapid increase in prices. However, at 7%, core inflation, excluding the direct contribution of energy prices, was also well above the target. The real economy in the euro area performed relatively well despite the increase in inflation, with unemployment falling to its lowest level on record (Eurostat 2022). Nevertheless, forecasts by the ECB (2022a) and the OECD (2022a) suggest a significant weakening of economic activity in 2023, while inflation is expected to decline slowly but remain above the target. The European economy is likely to face a year of *stagflation*, that is, high inflation combined with weak economic growth.

From a monetary policy perspective, stagflation poses a significant challenge. Raising interest rates to combat inflation weakens the real economy, while expansionary policies aimed at supporting growth and employment will further aggravate the inflation problem. The challenge faced by the ECB is made worse by the highly expansionary monetary and fiscal policies that were pursued during the pandemic. The rapid increase in the money supply since 2020 also poses a threat to price stability.

The purpose of this article is to discuss the policy challenge faced by the ECB in fighting inflation. In the analysis the article draws on policy lessons from the historical inflationary periods of the Korean War in the early 1950s and the two oil price shocks of the 1970s. These historical lessons suggest that the expansionary policy implemented during the pandemic will force the ECB to pursue a contractionary policy in 2023 to prevent inflation from becoming entrenched.

The causes of consumer-price inflation

The increase in consumer-price inflation that began in the autumn of 2021 has several causes (see e.g. Stiglitz and Regmi 2022; Shapiro 2022). Lockdowns during the pandemic disrupted supply chains and created global shortages of certain goods and raw materials. The war in Ukraine has led to an energy crisis and rising energy costs, not least in Europe. The expansionary fiscal and monetary policy implemented during the pandemic provided households and businesses with money to spend once the pandemic restrictions on social mobility were eased. It is this combination of supply-side restrictions and pumped-up demand that has put upwards pressure on prices.

Much of the public debate on the causes of inflation has focused on the impact of higher energy prices. However, the effect of the expansionary monetary policy during the pandemic should not be underestimated. A major increase in energy prices may have a severe and negative short-term impact on the economy as inflation increases and the economy goes through a period of adjustment. However, once energy prices have stabilised and households and businesses have adjusted to the new energy situation, the negative impact on the economy should fade away—at least as long as second-round effects in terms of excessive wage demands are avoided. The inflationary impact may last longer if higher energy prices ignite a wage–inflation spiral. A slightly contractionary monetary

policy that illustrates the central bank’s commitment to the inflation target is likely to anchor inflation expectations and prevent such a spiral from emerging.

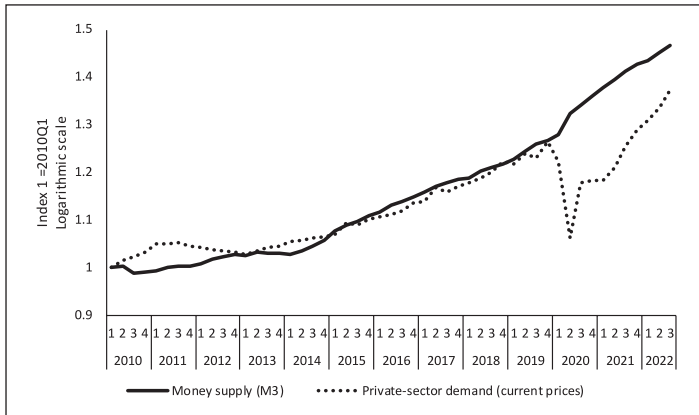


Figure 1. Nominal money supply and private-sector demand in the euro area, Quarter 1 2010–Quarter 3 2022.

Sources: ECB (2022b) and OECD (2022b).

Note: The money supply is adjusted for the long-term average change in velocity.

An expansionary monetary policy, on the other hand, that pumps up demand well above the economy’s ability to produce may cause a prolonged inflation problem. High demand reduces unemployment, and increases inflation and inflation expectations, which in turn leads to higher wage demands and further inflation. A wage–inflation spiral is triggered. History suggests that once this has occurred, it will take years of monetary policy restraint to break the spiral. Seen from a long-term perspective, the main factor threatening price stability presently is not higher energy prices but the expansionary monetary policy during the pandemic.

As an illustration of the impact of the expansionary monetary policy during the pandemic, consider Figures 1 and 2. The first figure illustrates private-sector demand, that is, household consumption and business investments, in nominal prices, as well as the broad money supply (M3)¹ for the euro area between 2010 and 2022. The latter figure contains the corresponding statistics for the US.² Each series is an index that takes the value of 1 in Quarter 1 of 2010. The scale is logarithmic; thus the slope of the curve represents the percentage-growth rate. Over the long-term, the supply of money and private-sector demand should follow each other closely. A faster increase in the money supply than demand implies that there is a potential for demand to increase in the future and vice versa. When demand increases, there are two main effects on the economy. Businesses might either increase supply to meet the higher demand or raise their prices—or a combination of these two. A rapid increase in demand is likely to mostly spill over into higher prices as the supply side struggles to scale up production to meet the higher demand.

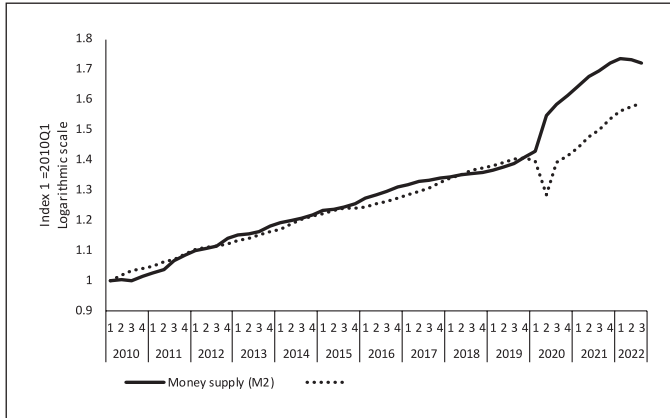


Figure 2. Nominal money supply and private-sector demand in the US, Quarter 1 2010–Quarter 3 2022.

Sources: FRED (2022c) and OECD (2022b).

Note: The money supply is adjusted for the long-term average change in velocity.

Prior to the outbreak of the pandemic in 2020, the two curves moved in parallel, with only small and temporary deviations from each other. During the pandemic, the two curves became decoupled; the quantitative-easing programmes of the ECB and the US Federal Reserve Bank pumped up the money supply, while the pandemic caused a decline in private-sector demand.

Since the pandemic, demand has increased rapidly, faster than the pre-pandemic trend, as it tries to catch up with the increase in the money supply. Due to supply disruptions, a significant part of the increase in demand has been met through higher prices. Inflation reached 6% in the euro area and 8% in the US prior to the war in Ukraine and the major increase in energy prices that took place thereafter. As can be seen in Figures 1 and 2, there was still a significant gap between the money supply and demand towards the end of 2022, suggesting that inflationary pressure will remain going into 2023.

Responding to inflation: lessons from the past

High inflation due to the combination of supply disruptions and rapidly growing demand is not new. Similar outbreaks of inflation took place in the early 1950s during the Korean War and during the two oil price shocks of the 1970s (OPEC I in 1973 and OPEC II in 1979). These two events are illustrated in Figure 3, which shows the consumer-price inflation rate in the US in the period 1950–2022.

Here the focus will be on the US as the euro area did not exist prior to 1999. In addition, most European economies were still reeling from the effects of the Second World War in the early 1950s. As indicated by Figure 3, an interesting difference between the situations in the 1950s and the 1970s is the duration of the increase in inflation. During

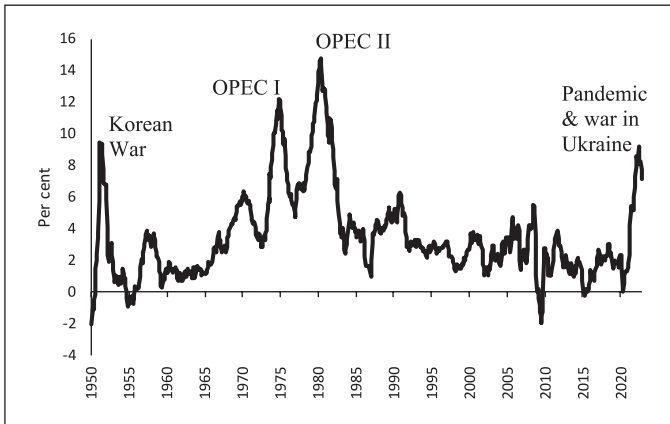


Figure 3. Consumer price inflation in the US 1950–2022.

Source: FRED (2022a).

the Korean War, inflation was transitory and lasted two years. During the 1970s inflation became entrenched and lasted for more than a decade. The differing inflation outcomes raise two questions: what were the main differences between the two inflationary episodes and what can central banks learn from them today? Each situation is unique and comparisons across historical events will always entail some speculative elements. However, there are some interesting differences between the two periods that offer some guidance to present-day policymakers. As illustrated by Table 1, there are essentially three differences between the 1950s and the 1970s.

First, during the Korean War, monetary policy became contractionary. The Federal Reserve ended the bond-buying programme (quantitative easing) it had launched during the Second World War and interest rates were allowed to rise (Walsh 1993). The policy response in the 1970s was different. The federal government partially financed the war in Vietnam by expanding the money supply. Monetary policy became even more expansionary following the oil price shock (Nelson 2022).

Second, while defence spending increased during the Korean War, the public debt-to-GDP ratio fell from 93% in 1949 to 68% in 1953 (FRED 2022b). The declining debt ratio indicates a contractionary fiscal policy overall. During the 1970s, the debt ratio increased for three years in a row between 1975 and 1977. The increase was small by modern standards, but signalled the end of the long decline in the debt ratio that had taken place since the Second World War.

Third, inflation expectations according to the Livingstone survey (US, Philadelphia Federal Reserve Bank 2022) were relatively stable during the Korean War. They increased from 0% to 5% in 1951 but fell back to 2% the year after. No wage–inflation spiral was triggered. In the 1970s, the partial financing of the Vietnam War through loose monetary

policies caused an upward pressure on inflation expectations. This increased further following the two oil price shocks. The expansionary monetary policy contributed to a wage–inflation spiral that was not broken until the early 1980s through the highly contractionary policies of Paul Volcker, who replaced Arthur Burs as chairman of the Federal Reserve. However, this contractionary policy came at a high short-term cost with regard to losses in output and higher unemployment. The unemployment rate doubled between May 1979 and November 1982 before it began to decline.

Table 1. Monetary and fiscal policy and inflation expectations during the Korean War, OPEC I and II, and the pandemic and Ukraine War.

	US			Euro area
	<i>Korean War</i>	<i>OPEC I and II</i>	<i>Pandemic and Ukraine War</i>	<i>Pandemic and Ukraine War</i>
Monetary policy	Contractionary	Expansionary	Expansionary (pandemic)	Expansionary (pandemic)
Fiscal policy	Contractionary	Neutral/expansionary	Expansionary (pandemic)	Expansionary (pandemic)
Inflation expectations	Stable	Increasing	Stable/increasing	Stable/increasing

Sources: FRED (2022b); US, Philadelphia Federal Reserve Bank 2022; ECB (2023).

The historical lesson from the 1950s and the 1970s is that it is important for monetary policy to respond strongly to rising inflation even if it is caused by supply-side disruptions. This is especially true when monetary policy was highly expansionary prior to the supply shock. Once inflation has become entrenched, disinflation policies are far more costly compared to a rapid policy response during the early stages of the inflation process. The comparison between the present situation and the two historical episodes in Table 1 suggests clear similarities between the present and the two oil price shocks. However, there is still time to prevent inflation from becoming entrenched as expectations have remained relatively anchored so far.

Conclusions

The increase in energy prices following the outbreak of the Ukraine War has contributed significantly to higher consumer prices. However, the expansionary monetary policy pursued during the pandemic has also put an upwards pressure on prices. A key policy failure of the 1970s that allowed inflation to become entrenched was the reluctance of the Federal Reserve to recognise the contribution of its own monetary policy to the inflation problem (Nelson 2022). Like today, inflation was not simply the outcome of higher energy prices but also of previous policy decisions. Steering inflation back to the ECB's target level will require monetary policy constraint for some time to come. The key questions are how contractionary should the policy be and how quickly should inflation be brought back to the target?

The gap between the money supply and demand illustrated in Figures 1 and 2 can be closed in three ways. The first is by reducing the money supply. Reversing quantitative easing, so-called quantitative tightening, can contribute to this process. However, over the short term such a policy risks causing a reduction in demand as well, which will prolong the adjustment process. Second, the supply-side restrictions may come to an end, ensuring that high demand can be met through an increase in the supply of goods and services rather than through increasing prices. Although the economy will eventually adjust to the new energy situation, it may take some time before all supply-side problems have been solved. This is unlikely to happen during 2023. Third, the gap between the money supply and demand can be closed through continued high inflation. However, persistent inflation risks spilling over into higher inflation expectations and generating a wage–inflation spiral, making it much harder for the ECB to bring inflation back to the target in the future.

The Federal Reserve has begun to reduce the money supply through quantitative tightening. The ECB is expected to follow suit in early 2023 (ECB 2022c). This policy response illustrates a commitment to the inflation target but risks a difficult disinflationary period in the short term. Policies that are too contractionary can cause long-term harm to the real economy through, for example, a permanent increase in unemployment, as was the case in some countries during the 1970s and 1980s (Blanchard and Summers 1986). Furthermore, higher interest rates may cause financial difficulties for indebted households, businesses and governments. In a worst-case scenario, higher borrowing costs may trigger a costly financial correction. Nevertheless, for the long term, rapid disinflation is likely the best policy. This would solve the inflation problem quickly, reduce the risk of rising inflation expectations and thus reduce the possibility of a wage–inflation spiral. The real economy would then be given an opportunity to recover towards the mid-2020s, once the inflation rate has been pushed down to the target. Failing to respond to the inflation threat due to high government debt levels would imply that the central bank is inclined to implement fiscal policies under which savers are taxed to reduce the public debt burden. The historical evidence suggests that such a policy would reduce economic growth over the long term and therefore should be avoided.

Contractionary monetary policy will cause both a short-term slowdown in real economic activity and higher unemployment. To avoid a permanent increase in unemployment, the contractionary policies should be coupled with structural reforms that strengthen the real economy (Andersson and Jonung 2023). Economic flexibility is essential to allow the economy to adjust to major shocks quickly and with as few costs as possible (Bjørnskov 2016). The more flexible the economy is, the lower the negative impact of economic crises. The euro area has lagged behind the US in terms of economic growth for two decades, partially due to the lack of economic flexibility. Since the introduction of the euro, real growth in the euro area has on average been close to one percentage point lower per year than in the US. Economic reforms at both the national and the EU level are essential to close this growth gap (Andersson and Jonung 2023). The rapid increase in the money supply during the pandemic was caused by an overreliance on

monetary policy. The time has come to end this policy and focus economic policies on addressing the core issues causing the growth problems in the euro area.

Notes

1. The money supply is adjusted for the long-term average (2000–20) change in velocity.
2. Money is measured using M2 for the US.

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The primacy of the European Central Bank: Distributional conflicts between theory and practice in the pursuit of price stability

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Abstract

Whether fighting inflation or deflation, it has been a decade since the European Central Bank (ECB) managed to successfully attain its Treaty-mandated objective, that is, price stability. This is defined by the Bank itself as maintaining an inflation target of 'below but close to 2% over the medium term' and, since 2021, as '2% over the medium term'. The further reality has veered from policy, the more attention has been brought to the redistributive choices, both implicit and explicit, in the ECB's pursuit of price stability. The current article analyses this debate in the context of the legal terms stipulated in the Treaty on the Functioning of the European Union, conceptualised as a function of monetarist theory. It claims that the ECB's failure to deliver on its price stability objective has contributed to intensifying the re-politicisation of monetary policy, cast doubt on the presumed legitimacy of foundational monetarist theory and caused a legal struggle within EU constitutionalism to sustain a stable distinction between economic and monetary policy.

Keywords

European Central Bank, Inflation, Monetarism, EU constitutionalism, Economic and Monetary Union, Economic distribution

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Introduction

To say that we live in interesting times is an understatement. After years of unconventional monetary policy that has tried to stimulate inflation and unstick interest rates from the zero lower bound, the eurozone, and the global economy in general, is going through the most aggressive monetary—and soon, fiscal—policy tightening since the 1970s (Tooze 2023; Nielsen 2023).

The European Central Bank (ECB) has fully halted the use of its various quantitative-easing instruments, which had seen it pump billions into the economy, subsidising the value of assets and becoming one of the biggest holders of eurozone sovereign debt. The Bank is now resolutely committed to ‘monetary policy normalisation’ through a series of extreme interest rate hikes that have keen and knowledgeable observers increasingly lose hope of a soft landing for the economy. In this transition from encouraging to fighting inflation, the ECB has gone from promoting government spending with promises of guaranteed serviceability (Committee on Economic and Monetary Affairs, European Parliament 2020) to urging the parallel fiscal consolidation efforts of member states, which now have to reconsider spending their still-much-needed Recovery and Resilience public investment funds.

Recently, Olivier Blanchard (2023) reminded the bubble of central-bank watchers and experts that inflation (and deflation) is, fundamentally, the outcome of the distributional conflict between firms, workers, taxpayers, and—as Claudia Sahm (2023) has rightly added—consumers and shareholders. In his now-infamous note, Blanchard claimed that, in the absence of a successful corporatist negotiation between interested parties, stabilising the economy to optimal levels would fall to the central bank, which could either hamper or speed up the economy through its own capacity and of its own volition, thereby forcing all the parties involved to accept certain financial, welfare and economic conditions. Critically for our purposes, Adam Tooze (2023) pointed out that this policy dichotomy between stakeholder negotiation and monetary intervention remains a purely theoretical concept in systems ‘deliberately and strategically closed against the discussion of distributional issues in the name of higher values like “price stability”’. The eurozone is no exception in this regard.

What follows is a discussion of the manner in which the EU legal system has dealt with this conflict. The first section examines the EU’s approach to money in the historical framework of monetarist theories, before contextualising the legal approach of the economic constitution signed at Maastricht. The discussion on price stability that follows serves as a focal point for understanding the constitutional pressures borne of ECB monetary interventions against inflation. The last section deals with the legal challenges to the ECB’s distributive choices to date, which have developed on the cusp of the economic–monetary divide. From looking at the doctrine of the Court of Justice of the European Union (CJEU) on the separation of competences and extent of monetary powers, developed since the sovereign debt crisis, what can we surmise about the legal interpretation of the distributive effects of aggressive monetary tightening?

Monetarism and the depoliticisation of money

The European economic constitution, which came together with the Treaty of Maastricht (1992) and established the Economic and Monetary Union, embraced one of the most radical versions of money theory circulating at the time—monetarism. In reaction to the inflationary chaos of the 1970s and the collapse of Bretton Woods, a new logic of fiscal discipline and anti-inflationary politics had come to dominate the global economy. By the mid-1980s it was well-established that these objectives could only be attained by politically independent central banks free from the pro-cyclical pressures of politics. The new system would err on the side of rules rather than discretion in both fiscal and monetary matters. This turnabout was conveniently rationalised upon the two main tenets of monetarism—the claim that ‘inflation is always and everywhere a monetary phenomenon’ (Friedman 1963) and the theory of the neutrality of money. Both of these tenets were held to be valid ‘in the long run’ of economic cycles with wilful indifference to short-term conditions and effects.

The first premise justified the discretionary powers that independent central banks were vested with as the guardians of economic (price) stability. It was especially useful for repudiating any misapprehensions left over from the 1970s that central banks could ‘enhance economic growth by expanding the money supply or keeping short-term interest rates at a level inconsistent with price stability’ (ECB 2023b). It was therefore made clear that the only utility of central banking for the growth potential of the economy is to ensure the maintenance of stable prices, that is, to control inflation within certain optimal parameters.

The claim of money neutrality entirely insulated central banks’ pursuit of said price stability from democratic incursions, that is, it rationalised their independence (ECB 2023b; Eich 2022, 203; Lokdam and Wilkinson 2022, 462). Monetarists held that in the long run, once the economy has reached its equilibrium, monetary policy affects neither incomes nor employment levels, which on the whole will always average for economic efficiency and are, in any case, ‘determined by real factors, such as technology, population growth or the preferences of economic agents’ (ECB 2023b). Thereby, it was held that whatever short-term ‘adjustments’ there were to monetary policy, these would not constitute real distributive social choices; as such, technocratic money decisions would therefore not need to be subject to any kind of democratic oversight.

As Stefan Eich has brilliantly argued, this technocratisation of money effectively allowed for its depoliticisation, treating it as a ‘purely economic medium’ (Eich 2023, 195) that was therefore best left to expert management. While it seemed counterintuitive for politicians to willingly bind themselves to the mast of rulebooks and deny themselves—and their electorates—the democratising power of money, the premise of monetarism promised something more. The willing surrender ‘came in part out of policymakers’ desire to avoid taking responsibility for making distributive decisions. Central bankers shielded from the political process would by contrast be free to steer

without having to bear the burden of democratic justification for the distributive consequences of their actions' (Eich 2023, 195; see also Lokdam and Wilkinson 2022, 462).

The economic constitution

The architects of Maastricht could not have asked for a more brilliant solution than monetarism to their problem of how to put together a governance framework for a single currency shared between 11 fiscal sovereigns which each sought to maximise the returns from a common market, while minimising the possibility of cross-border fiscal risk-sharing. Whether the politicians and learned men behind Maastricht truly believed in the power of price stability and independent central banking is irrelevant, for they most truly believed in their profligate neighbours' potential to harm the fiscal balance of the joint venture and, by extension, pick each other's pockets. In this regard, monetarism and the keystone doctrine of price stability provided a convenient solution with which to press ahead with the most peculiar of constructs—an asymmetric economic and monetary union.

In 1992 at Maastricht, Europeans constitutionalised their faith in monetarism with the main tenets of the system taking shape in but a few Treaty articles, which have become increasingly salient with each economic crisis faced by the eurozone in the last decade. Premised on the wholehearted embrace of money as a purely technocratic medium, the EU instituted an unnatural division between the fiscal and monetary policy realms—that is, between economic and monetary governance. This was achieved by creating what is perhaps the most independent monetary authority on a global level to date—the ECB (art. 130 Treaty on the Functioning of the European Union (TFEU)). The ECB is responsible not only for conducting the monetary policy of the eurozone, but, in fact, for *defining* the monetary policy of the eurozone (art. 127(2) TFEU). That is, the central bank, in essence, defines the boundaries of its own mandate. Furthermore, while tasked with the objective of attaining price stability (art. 127(1) TFEU), the ECB also defines the parameters of price stability. This was the case with its Governing Council decisions in 1998, 2003 and, most recently, 2021. By design, and by the logic of the monetary theory of inflation, the ECB's sole concern has remained price stability, even if this has resulted in a rather unaccommodating monetary stance for some eurozone governments. In fact, this dynamic was meant to act as a straitjacket for sovereign fiscal profligacy, just in case the economic rulebook instituted under Articles 121 and 126 TFEU did not produce the desired convergence effects.

Price stability

Price stability was positioned at the core of the EMU as an 'indispensable prerequisite' to the successful attainment of Union objectives. Early on it had been made clear that although 'economic union and monetary union form two integral parts of a single whole . . . the principal features of an economic union depend significantly on the agreed monetary arrangements and constraints' (Committee for the Study of Economic and Monetary Union 1989, para. 21). In other words, this was to be a monetary-authority-led union.

Indeed, price stability constrains the possible outcomes of distributional choices in society and the economy at large, in line with the monetarist understanding of the value of capital as a function of controlled scarcity and fiscal discipline. To this end, the ECB is, in fact, instructed to conduct its activities in the pursuit of price stability ‘in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources’ (art. 127(1)TFEU), and in line with ‘stable prices, sound public finances and monetary conditions and a sustainable balance of payments’ (art. 119 TFEU).

In this sense, price stability is a predetermined and accepted distributional choice about the design of the political economy of the eurozone. It should come as no surprise, then, that the further economic, price and financial conditions have deviated from these pre-negotiated parameters, the more attention has been brought to the redistributive choices, both implicit and explicit, inherent in the management of EU money. In other words, it would seem that the implicit social acceptance of the neutrality of money theory only holds within the boundaries set by price stability. Therefore, it is no coincidence that the re-politicisation of money has occurred contemporaneously with the continued failure to achieve price stability (Eich 2023, 213). Because in the EU monetarism is constitutionalised, these conflict dynamics are conditioned to play out through the law.

Renegotiating boundaries: constitutionalised monetarism

The depoliticisation of monetary policy, based on both the neutrality and inflation theories of money, has empowered the ECB’s exclusivity over its mandate and independence to pursue it beyond democratic oversight as it sees fit. Therefore, it could be said that the depoliticisation of money is the premise behind the very foundation of the EU Treaty framework, which institutes a legal and functional distinction between economic and monetary policy. It follows then, that failure on the part of the Bank to deliver on its price stability objective casts doubt on the presumed legitimacy of monetarist theory, simultaneously intensifying the re-politicisation of monetary policy. In other words, the ECB’s struggles with price stability over the past decade would legally translate into a struggle to sustain a stable distinction between economic and monetary policy in EU constitutional thought. Even a glance at the docket of the Court of Justice of the European Union (CJEU) since the sovereign debt crisis evidences the renegotiation of core monetarist tenets and, by extension, the powers vested with the European Treaties, through the contestation of the divide between economic and monetary competences. The cases in question may be limited in number, but they are not so in terms of scope: *Pringle*, *Gauweiler* and *Weiss*, as interpreted by the CJEU and the German Federal Constitutional Court (FCC). Here, we are concerned with the latter.

The ECB’s pursuit of price stability causes disparate, in fact contrasting, distributive effects for the asset-holder and labour classes depending on whether the Bank is intervening to stimulate or to hamper inflation to achieve price stability. Arguably, while the stability objective remains unchanged, the secondary effects produced by these interventions, and that become subject to contestation at the legal boundary between economic

and monetary competences, vary greatly and are not of equal legal standing in the Treaties.

Whether targeted through conventional or unconventional instruments, the bottom line of monetary policy is the value of credit and, by extension, the inherent distributional effects of the power of credit in society. The easily and cheaply available credit of the past decade diminished the power and profit from savings, the rationality of business and asset investments and, by extension, the logic of the market. Conversely, artificially high interests rates—such as those we are currently witness to—significantly benefit the asset-holders in society, constrain business investment and inhibit employment due to low aggregate demand. To a certain extent, the EU Treaties provide for these distributional effects and attempt to mandate the ECB to conduct its monetary policy in a balanced manner—both ‘in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources’ (art 127(1) TFEU), and in support of the general economic objective of the Union, as laid down in Article 3(3) of the Treaty on European Union, that is, ‘aiming at full employment’. The fact is, however, that the monetarist vision of price stability constitutionalised at Maastricht is inherently antithetical to the concept of full employment and innately embedded with the understanding of an open market economy and competition. Theoretically, then, a legal challenge to the ECB’s pursuit of price stability from the lower bound, such as was the case with *Weiss*, should have a higher chance of success than the Bank’s current fight against inflationary pressures.

To date, the CJEU has only dealt with the Bank’s struggle with deflationary pressures, which saw it pump billions of euros into corporate assets, sovereign bonds and the banking system through the net purchases of public sector securities under the Public Sector Purchase Programme (PSPP), which was in place from 9 March 2015 to 19 December 2018. The German plaintiffs in the *Weiss* case were concerned with the indirect effects these unconventional monetary policy measures were having on the real economy and wondered whether the ECB had not perhaps acted beyond its monetary policy mandate (CJEU 2018, 13–16). To be clear, the plaintiffs and consequently the FCC, did not find the existence of indirect economic consequences itself problematic, even though the separation of monetary policy underpins the monetarist conception of the Economic and Monetary Union. The issue at hand was about the extent of the indirect effects and the fact that they allegedly stemmed from an erroneous interpretation of the ECB’s monetary mandate.

The *Weiss* saga is notorious in legal and policy circles for good reason. Part of the curiosity surrounding the legal interpretation involved in the cases has to do with the two Courts’ understanding of monetarism as constitutionalised in the Treaties. Bizarrely, while the German plaintiffs and the FCC used monetarism to censure certain ECB monetary interventions, the CJEU used monetarism to shield the Bank from any scrutiny. The issue with these contrasting interpretations comes down to identifying the ultimate arbiter of the definition of monetary policy. In other words, it comes down to respecting the constitutionalised nature of pure monetarism in the Economic and Monetary Union.

The CJEU response in its preliminary ruling on *Weiss* was a wholehearted embrace of the monetarist technocratisation of money, which placed monetary policy solely and entirely within the exclusive purview of the ECB's expert management. Following a complete deferral to the Bank's broad discretion due to the technical nature of its expertise (CJEU 2018, paras. 22, 24, 30, 73, 91 and 92), the Court simply could not engage in interpreting the scope of monetary policy and, by extension, the legality of the ECB's PSPP programme or its effects on economic policy. The CJEU further precluded itself from engaging in a balancing exercise on monetary policy's indirect effects by referring to its settled case-law on proportionality, wherein the validity of EU institutional acts is only tied to the pursued objective and the necessity of the measure—with both concepts incidentally falling within the purview of the ECB—rather than the external effects those might produce (CJEU 2018, para. 72). Should there be any such effects, the Court nevertheless affirmed the legality of monetary policy's indirect effects on the real economy (CJEU 2018, para. 66), by claiming—amazingly in the context of the Treaty articles guaranteeing the full independence of the ECB—that 'the authors of the Treaties did not intend to make an absolute separation between economic and monetary policies' (CJEU 2018, para. 60). Moreover, the *Weiss* judgment insulated the Bank from responsibility for the distributive 'indirect' effects of its monetary policy by claiming that their *ex ante* consideration and weighing against the objective of price stability would, in effect, 'represent an insurmountable obstacle to [the ECB] accomplishing the task assigned to it by primary law' (CJEU 2018, para 67). In other words, by reaffirming its own, generally monetarist, history (Orphal et al. 2023, 15–16), the Court not only agreed that the ECB has absolute authority over monetary policy, but that it does not have to take into consideration the indirect effects its decisions might produce in the conduct of its monetary policy. Most importantly, the nature of the challenge to the Bank's exclusive competence proved irrelevant in the CJEU's interpretation.

The dispute in *Weiss* was notoriously continued with the German FCC's consequent revision of the CJEU's judgment (Germany, FCC 2020). While the German Court was concerned with the indirect effects of the PSPP, it is important to understand that the FCC challenge was not targeted at precluding the distributional effects of monetary policy in general. On the contrary, the FCC was willing to accept the distributional effects of *precluding* the ECB from conducting its PSPP operations—for instance, in terms of rising unemployment due to stagnant business investment and the culling of underperforming companies—but only for as long as these fell within the previously agreed to boundaries of Maastricht, where the economic effects of monetary policy could remain 'neutral' and insulated within the contractual terms for price stability. In this sense, the bottom line of the entire *Weiss* enterprise was ideological—it was a challenge that aimed to recertify the sanctity of the free market through law or, put otherwise, to re-enact monetarist boundaries, which promised a conservative monetary policy conducted for the sole purpose of price stability.

The FCC also disagreed with the CJEU in its interpretive approach. The nature of the indirect effects produced by the PSPP was fundamental in its challenge of the ECB's free rein in monetary policy. The FCC would have had the ECB provide *ex ante* and dynamic safeguards capable of neutralising the intended, unintended and future distributional effects of its monetary policy on asset bubbles, zombie companies, bank savings, credit

ratings and property markets (Germany, FCC 2020, 139). Furthermore, these safeguards would have had to be capable of withstanding the threat of a continuous legal review through proportionality testing aimed at balancing the indirect effects of monetary policy on the real economy. This approach aimed to protect the unadulterated relationship between states, business ventures and the free market, absent interference by the ECB. Under the FCC's reading, the ECB would have been free to do 'whatever it takes' with the PSPP—just as long as it was not very effective.

Conclusion

The challenge brought in *Weiss*, first with the CJEU and consequently with the FCC, pitted the monetarist promise of neutral money through a constitutionalised price stability anchor against the practical demands and difficulties of pursuing said price stability, for the first time lifting the veil on the distributive effects of monetary policy in the eurozone. The CJEU's judgment in the matter confirmed the ECB as the sole and ultimate authority on European money. While the Bank has since acknowledged the FCC's intervention and there of allowed for wider considerations in its policy decision-making (ECB 2021), the balancing exercise between primary Treaty norms such as price stability, the free market and employment,—typically reserved for constitutional courts—has been officially bequeathed to the discretion of the monetary authority in Frankfurt.

Most importantly perhaps, the tale of two courts told with *Weiss* negates the possibility that the Court could seriously consider any future legal challenges to the current round of aggressive monetary tightening, which is likely to cause a rise in unemployment should the Bank miss the opportunity to create a soft landing due to a protracted period of restrictive interest rates (ECB 2023a). For one, the ECB's absolute authority in making decisions for the eurozone economy has been affirmed. Moreover, if protecting the Treaty-enshrined value of credit did not meet with the CJEU's favour during the ECB's deflationary interventions, one holds little hope for the lofty economic objectives of the Union—including the *aim* of full employment—in a balancing exercising against the value of credit *and* price stability that is to be conducted in Frankfurt.

To a certain extent then, the constitutionalisation of the monetarist narrative about money within the exclusive competences of the most independent European institution—the ECB—has further depoliticised its distributive effects, insulating the Bank's decisions from both democratic and judicial oversight (Mudge and Vauchez 2022, 601).

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The EU's foreign direct investment screening mechanism two years after implementation

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Abstract

Foreign direct investment (FDI) is widely welcomed as it can improve the standard of living in the recipient country. However, depending on the target sector and/or the nationality of the investor, FDI may pose a risk to national security; this is why some countries have adopted screening procedures. Since 2020 the European Commission has coordinated its member states in screening FDI, but not all EU members have national screening mechanisms in place. Moreover, those mechanisms that do exist are not homogenous, for example, in their identification of protected sectors. This incompleteness and heterogeneity are weaknesses that undermine the security of the EU due to the high level of integration within the single market.

Keywords

FDI, Investment, Trade, National security, Single market, China

Introduction

Foreign direct investment (FDI) is a cross-border capital movement that widens business opportunities and may increase the capital stock, the productivity and, ultimately, the standard of living in the recipient country. For this reason, many countries have reduced the legal obstacles to FDI and promoted it via bilateral treaties and the establishment of specific national agencies. However, to safeguard national security, countries may set conditions or prohibit some FDI, thus deviating from the obligations that

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arise under the treaties and agreements that promote international economic integration. In the context of capital mobility and increasing geopolitical tension, FDI screening has become a crucial policy in government agendas, especially in developed economies.

This article argues that, notwithstanding the benefits of coordination among member states delivered by the recent EU regulation on FDI screening (European Parliament and Council 2019), both differences in identifying risky FDI and the absence of certain states from this coordination may undermine the security of the EU due to the effectiveness of the European single market. The first section explains when FDI may pose a risk for national security. The second section describes the origins of the EU regulation and the third summarises the Commission's first two reports on the regulation's implementation. The fourth section indicates the main 'between-the-lines' explanation for the need for an EU-level screening regulation. The fifth section offers some concluding remarks on critical aspects of the current EU regulation.

The risks posed by FDI

Theodore H. Moran (2009) identified three potential threats to national security that might emerge from FDI. These are related to the ability of the foreign investor to (1) restrict or deny the provision of output from the newly acquired producer; (2) deploy or sell sensitive technology so as to be harmful to the national interest of the targeted country; and (3) penetrate the targeted country's systems so as to monitor, conduct surveillance or place destructive malware within those systems.

When it comes to 'national security', countries enjoy substantial discretion in invoking this as a reason to deviate from international commitments. This is why some authors have dubbed the national security exception within the WTO a Pandora's box (Boklan and Bahri 2020) and a black hole (Bacchus 2022).

In general, the protective shield against risky FDI is shaped to guarantee satisfaction of the physical and safety needs of the population, to preserve internal stability and to assure the sustainability of the national economy. Hence, the screening of FDI usually takes place when investors target infrastructure and goods that are relevant for defence, energy, transport, healthcare and other sectors that national governments may include in their industrial policy. Along with the sector, the authorities may consider the identity of the foreign investor relevant to gauge the potential risk of FDI: many developed economies, for example, include the country of origin of the investor among the relevant factors.

Without *ex ante* control of the FDI and an acknowledgement of the incompleteness of *ex ante* sectoral regulations, any *ex post* intervention—such as monetary sanctions—would be insufficient to restore the *status quo ante* or compensate for the damage already caused.

The rationale for an EU regulation

In the EU, FDI screening likely to affect national security or public order is a competence of the member states (see art. 4(2) of the Treaty on European Union; arts. 52(1) and 65(1b) of the Treaty on the Functioning of the European Union). However, in an integrated market such as the European one, the negative effects of unscreened or unapproved FDI in one country could extend to other countries. This is clearly the case when considering transnational networks such as railway lines, pipelines and power grids; for example, more than 15% of Europe's power is traded between countries through cables called interconnectors, making it the world's most interdependent region in terms of electricity (Hook and Thomas 2022). However, this may also be the case where there are strongly integrated regional value chains, and European value chains are more integrated at the regional level than those in Asia or on the American continent (Huidrom et al. 2019, 10). Hence, after its speedy approval,¹ in October 2020 a regulation establishing a framework for the control of FDI in the EU became fully applicable (European Parliament and Council 2019).

The EU regulation does not replace national FDI screening mechanisms but establishes a mechanism for cooperation between the Commission and the member states. With the regulation, the Commission assumes a coordination role but has no power to block non-EU FDI from coming into the EU. According to the procedure, the member state that is screening an FDI is obliged to notify the other member states and the Commission of this; they can then respectively provide a comment and an opinion on the operation. The final decision on whether to approve or prohibit the FDI is always up to the targeted member state. Only if the FDI is capable of affecting EU-funded projects (for example, the Horizon 2020 research programme or the EU4Health programme) or critical EU infrastructure (e.g. the Galileo satellite system or the continental Trans-European Networks; see European Commission and Parliament 2021) does the targeted country have to provide an explanation if its actions deviate from the recommendations in the Commission's opinion (European Parliament and Council 2019, art. 8(1c)).

EU regulation: over 3,000 notifications in two years but few prohibitions

In 2020 and 2021 member states examined a total of 3,356 FDI dossiers under the procedure. In most cases, these dossiers were not subject to a formal check as they were not capable of affecting security or public order: this was the case for 79% of dossiers in 2020 and 71% in 2021 (Figure 1). Most of the dossiers subject to formal control were approved without conditions: 79% in 2020 and 73% in 2021. In 2021 23% of the cases subject to examination were approved with conditions. This was the case, for example, regarding the acquisition of a majority share in Engie EPS by Taiwan Cement Corporation. Engie EPS is an Italian subsidiary of the French company Engie. In light of this takeover bid, in 2021 the parties notified the Italian authorities, which then, in line with the EU regulation, informed the Commission and the other EU member states. The Commission, Belgium and France showed an interest in the transaction by requesting further

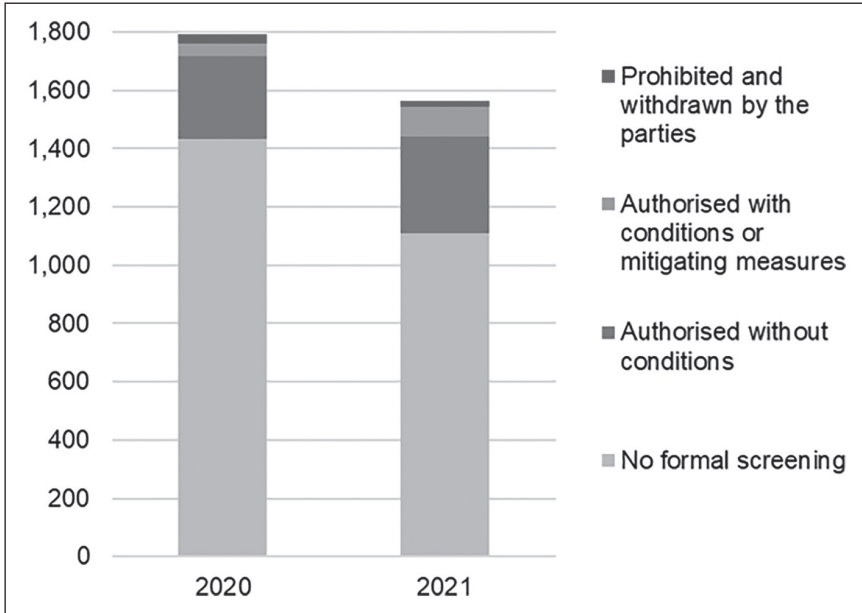


Figure 1. EU FDI screening: total notifications and type of decision.

Source: Author's elaboration with data provided by European Commission (2021a; 2022b).

information, but they refrained from passing comment or expressing an opinion. The Italian government approved the transaction but imposed specific requirements on the acquiring firm. The member states prohibited FDI in just 1% of notified operations in 2021 and 2% in 2020.

These figures confirm, as the European Commission (2021a, 11) writes in its first report, that 'Member States screening foreign investments, and the European Union at large, remain very open to FDI, intervening only in a very small proportion of cases to address deals likely to affect security or public order.'

The origin of the EU regulation

During the last three decades, the move towards globalisation has been punctuated by two waves of FDI protectionism. The first occurred in 2007 and 2008² when sovereign wealth funds increased their international purchases, mainly fuelled by high commodity prices and a record oil price. The second wave began in February 2017,³ when the German, French and Italian governments sent a joint letter to the Commission proposing EU-level protection against FDI that threatens 'public security and public order', especially when it is 'part of other countries' strategic industrial policies' and when 'such investment is subsidised by state bodies' (Germany, Federal Ministry for Economic Affairs and Climate Protection 2017). This triggered the legislative procedure leading to the EU regulation.

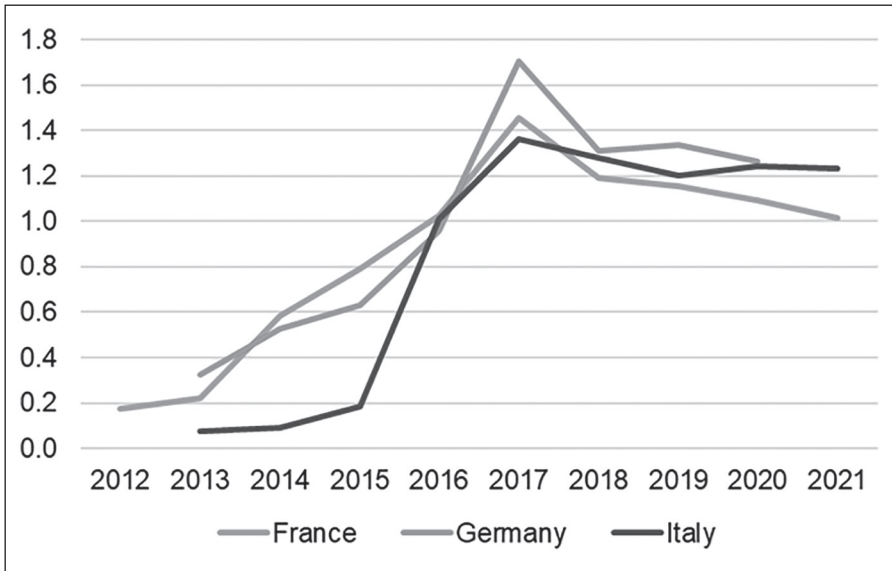


Figure 2. FDI stock from China (% of total inward FDI).

Source: Data provided by OECD Stat (2023a).

In 2017 China was the third largest economic power globally after the US and the EU27, and was scoring a series of impressive current account surpluses, building up a war chest for outward FDI (see Figure 2). It was making purchases in a context in which many European countries were becoming more open to FDI, as demonstrated by the reduction in their scores in the FDI Regulatory Restrictiveness Index⁴ (see Figure 3).

China's upsurge in outward FDI has been instrumental to its 'Made in China 2025' industrial policy, announced in 2015, which includes investing in foreign firms with superior technology and know-how in order to transfer this back home with the aim of boosting Chinese competitiveness. This policy's effectiveness is strengthened by China's disputable market economy status (European Commission 2017, 16–17; USTR 2022, 14). The Chinese authorities have the power to drive state-controlled enterprises and to subsidise domestic firms in order to invest abroad. Moreover, the one-party system allows the Chinese authorities to undertake policies that have long-term expected rewards while sacrificing the short-term profitability of the controlled asset in a foreign country, even, for example, through a voluntary act of sabotage (Riela and Zamborsky 2020, 60–6).

Conclusion: towards a first assessment of the EU regulation

The initial review of the EU regulation will take place by 12 October 2023, when the Commission will evaluate its functioning and effectiveness and, if necessary,

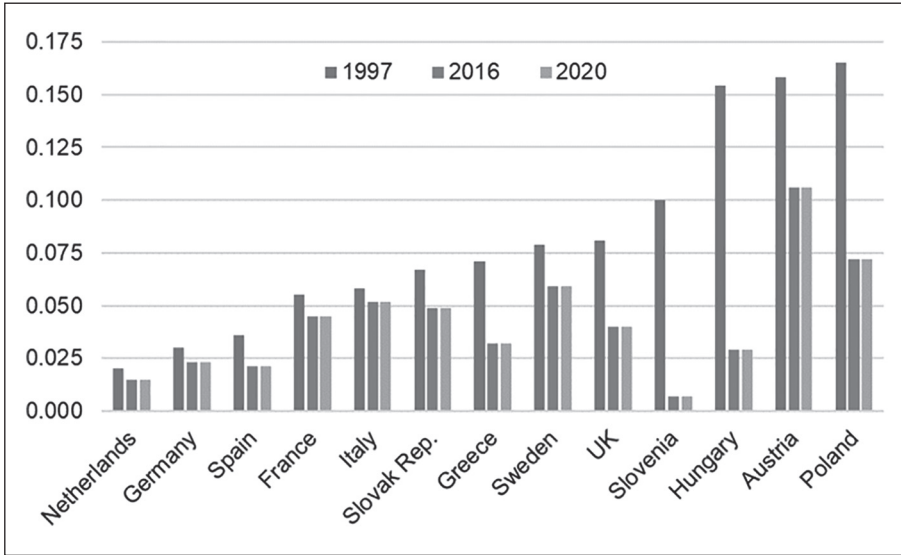


Figure 3. FDI Regulatory Restrictiveness Index.

Source: Data provided by OECD Stat (2023b).

recommend amendments (European Parliament and Council 2019, art. 15). The OECD, entrusted with this job by the Commission, has already analysed the EU regulation over its first two years of implementation and has highlighted its strengths and shortcomings (OECD 2022). In the view of the Organisation, the EU regulation has ‘improved co-operation and co-ordination among Member States’ and ‘has allowed for better informed screening decisions’ (OECD 2022, 7). However, it also found that the EU’s procedures ‘result in delays, inefficient procedures, duplication of work, or tight timelines that strain resources and lead to unsatisfactory national screening decisions’ (OECD 2022, 7).

The OECD has extensively analysed the procedural aspects of the regulation, and this will inform the Commission’s forthcoming report. However, in these concluding remarks we focus on two aspects relevant to the EU’s economy and political model: the incompleteness and the heterogeneity of EU-level FDI screening.

Incompleteness: one-third of EU member states still have no operational framework for FDI screening

According to the Commission’s *Second Annual Report* (European Commission 2022b), 18 member states have a national FDI screening mechanism in force, 7 have a consultative or legislative process underway that is expected to result in the adoption of a new mechanism (Belgium, Croatia, Estonia, Greece, Ireland, Luxembourg and Sweden), and 2 have no publicly reported initiative underway (Bulgaria and Cyprus). The member states are free to decide whether they want to set up an FDI screening

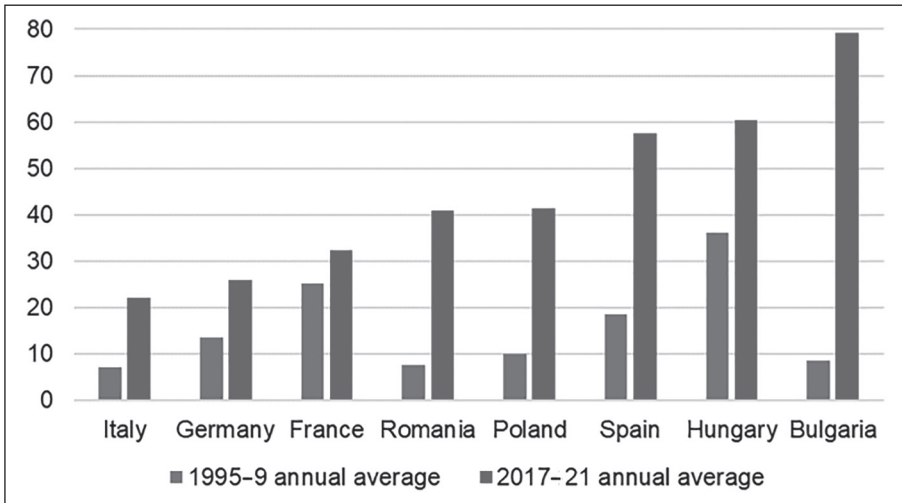


Figure 4. Inward FDI stock as a percentage of GDP.

Source: Data provided by UNCTAD (2023).

mechanism or to screen a particular FDI, but those with no screening mechanism in place are not obliged to notify the Commission of FDI within their territory. According to the OECD (2022, 18), reservations about screening inward FDI can be explained by the need some countries have to attract foreign capital. Figure 4 shows the variation in levels of FDI stock compared to GDP in some EU countries, which might explain the varying positions regarding FDI screening (UNCTAD 2023).

Notwithstanding the sovereign competence in this policy area and the invitation to member states with a screening mechanism in place to prevent any form of circumvention (European Parliament and Council 2019, art. 3(6)), the Commission has repeatedly invited all member states to put a national screening mechanism in place. This has been in guidance published at the onset of the Covid-19 pandemic (European Commission 2020, 2), in the Trade Policy Review (European Commission 2021b, 21) and again in guidance published after Russia’s invasion of Ukraine (European Commission 2022a, 3). The latter stressed that setting up and enforcing a fully fledged FDI screening mechanism ‘is all the more urgent in the current context’ (European Commission 2022a, 3).

Heterogeneity: EU members with a national FDI screening mechanism do not necessarily protect the same sectors

With each wave of protectionism, governments have widened the number of sectors protected from FDI. However, by overstressing this protective shield, governments might obstruct efficiency improvements, trigger retaliatory protectionism by

other countries or structurally reduce the value of protected firms (Matucci 2020, 21–2). Notwithstanding this widespread trend, it is not guaranteed that EU members are converging on a homogenous model, as member states do not necessarily protect the same sectors. The EU cannot interfere with member states' competences and the regulation merely suggests a list of sectors in which countries 'may consider' evaluating the effects of FDI (European Parliament and Council 2019, art. 4(1)). These include energy, transport, water, health, safety (from food to cybersecurity), defence, aerospace, data, media pluralism, electoral and financial infrastructure, and technologies such as artificial intelligence, robotics, semiconductors, nanotechnologies and biotechnologies (European Parliament and Council 2019, art. 4(1)). Moreover, a country-based approach is also preferable because national economies have experienced specialisations due to the effectiveness of the four fundamental freedoms of the European single market (Mongelli et al. 2016, 29–34).

The alarm that triggered the adoption of the EU regulation for FDI screening seems to have stopped ringing, as FDI from China has stabilised in value (Figure 2). However, the incompleteness and heterogeneity of EU-level FDI screening may yet become a problem, especially in the context of geopolitical tensions that have led US Treasury Secretary Janet Yellen to call for a reshaping of trade relationships around 'trusted partners' (Yellen 2022). As in trade, where the EU member states decided from the very beginning to speak with one voice and act together in a customs union, the EU's economy has reached a level of integration such that it cannot tolerate soft underbellies that could be used as gateways into the single market. This is especially true if the foreign investor is linked to an authoritarian regime. The immediate capital surplus that comes with FDI could turn into medium-term economic damage and a long-term political risk.

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Notes

1. The Commission initially proposed a framework for FDI screening on 13 September 2017. It was eventually adopted by the Council on 5 March 2019, just three weeks after its first reading in the European Parliament.
2. See, e.g. the Foreign Investment and National Security Act of 2007 in the US, the amendments to Japan's Foreign Exchange Law in 2007 and the amendments to Germany's Foreign Trade and Payments Act in 2008.
3. In parallel with the EU-level action, between 2017 and 2019 many advanced economies increased FDI protectionism, the majority of them paying particular attention to the technology sector. These included the UK, France, Italy and Germany; the latter especially after the acquisition of the German robot maker Kuka by the Chinese company Midea in 2016. On the other side of the Atlantic, in December 2016, the US Government Accountability Office carried out a study that would have led to reform of the Committee on Foreign Investment in the United States with the Foreign Investment Risk Review Modernization Act of 2018.

4. This index, provided by the OECD, measures statutory restrictions on FDI across 22 economic sectors by looking at (1) foreign equity limitations; (2) discriminatory screening or approval mechanisms; (3) restrictions on the employment of foreigners as key personnel; and (4) other operational restrictions, e.g. restrictions on branching and on capital repatriation or on land ownership by foreign-owned enterprises. Restrictions are evaluated on a 0 (open) to 1 (closed) scale.

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From Awokening to Awakening

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Abstract

In navigating the currently troubled waters of inflation and the rising cost of living, politicians are tempted to treat the symptoms—offsetting the increasing expenses with subsidies and expanding welfare programmes. But one should also treat the cause. The cause is not Russian aggression towards Ukraine. That is also a symptom—a symptom of the weakness of Europe and the West, either real or perceived. This weakness should be addressed. In 2022 power politics made a comeback. It has become clear that a world in which prosperity is spread by innovation and trade is not a given but has to be protected by real power. In 2022, with war once again on European soil, the EU woke up to a world it thought only existed in the history books—where power rests on the pillars of demography, energy security, food security and military strength. To maintain its borders, its prosperity and its prestige in the world, the EU will need to be stronger. It will have to work harder, work smarter, improve productivity, innovate more and build alliances. Digital innovation is an important talking point, but one needs to look at the fundamentals first. The time is past for resting on one's laurels, lecturing the world on European values and enjoying the American guarantee of safety for free.

Keywords

EU, Geopolitics, Innovation, Digital economy, Wokeness

Introduction

Since its inception in the 1950s, the EU has been understood and promoted as a peace project. 'Never again war' was the mantra of the founding fathers after the two bloody world wars among the European powers. It worked throughout the Cold War and for

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more than 30 years thereafter. After the fall of the Berlin Wall, Europe reaped the peace dividend. It invested even less in its own security than before. After the accession of most of the Central and Eastern European countries to the EU, it would have appeared to most that war was no longer possible in Europe. Europe was aiming for higher goals. A constitution was proposed to make it less a union of independent states and more a multinational democratic empire. After saving itself, Europe then turned to saving the planet, leading efforts to stop global warming.

Awakening

Europe has reduced CO₂ emissions quite significantly, but to some extent by exporting its energy-intensive industry abroad. It has replaced domestic coal with imported Russian gas. It has invested heavily in wind and solar energy, but with the latter dependent on Chinese imports. It has invested little in nuclear, and Germany even started to close its existing nuclear power plants down after the panic that followed the Fukushima accident.

Provided with the security of the NATO umbrella and with trade routes protected by the American navy, Europe could afford good intentions—with regard to digital innovation, the climate, human rights and democracy. The Commission became the mouthpiece for European ideals and there was a sense that Europe was leading the world, not only in politics and democracy, but also in morality. The dream was that the Euro-Atlantic area and European civilisation would continue to expand, that Europe was a peace project, universal and all-encompassing to the point that nothing dangerous could happen in Europe any more (Rifkin 2004).

Awakening

On 24 February 2022 everything changed. It changed more than it did after 9/11. The events of 9/11 were a desperate act of terrorism executed by an organisation that does not pose a strategic threat. The events of 24 February were carried out by a European strategic competitor. In a single day it became clear that the building of the European peace architecture was missing one whole wing—the eastern one. And it reminded us, after 30 years of daydreaming, that weakness invites violence.

The instinctual reaction was shock and disbelief. This was quickly followed by denial. Reality has been sinking in slowly. The security of Europe, its prosperity and its independence are not a given, but something that must be worked and fought for.

In the words of the protagonist of the Chernobyl series (*IMDB.com* 2019), ‘Every lie we tell incurs a debt to the truth. Sooner or later, that debt is paid’. The lies were that the world is now different, that real power is not important, that soft power counts, that we do not need to invest in security or in the home sourcing of strategic goods, and that Europe can be a beacon without having muscle. We are paying the debt now, trying des-

perately to stop the Russians in Ukraine and signalling others with ambition to do something similar elsewhere.

Back to the fundamentals

European economic problems can be discussed on two levels. The fundamental is that of survival. I will not, in this article, drill all the way down into the traditions, values and meanings that can sustain a community and which the EU has neglected since the very beginning—the most striking example being its inability to mention Christianity in its planned constitution (Barbulescu and Andreescu 2010). If one does not know what one is protecting, one will not protect it much. Instead, I will look into the measurable fundamentals on which the security and prosperity of a country or empire depends. According to Zeihan (2022), these are demography, food and energy.

European demography is in decline. To sustain a population, there should be an average of 2.1 children born to each woman. In the EU there are 1.5. Without immigration, the European population will shrink. Immigration, unfortunately, may bring with it the problems of the countries from which the migrants are immigrating.

Europe can feed itself. The self-sufficiency of the EU as a whole hovers at around 100% (Sadowski and Baer-Nawrocka 2016). For better or worse, the huge investment of the EU budget into subsidising agriculture has protected most of it from being a victim of globalisation. Europe can feed itself, provided it can produce enough synthetic fertilisers. These require energy and raw fossil materials.

However, Europe is hugely dependent on energy from abroad. About 55% of all of Europe's energy is imported (World Bank 2014). To some extent this is a natural condition—the major global reserves of fossil fuels are not in Europe. An exception is coal, but it is the most greenhouse-gas intensive of all energy sources. To some extent this dependency is a matter of choice. Many European countries have given up on nuclear, prohibited fracking and shut down coal power plants.

In this analysis, Europe receives two negative marks (demography and energy) and one positive (food). Russia's one negative is demography. China's scorecard is similar to Europe's. The US is doing fine across all three. Latin America has a negative point for energy.

The world, except Russia and the US, depends on trade to get the basic commodities for survival. Trade requires an orderly world. This difference is the key source of strategic divergence between the US and the EU.

The last fundamental is defence. The US provides two-thirds of NATO's entire defence spending and the rest of its members combined (the European countries, Canada and Turkey) just one-third. For comparison, the GDP of the US is about the same as the

combined GDP of the non-US NATO members (NATO 2022) and this is without examining the efficiency of that spending.

Beyond the fundamentals

With the exception of food production, the EU does not have the fundamentals to project power in its neighbourhood and the world. But so far it has been able to maintain its pivotal role in the world by being the first to enjoy the benefits of great enrichment and the Industrial Revolution. It has had a good educational system, top-notch science and development, and its population was hardworking. Across these parameters, the trends are now negative.

First, the idea has to be dismissed that Europe can afford to work less, have longer holidays and enjoy more leisure time because it works smarter, has a better skilled workforce and so on. This is no longer true. According to the Pisa results (OECD 2018) and ARWU University rankings (*ShanghaiRanking.com* 2022), European education and science are not exceptional in today's world. The hours worked matter.

Shorter working hours and longer holidays are a part of the European quality of life. They also impact how much is produced. In 2016 the average Chinese worker worked 2,174 hours; the average American worker, 1,757; the French, 1,514; and the German, 1,354. In other words, Chinese workers worked on average more than 50% more than their German colleagues (Our World in Data n.d.a). The labour force participation rate among 15–65 year olds is slightly better in the EU (80.3%) than in the US (77.3%) (OECD Data 2021). Productivity per hours worked in the US is some 5% higher than in France or Germany, a third higher than in Spain or Italy, and more than six times that of China (Our World in Data n.d.b). All put together, the EU is the third-largest global economy, trailing the US and China.

Lacking the demographic potential of some of its competitors, the Union's policy has been to invest in research and innovation. The Lisbon Strategy, launched in the 2000s, aimed to make the EU the most innovative region in the world. Two decades later, however, the EU lags behind the US and China in research and development spending. The EU invests 2.27% of its GDP, China 2.4% and the US 3.45% (Eurostat Statistics Explained 2022).

Playing digital

While Europe has invented many of the elements of the digital revolution, including the World Wide Web, Skype, PHP and Linux, it has not been very successful at turning innovation into successful business. Of the top 10 software companies in the world, all are in the US, with the exception of one German company (Companiesmarketcap 2023c). Of the top 10 semiconductor companies, 7 are American, with Taiwanese, Korean and Dutch companies in second, third and fourth place respectively (Companiesmarketcap

2023b). Of the top 20 telecommunications companies, only one is from the EU (Companiesmarketcap 2023e). Among the top 35 Internet companies, again only one is from the EU: Spotify, in thirty-fifth place (Companiesmarketcap 2023a). There is not a single European company among the top 35 video game companies (Companiesmarketcap 2023f). And among the top 20 tech companies only one is from the EU (Companiesmarketcap 2023d). According to a study by McKinsey, the EU is a leader in just one of the future transversal technologies—next-generation materials—and not lagging behind in one other—clean tech (Smit et al. 2022).

While unable to make a success of digital business, the EU is at the forefront of digital regulation and setting standards to protect its citizens from the dangers of the digital landscape: disinformation, fake news and artificial intelligence. It has advocated a ‘human centred’ digital age (De Cremer et al. 2022) and ‘human AI’ (Perucica and Andjelkovic 2022). It pioneered mobile phone networks with Nokia and Ericsson, but is now importing gadgets from Asia and relies on software from the US. According to McKinsey, Europe is ahead of the US on product–market regulation but behind on labour policy, tax and property rights (Smit et al. 2022).

Conclusions and recommendations

The future well-being of Europeans depends on the fundamentals: the demographic outlook, without immigration, is bleak. Immigration, however, may create a number of problems if it is not the result of sovereign EU policies but driven by external pressures. Europeans are unlikely to be hungry in the near future, though prices may rise as the intensive European agriculture depends on artificial fertilisers which require raw fossil materials as well as plenty of energy to produce. The EU is far from being self-sustaining in terms of energy sources. Wind and solar cannot replace coal, oil and gas. Europe needs a European energy policy, which is likely to include nuclear, fracking and coal as back-ups.

Europe also needs to invest in its own sovereign defence capabilities, industry and economic policy. These policies need to be based on the reality of the world, not on day-dreams. Europe should not focus on being a beacon of morality, but a very clever hard economic and military power.

Power is the result of smart and hard work. While Europe invests a lot in research and development, it is failing to capitalise on this in business, largely due to fragmentation and lack of scale, lack of technology ecosystems, lack of risk and growth funding, and an unfavourable regulatory environment. This holds true for all technologies, but manifests itself most clearly in the digital landscape. Europe has failed to create a culture of enterprise and innovation.

In terms of hours worked, Europeans are some of the least hard-working people in the world. Europeans need to develop a culture of delayed gratification and a better

work–life balance—in favour of work. Especially with the demographic crunch, Europeans will be expected to work longer hours and for more years if they expect to maintain their standard of living. It simply takes work to get things done, to get services running, to build and to grow.

Europe can survive and thrive if it gets serious about its fundamentals. Instead of dreaming of political and economic utopias, Europeans should get ready to work smarter and harder. Just as they have done successfully in the past.

The path forward is a hard one. But there is no other choice if Europeans want to remain free and prosperous. Europe has a strong economic base and a one-of-a-kind culture. Europe can use its unique heritage to innovate and catch up with the global economy. These are the issues it needs to address. Redistribution to prevent the weakest members of society from suffering from inflation in terms of rising food and energy prices only addresses the symptoms. Robust growth in productivity can make Europe stronger.

The digital economy is a small but important element in all of this. For three decades now, Europe has been unable to create a globally competitive digital economy. It should therefore work more closely with those that can and establish a common regulatory framework for the free digital world. This means working with, rather than against, the US in setting the rules. These rules should not hamper innovation and should ensure that the West remains the digital leader. This also applies to the military applications for digital technology. Being woke will not help. Europe needs to wake up to the new realities, roll up its sleeves and think harder.

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Crises and opportunities in the Western Balkans

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Abstract

The 2020s have got off to quite a rocky start globally, and especially for Europeans. The ongoing crises, beginning with the Covid-19 pandemic, and followed by the Russian aggression against Ukraine, rising inflation and the energy crisis, have created an atmosphere of continual instability and uncertainty for European citizens. The Western Balkans region, in the EU's immediate neighbourhood and geographically close to Ukraine, has also been affected by all these challenges. This article examines the current most pressing issues in the region and the possible outcomes of them. As the countries in the region (i.e. Albania, Bosnia and Herzegovina, Montenegro, Kosovo,¹ North Macedonia and Serbia) are all aspiring EU members, this piece seeks to explore the possibility of addressing the current challenges and the role of the EU as a catalyst in this process.

Keywords

EU, Western Balkans, Enlargement, EU accession, Neighbourhood relations, Russian influence, EU membership

Introduction

We have marked the sad first anniversary of the Russian invasion of Ukraine from our severely under-heated homes around Europe. Rising inflation and the subsequent increasing cost of living have dramatically affected the pockets of people across Europe, diminishing the hopes that the Covid-19 pandemic could be left behind us and we could return to our normal lives. As Managing Director of the International Monetary Fund Kristalina Georgieva stated in April 2022: 'In economic terms, growth is *down* and inflation is *up*. In human terms, people's incomes are *down* and hardship is *up*' (Georgieva 2022). It feels as though Europe has been dealt a bad hand of cards.

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The Western Balkans region, which in the 1990s faced a similar chronological sequence of events (i.e. war, inflation and economic crisis), has not been left out of these developments on European soil. Along with the democratic and economic challenges faced by these countries, the open wounds from the 1990s are still posing a major obstacle to their accession as full members of the EU. Furthermore, the EU does not seem to be keen on enlarging its family anytime soon.

With regard to the specific problems faced by the Western Balkans on their strategic path towards EU membership, this article looks at Kosovo's issue, its involvement in the Belgrade–Pristina dialogue and the possibility of a breakthrough in these talks. In addition, the Bulgarian veto of the start of EU accession negotiations for North Macedonia is addressed and, finally, the case of Bosnia and Herzegovina's membership candidacy will be studied.

The article argues that the calamities affecting the region must be tackled as a matter of utmost priority and that the role of the EU in this process is pivotal. Without this action being taken, the risk of external actors taking advantage of the fragility of the region will only increase.

On the crisis front

After the hopeful beginning to 2022 as the year in which we would part ways with the Covid-19 pandemic and embark upon the post-Covid economic recovery, on 24 February the unprovoked Russian attack on Ukraine diminished these hopes and brought more uncertainty to the European continent. The Western Balkans, geographically not far from the action, has been thrown a new set of complex challenges, affecting its already fragile economic development. The region does not have the benefit of the protective mechanisms of the EU or the post-Covid recovery funds of the EU27, although the Union has provided aid packages for the countries in the region (i.e. Albania, Bosnia and Herzegovina, Kosovo,² Montenegro, North Macedonia and Serbia). In the aftermath of the shock to the economy caused by the pandemic, the region experienced historically low unemployment rates (at its lowest, 13.5% in the first half of 2022) (World Bank 2022). Though far from the EU27 average employment rate of 61%, the countries of the Western Balkans saw a significant increase of 3% in employment compared to 2021, for the first time reaching an average of 46% in June 2022.

The war in Ukraine spurred the energy crisis on the continent and pushed inflation into double digits (an average of 10.9% in the Western Balkans in 2022), heavily affecting food prices—according to the World Bank's (2022) regular economic report, food inflation peaked at 25% in Bosnia and Herzegovina, Montenegro and North Macedonia. The resultant decrease in purchasing power among the population has been significant and has increased pressure for wage rises. With all the economic and institutional challenges in the region, minimum wage increases have been announced, but this will certainly slow employment growth and the reduction in poverty, outcomes for both of which were improving in the region.

Aside from the economic challenges, since the dissolution of Yugoslavia in the 1990s and the Thessaloniki European Council Summit in 2003,³ the Western Balkans has been in a somewhat frozen status quo relationship with the EU, with certain glimmers and sparks of hope and progress, but far fewer than would meet the expectations of either side. So far from the former Yugoslavia, Slovenia and Croatia have joined the EU as full members (in 2004 and 2013 respectively), and Montenegro and Serbia have been in accession negotiations since 2012 and 2014. Albania and North Macedonia⁴ are yet to start negotiations, while Bosnia and Herzegovina was approved as a candidate for membership at the end of 2022. Kosovo formally submitted its application for membership at the end of 2022 and is awaiting visa liberalisation for the Schengen area.

The stalemate in this process and the mutual mistrust have created a rather toxic relationship between the EU and the Western Balkans, with a lot more diplomatic reassurance occurring than actual success stories. These ongoing problems have severely weakened the transformative power of the Union, which requires core reforms in the democratic, institutional and economic fields of these countries in order to pull them into alignment with its common market, common freedoms and common values. Reforms are being demanded, but there is not enough pressure/incentive (carrot/stick), which means that the EU has been turning a blind eye to serious democratic breaches in certain countries. And it bears repeating, in this region the risk of instability and another collapse into violence can never be considered too low.

The domestic political elites in the countries of the Western Balkans have no power to 'sell' EU membership to the electorate, as the prospect of such an event is far beyond anything the human eye and imagination could envisage. Leaders would rather inflame nationalistic divisions and draw attention away from the steady corruption, poor economic standards and fragile institutions in their countries. This is evident from the fall in public support for EU accession. In 2022 this support fell from 62% in 2021 to 60%. It was first time since 2015 that support for accession had decreased (Regional Cooperation Council 2022). This could mean that citizens are demanding alternatives to integration, in this way putting pressure on the elites to turn their backs on the firm support from the West and open their countries up to the influence of other actors, which has already been the case in some of the states.

The war in Ukraine and the subsequent endowment of EU membership candidate status on Ukraine (and Moldova too) by the European Council in June 2022 spurred reactions within the region regarding the 'unfulfilled promises' made to the countries of the Western Balkans (European Council 2022a). The question of whether a country has to be invaded to be offered EU membership has been asked. The atmosphere created by this move by the EU has been a fertile ground for reopening (or simply reinfected) the old wounds that remain from the painful dissolution of Yugoslavia in the 1990s.

Old wounds: Kosovo and Serbia

The Pristina–Belgrade dialogue is a potential forum for conflict that could threaten the stability of the region, and the stalemate within it prevents any movement towards EU

membership for both Kosovo and Serbia. The unilateral declaration of independence of the Republic of Kosovo in 2008 and Serbia's refusal to accept it as such have become another headache for the Union and its aim to integrate the region as a whole, in one package. The EU-facilitated talks between the two governments have aimed to normalise relations, create opportunities and improve the lives of the citizens of both countries. So far, it has been used by both heads of government to spur tensions and nationalism, and has been less than constructive. In recent years there have also been fiery demonstrations in the northern part of Kosovo, where the majority of the population is formed of Serbian ethnic groups.

This winter, further tensions erupted, resulting in protests, arrests, barricades and the armed forces being put on their 'highest level of alert'.⁵ In light of the Russian aggression against Ukraine, with the high potential for Russian influence⁶ in this conflict, the alarm was raised in Brussels that the darkest hour of the night had come, and that this dispute needed to be ended sooner rather than later.

Two peas in a pod?

The diplomatic success of the name dispute resolution with Greece in 2018 opened the doors to NATO for North Macedonia, increased the EU's credibility as a guarantor of stability and boosted the likelihood of the integration of the Western Balkans into the EU. Bulgaria's objection to the opening of accession talks for North Macedonia and imposition of additional demands before this door is opened is another issue that has serious ramifications for the enlargement project and regional public support for EU membership.

Bulgaria has imposed demands on North Macedonia that require the latter to accept that its language and history are essentially Bulgarian. The so-called French proposal, brokered in June 2022 (Government of the Republic of North Macedonia 2022), which was accepted by both countries, unclogged the beginning of accession talks for both North Macedonia and Albania, with the precondition that the former must recognise the Bulgarian minority in its Constitution. Meanwhile, as described below, relations between North Macedonia and Bulgaria have not begun to improve but instead have deteriorated, raising the question of whether a change to the Constitution will be sufficient to improve relations between these neighbours and unlock the path towards the EU for North Macedonia.

Several Bulgarian cultural clubs named after controversial historical figures have been opened in North Macedonia, with Bulgarian public officials attending the opening ceremonies and various incidents occurring during these events. Furthermore, an event marking the anniversary of the birth of Goce Delchev, a prominent historical figure who had a role in the shared history of both countries, was followed by the detention of three Bulgarians at the border for disturbing public order (Radio Free Europe 2023). These events and the further prolonging of the dispute favours the Russian interest, which is to drag the region as far away as possible from the West and the fulfilment of the West's strategic priorities for Euro-Atlantic integration.

Apple of discord

The case of Bosnia and Herzegovina is the most fragile in terms of stability and vulnerability to any foreign (i.e. Russian) influence. The structure of the state since the 1995 Dayton Peace Accords has ensured the peace in the aftermath of the devastating war (1991–5), but has made it extremely difficult to establish the pillars for functioning democratic institutions. The sharing of power among the three constituent ethnic groups, Bosniaks, Croats and Serbs, and the two highly autonomous entities, Republika Srpska and Brcko, has resulted in a weak central state with perpetually conflicting interests, which has created instability and prevented any earlier prospect of European integration.

The tug of war between the tripartite presidency for each entities' own interests hardly shows any hope for the bigger picture. Republika Srpska is openly opposed to the central state and is leaning towards secessionism and unity with Serbia. The relations of its leader Milorad Dodik with Vladimir Putin leave no space for doubt about the Russian influence over the Serb community in Bosnia and Herzegovina and the potential dangers of this romance. Since winning the presidency of Republika Srpska, Dodik has further distanced himself from the central government in Sarajevo and announced his intention to establish a parallel judicial council.

There is no expectation of Russia opening a front in any of the 'weak' spots in the Western Balkans, but the aggression against Ukraine has made the EU sit up and take note that the absence of concrete steps towards EU integration in this region is leaving the door wide open to changing narratives among the public and demands for other solutions in terms of the geopolitical positioning of these countries. After the missed opportunity in June 2022, when Moldova and Ukraine were granted EU candidate status, Bosnia and Herzegovina has now finally become a candidate country and is set on the rocky path towards accession talks (European Council 2022b).

The opportunities

According to the Chinese proverb, 'a crisis is an opportunity riding a dangerous wind'. The people in the Balkans often joke that crisis is permanent on the peninsula, so living in peace is an unknown experience for them. These past few exceptionally stormy years for the European continent will hopefully result in some lessons learned, including the greatest one—that prevention is better than conflict. While we are still in the period of crisis management, let us look to the opportunities ahead.

To mitigate the economic shocks caused by the inflation and energy crises, in the context of the Berlin Process the European Commission has allocated €1 billion in EU grants for building renewable energy infrastructure in the six countries and to address the 'immediate consequences of the energy crisis and build resilience in the short to medium term' (European Commission, DG NEAR 2022). Furthermore, to slow the rapid deterioration of the external balance sheet of North Macedonia, the Commission has also

granted it up to €100 million in macro-financial assistance (European Commission 2023). It has not been ruled out that the other countries in the region could be granted such aid. The Western Balkans also received an aid package for the post-Covid recovery (European Council 2021).

There is no dispute that the EU is continuously injecting support for the region through its instruments of macro-financial assistance. The EU is the region's biggest trading partner, although more substantial long-term reforms are needed to bring the countries of the Western Balkans nearer to the average economic performance of the EU27 and the common market. There have been proposals (European Stability Initiative 2022) to offer alternatives to access to the European single market and the four freedoms without full membership, but such ideas have never been seriously discussed.

Aside from the economic challenges, the above has shown that a core issue for the region as a whole is neighbourhood relations, which need to be addressed as they prevent the region from moving forward and also threaten its stability.

A Franco-German proposal was made at the end of 2022, which represented a breakthrough in attempts to normalise relations between Serbia and Kosovo. The unofficial text seeks to bury the hatchet and balance the interests of both parties. The 10 articles involve a form of de facto recognition of Kosovo through an exchange of permanent missions, mutual recognition of the relevant documents and national symbols, and a commitment to implement the 2013 deal, which involved the creation of a self-governing association of Serb municipalities in Kosovo. The Kosovan Prime Minister Albin Kurti has already publicly accepted the proposal, but this is not the case for Aleksandar Vučić. What is at stake for both parties is visa liberalisation for Kosovar citizens in the Schengen area and further progress on Serbia's accession process (e.g. the provision of EU funds and the opening/closing of chapters), as well as the ability to keep Serbia out of the reach of Russia. The question remains as to whether this is another EU-sponsored patching-up of things or a serious breakthrough that could end a substantial issue in the Balkans.

When it comes to the dispute between North Macedonia and Bulgaria, the hindering factor is the fact that Bulgaria is an EU member state and has been utilising its power of veto to stop the opening of accession negotiations for North Macedonia. While the ball is now in North Macedonia's court as part of the deal made in June 2022, the most recent tensions and a statement by Bulgarian President Rumen Radev, which reconfirmed the veto situation and raised the issue of 'the rising aggression and escalating anti-Bulgarian campaign in North Macedonia' (Georgi Gotev 2023), have rather closed the window of opportunity. Though the Council of Europe has confirmed that there is no basis for Bulgaria's claims of the existence of systemic discrimination against the minorities in the country (Council of Europe 2023), the fundamental mistrust between the two countries is deepening. Bulgaria had tried to make amendments to the resolution related to the protection of national minorities in North Macedonia, but the Committee of Ministers rejected all of them (*Deutsche Welle* 2023).

In the case of Bosnia and Herzegovina, granting EU candidate status offers a new wind of hope for keeping the country on the European course. It is certainly a move by the EU to mitigate Russia's influence among the Serb community.

The war in Ukraine should not be seen as a diversion but as a wake-up call for the Union to finally seriously commit to and re-establish its transformational power in the region. The change of methodology proposed by French President Emmanuel Macron aimed to bring more dynamism to the enlargement process, but instead there has been no movement, and public support for membership in the region, and for enlargement in the EU, has fallen. The opportunity lies in the absence of any tolerance of breaches of the rule of law and democratic standards, and not turning a blind eye in the name of stability. Consensus-based decision-making in the EU has virtually put the enlargement process into a coma and it will remain there unless the Union opens a serious debate about the use of qualified majority voting.

Regional cooperation is essential, and the Open Balkan Initiative is the way to go, but it should allow for gradual access to the EU market. One step in the right direction is the reduction of mobile roaming charges between the EU and the Western Balkans as of 2023, but other mechanisms would be more beneficial for the citizens and the economies. The Copenhagen criteria set a lot of homework for all membership candidates, but equally important is the monitoring of this process. This also applies to the implementation of the rules for the use of all structural funds.

To bring the region, its motivation, its commitment towards the West and the course of its European integration back on track, financial aid, diplomatic reassurances and occasional leaders' summits are not sufficient. A clear, long-term strategy for the enlargement of the EU, with and for the region, is more necessary than ever and, more than ever, requires strong political will.

Notes

1. This designation is in line with UN Security Council Resolution 1244/99 and the International Court of Justice Opinion on the Kosovo declaration of independence.
2. This designation is in line with UN Security Council Resolution 1244/99 and the International Court of Justice Opinion on the Kosovo declaration of independence.
3. The 2003 Thessaloniki European Council Summit is considered a milestone in the EU's relations with the Western Balkans. For more information, see European Commission (2003).
4. North Macedonia is required to make constitutional changes before chapters can be officially opened. This requirement is in line with the demands of Bulgaria for the recognition of the Bulgarian minority in the Constitution of the Republic of North Macedonia.
5. Since the declaration of independence by Kosovo in 2008, the refusal to recognise it has created tensions with Serbia multiple times in recent years, and for that reason the Serbian army has been put on a heightened state of alert. The last time this happened was in November 2022, after claims that drones from Kosovo had entered the Serbian airspace. For more on this, see *France24.com* (2022).
6. Russia does not recognise Kosovo's independence and blocked its admission to the UN.

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The (false) promise of Germany's *Zeitenwende*

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Abstract

Germany's role as a security actor has evolved considerably over the past decades. While in the twentieth century neighbouring countries feared a resurgence of German militarism, in the twenty-first century the country has come under increasing pressure to adopt a more proactive military posture. After the Russian invasion of Ukraine shattered the European security architecture, many hoped for a groundbreaking reorientation at Europe's economic centre. However, it is unlikely that the historic turnaround announced by Chancellor Scholz will become a reality, as the Russian war will not fundamentally change Germany's international status, nor the key domestic factors that have historically determined its approach to security and defence policy. As Germany's historical baggage continues to weigh heavily, it seems that reforms will not go beyond a better equipped Bundeswehr and a more power-political approach to the defence industry, which already poses a costly challenge for current and future decision-makers.

Keywords

EU defence, NATO, Germany, Ukraine war, Common Security and Defence Policy

Introduction

Germany is the archetype of a status quo power in international politics, meaning it 'is content to preserve the essential characteristics of the existing international order and the general distribution of power' (Schweller 1998, 24). The country has been a core architect of the EU and a key determinant of Europe's relations with the world. From 2003–8, Germany held the title of 'export world champion' (highest net trade surplus) and since then has usually ranked second after China. Remarkably, Germany has obtained this elevated rank without translating its soft power into hard power. The country is a military dwarf compared to France and the UK, lacking in military capabilities and the

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political will to put them to use. In recent years, the Bundeswehr has become increasingly dysfunctional, which has manifested itself in a lack of equipment and a loss of capabilities (Karnitschnig 2019).

Russia's invasion of Ukraine has brought massive interstate war back to Europe. Vladimir Putin's revisionist aspirations aim to bring Ukraine back under Russian control in an effort to restore Russia's great power status. Russia's violent aggression has not only shattered long-held certainties, but has also shaken the existing security architecture in Europe to its foundations. In response, only three days after the start of the invasion, on 27 February 2022, Chancellor Olaf Scholz proclaimed a *Zeitenwende* (historic turning point) during a speech in the Bundestag. The chancellor announced that his government would use a €100-billion 'special fund' for military purposes and raise the defence budget to 2% of GDP or higher, thus exceeding NATO requirements. The *Zeitenwende* speech was widely understood as an effort to turn Germany's cautious defence policy on its head. 'Within 48 hours, Scholz tore down the cornerstones of German foreign policy since 1990', potentially making Germany 'a leading military power in Europe in the medium term', according to the initial analysis by experts (*Sicherheitspod.de* 2022, 07:50 and 35:55, author's translation).

However, since the Chancellor's fanfare moment, many have tried to fill in the blanks left by the speech. Eleven months into the Russian war, Germany's role as a military player in the next decade is becoming increasingly clear. What one will see, however, is not a major change in the overall picture, but merely a few brushstrokes that leave enough room for interpretation in order for the German turnaround to serve its rhetorical purpose. Judging by the historical background, the country's role as a military actor will hardly change in the way that the term *Zeitenwende* suggests. This is because most of the domestic factors that have historically determined Germany's defence policy, as well as the country's international status, remain largely unaffected by the Russian invasion.

Talk is cheap

When analysing military affairs in Germany, it immediately becomes clear that there is a strong discrepancy between talk and action. Ironically, this works in two ways, as both the country's military ambitions and its pacifist orientation have been overplayed, depending on the audience. Internationally, German governments like to exaggerate the country's capability to serve as a military partner and their commitment to burden sharing. However, this is not reflected in budgetary decisions, as Germany has repeatedly failed to satisfy NATO ambitions (Driver 2016, 12). This rhetoric is even more extreme in the EU context, where terms such as 'European army', 'strategic autonomy' and 'defence union' are regularly tossed around, even though these are rather unlikely political goals. However, these terms leave enough constructive ambiguity to appeal to many political observers, and domestically there are hardly any costs associated with such reveries, as the German public has a positive attitude towards the EU and NATO. Moreover, such statements usually do not even provoke much domestic debate, unless a military conflict close to home dominates the news. The result, however, is that Germany

is at the centre of the EU's 'capability–expectations gap' (the disparity between what the EU is talked up as doing and what it actually can do in foreign policy) and is seen as an unreliable partner in security and defence (Hill 1993, 305).

One issue that does in fact raise the pulse of the otherwise tame German public is the defence industry and arms export controls. Therein, the political rhetoric is even further removed from actual policy, which has given rise to a dialogue of the deaf among peace activists, think tanks, businesses and the government. First, the facts: Germany consistently ranks among the top five exporters of military goods worldwide. The country produces state-of-the-art defence equipment and its weapons can be found in almost every major conflict zone. For example, the German G3 machine gun (predecessor of the G36 and G95) was for a long time the most-produced small arm globally, second only to the Kalashnikov (Knight 2018). Armoured vehicles, such as the Leopard II main battle tank, are among the best of their kind, and in high-tech industries, such as guided missiles, German industry also plays a prominent role.

At the same time, however, the accolade 'made in Germany' is increasingly viewed critically by purchaser states as the country is known to have one of the strictest arms-export control regimes, where weapons often come with strings attached (Descôteaux 2019). It is one of only a few countries to apply end-use controls on site, and since 2015 it has adopted a 'new for old rule' for small arms, which means that purchaser states only receive small arms if they commit to destroying old stocks. While the implementation of these policies is often inconsistent, they reflect a more restrictive approach to arms exports than most other arms-producing countries.

It is this latter reality that German politicians like to emphasise when engaging with the public. On the domestic front, governments highlight respect for human rights and compliance with the strictest international regulations, such as the EU Common Position on Arms Export Controls. In contrast, power-political interests and economic concerns receive almost no mention. A transparent public debate on the framing of a security and defence policy that can reconcile values and interests has thus been avoided for decades. In recent years, this has been reinforced by the fact that large German companies, such as Rheinmetall, have internationalised and now generate up to 70% of their revenues abroad, for example, by manufacturing in countries such as South Africa and exporting to pariah states such as Iran, in a set up that is well-shielded from the public eye (Programm.ARD.de 2018).

The result of these two diverging realities is a rather unpredictable security and defence policy that hinders international cooperation, as well as allowing dubious interpretations of the rules that the German government has set for itself (Platte and Leuffen 2016). It is important to note that this ambiguity between normative standards and power-political interests is not new but was developed long before the end of the Cold War. Specifically, there are three important historical turning points, each of which has led German security and defence policy down a new path. Debates on what can be

expected of the proclaimed *Zeitenwende* would do well to assess contemporary dynamics against the background of these historical periods and their echoes.

From Teutonic fury to post-heroic society

No analysis of German foreign and security policy gets around the experience of the Second World War, which shaped the country's national identity in ways that cannot be overstated. For those who have not grown up in Germany this is often hard to understand; however, to this day the Nazi past defines the political ambitions of most state institutions. Historian Dietrich Schwanitz aptly characterises this period, stating that 'the human imagination resists imagining what has come to be called the Shoah or Holocaust—the systematic industrial murder of Jews in extermination camps such as Auschwitz, Treblinka, Majdanek and Sobibor' (Schwanitz 1999, 203). As the 'Nazi crimes are of such nightmarish dimensions that they defy all reason, thinking about them has taken on religious characteristics' (Schwanitz 1999, 203). This in part explains why the newly founded Bonn Republic reacted with self-estrangement after the war. In consequence, Nazi Germany has become the historical other of modern Germany, whose national identity was forged in dissociation from this former self. Yet three more specific foreign-policy axioms resulted from this time, forming a sort of master variable.

First, the prevention of mass violence in (Western) Europe through non-violent means became the central ethos on which post-war Germany (and the EU) was built. Second, Germany turned into a 'post-heroic society', embracing the least expansive interpretation of liberalism and a notion of leadership that is defined by a focus on collective achievement and shared accountability (Münkler 2015). Third, reconciliation with the Jewish people and, above all, no infliction of violence or suffering on the state of Israel by the German people became paramount.

These three points summarise the normative self-conception of the Bonn Republic in 1949. However, the new country was quickly confronted with the hard realities of the Cold War, which stood orthogonal to its pacifist ideals. Caught right in the middle of the superpower conflict, Western Germany faced a choice between neutrality or siding with the victorious Western powers; due to US invitations it chose the latter path (Lundestad 1998, 25). Importantly though, this period also brought about a new German self-confidence and a heightened desire for Germans to determine their own fate without foreign interference.

Thus, when Germany was granted the right to rearm in light of the Korean War in 1955, the government used this as a window of opportunity to restore its competitiveness and national self-determination. The establishment of the Bundeswehr, therefore, also brought about the reconstruction of the German defence industry. This stood in contrast to its pacifist self-understanding, but was deemed necessary as the war-torn country was desperate to lift people out of poverty and rebuild. During this period, the Adenauer administration further developed the legal basis for its security and defence policy, which

reflects the ambiguity that underlies Germany's roles as an actor in defence today. The first important tenet that emerged was that the Bundeswehr had to be tightly embedded in democratic processes in order to act legitimately. In concrete terms this meant that important powers (the authorisation of the budget and the use of force) would fall into civilian hands, that is, the Bundestag, making the Bundeswehr a 'parliamentary army'. Moreover, it is consistent state practice that foreign missions can only take place within 'systems of mutual collective security' such as the UN, NATO or the EU, which further limits military deployment. Public legitimisation of the use of force is therefore immensely important in Germany, and in recent years there has even been discussion about whether individual drone strikes (once drones are armed) should require a mandate from the Bundestag.

The second important dimension concerned the defence industry, where it was particularly difficult to reconcile public demands for pacifism with the production of war material. To square the circle, the Adenauer government and, in particular, Defence Minister Franz Josef Strauß installed two arms-export control regulations even though the German constitution (Basic Law, art. 26(2)) had only provided for one law when the Republic was founded. The two legal frameworks introduced a rather arbitrary distinction between different types of weapons, some of which were to be handled restrictively (War Weapons Control Act), while most others were handled rather permissively (Foreign Trade and Payments Act). This differentiation into two regulations which follow opposing logics created just enough constructive ambiguity to meet the political and industrial needs at the time. By a decade later, Germany was once again among the top five producers of military hardware in the world (Helferich and De France 2022). However, the decision to avoid transparency on this issue continues to undermine the domestic debate, which has taken on pathological features over time.

Peace dividend in the shadow of war

The end of the Cold War represents the final turning point that completes the picture of Germany as a security actor today. When the country was finally reunited, this had important domestic effects and, with regard to foreign/security policy, there is one particular aspect that merits attention (even though it often does not receive any). The absorption of the German Democratic Republic created a much more heterogeneous German public with regard to the use of force. It further shifted the balance between economic interests and military power projection in favour of the former. Those who lived under the Communist regime show an even greater reluctance to defend liberal ideals by force, as demonstrated in the context of Ukraine, where support for arms deliveries has been lowest in the area of the former German Democratic Republic (Knight 2022).

Equally important were the effects on the international level. Reunification further dispelled the spectre that had haunted Europe since the First World War, namely that of a resurgent German militarism. The myth of the 'Furor Teutonicus', which refers to the ferocity of the Teutons—the Germanic tribes that existed during the Roman

Empire—had been reborn in the twentieth century and cast a long shadow over European integration. However, when an already powerful West Germany reunited with the East and was immediately integrated into the EU and NATO, these fears began to fade, as Maggie Thatcher reluctantly realised. As a side effect, this meant that both the EU and NATO were expanded almost overnight by 18 million people—three times the population of the Baltic states.

When the Soviet Union went out of business and the US became the sole hegemon, European nation states began to integrate their sovereign powers to a historically unprecedented degree, including in terms of defence. Yet, expectations of a peace dividend were quickly overshadowed by the brutal war in Yugoslavia, which undermined the first constitutive element of the German national identity, namely preventing mass violence in the heart of Europe. Foreign Minister Joschka Fischer explicitly tied this into the Second World War context with the phrase ‘never again war, never again Auschwitz’. It was hitherto the most powerful call for post-war Germany to exercise military force over another state and led to a further break with the country’s pacifist identity. In 1995 the Luftwaffe was deployed for reconnaissance missions in Bosnia, and in 1999 Tornado planes launched missiles at ground-based targets in Kosovo. Such action had been unheard of prior to this and thus set the precedent for engaging the Bundeswehr abroad. However, the country’s post-heroic ethos sets strong limits on this, which means that Germany’s scope for intervention is limited geographically to the European neighbourhood, multilaterally to an international mandate and morally to the defence of basic human rights as reflected in, for example, the ‘Responsibility to Protect’ (Brockmeier 2016). Any deviation from this requires exceptional circumstances and is politically very risky.

These three periods have forged the heart of the German security and defence identity and only through their lens can the *Zeitenwende* be understood. Indeed, later events such as the mixed success in Afghanistan, transatlantic division over Iraq and European friction over Libya all constitute important political experiences. None of these events, however, changed the core ethos of Germany as a nation state as they were either not significant enough to have a lasting impact on the country’s foreign policy axioms, or they merely reinforced existing identity markers. The question, then, is whether the Russian invasion of Ukraine represents an experience powerful enough to break with long-established path dependencies?

Defence reform as anxiety control

A key aspect that has been left out of the current debate is that Scholz’s proclamation of *Zeitenwende* is merely the second iteration of a fundamental military reorientation in recent years. The first was announced after Russia’s annexation of Crimea, in the 2016 White Paper titled *On German Security Policy and the Future of the Bundeswehr*. In line with the conclusions of the Welsh NATO summit, the Merkel government announced that its military doctrine would shift from crisis management back to a focus on territorial and alliance defence. Indeed, when Vladimir Putin began to shift the borders in

Europe by military force, this triggered great uncertainty and fear. The fact that President Trump showed sympathy for Putin while calling the EU one of America's biggest 'foes' only exacerbated anxieties and added insult to injury. As Germany was caught between a rock and hard place, performative acts were needed to create a sense of doing something about the situation and to restore a positive sense of self. This discursive reassurance came in the form of a reformed military doctrine complemented by European efforts under the guise of 'strategic autonomy', 'European sovereignty' and so on.

In a similar vein, the *Zeitenwende* speech can be understood as first and foremost an anxiety-control mechanism. Instead of actually countering a physical threat, it primarily serves to restore a sense of 'ontological security', that is, a positive sense of self and one's future (Steele 2008). This is done by moderately changing institutional routines that are then discursively exaggerated; this is what is at the core of the EU's capability–expectations gap. Arguably, such divergence has been made possible because no military conflict since the Cold War has really challenged the territorial integrity of Germany. Therefore, performative acts allow the government to kill two birds with one stone by, on the one hand, appearing to be in control in times of crisis, while, on the other, not really challenging the domestic spectres of pacifism and economic decline. The peak of this kind of Orwellian doublethink came in 2014, when the Merkel government renewed its commitment to Nord Stream 2, thereby making the country it saw as the greatest threat to national security also its single most important energy supplier.

A note on ammunition stocks further illustrates this divergence between discursive and material reality. More than six years after the reorientation towards territorial defence was declared, the Bundeswehr only possesses enough ammunition for two days of fighting. NATO rules require members to stockpile ammunition for at least 30 days of armed conflict. Despite this, several months into the war in Ukraine, no major procurement decision has been made; in fact not a single euro of the special fund was spent in 2022 according to a parliamentary enquiry by the Christian Democratic Union (Christlich Demokratische Union) (Wiegold 2022). The government has stated that it will first examine procurement needs more comprehensively as part of a new National Security Strategy, which is expected to take a year to complete. While this timeframe would seem purposeful in normal times, it is at odds with the sense of urgency conveyed by the war in Ukraine.

In fact, if the financial dimension is anything to go by, the prospects for change are rather slim. Experts currently estimate that just to replenish its ammunition stocks, Germany would have to invest €20 billion of its special fund (Mölling and Schütz 2022). Moreover, given years of underfinancing and the depletion of resources due to arms deliveries to Ukraine, the €100bn fund could be used up in about four years (*ibid.*). Indeed, this does not make even a 90-degree change of direction look promising.

Beyond the financial issues, there is also the question of strategic culture: one might ask whether Russia's imperial awakening will produce a new German assertiveness in security and defence. In particular, one might wonder whether Germany will act more

independently by taking the lead in European or transatlantic affairs, thereby contesting international norms in a way that is not in line with its established role. Here, too, the war in Ukraine shows that the historical baggage continues to weigh heavily. The standard response of the Scholz government to demands for tank deliveries has been the almost religious affirmation that ‘Berlin won’t go it alone’ in the debates on both the Marder and the Leopard tank (*Reuters* 2023). This reflects a deep fear of acting in a way that could accidentally jeopardise the status quo. Rather than acting as a ‘leading power’ in military affairs, as Defence Minister Lambrecht had declared, Germany has once again been perceived as the laggard (Germany, Federal Ministry of Defence 2022).

With the fruitless mission in Afghanistan, it appears that Germany’s ability to act militarily has been more limited than ever since 1990. For this situation to change there would need to be a realisation that the failure to deter Putin—diplomatically or militarily—in Crimea, Libya, Syria and elsewhere is partly responsible for the current situation (Franke 2021). However, this view does not play a major role in the public debate, which makes a new approach to out-of-area missions and, alongside this, a change in strategic culture seem unlikely.

Zeitenwende scenarios

This begs the question of what can actually be expected of the German *Zeitenwende* in the medium term? As the primacy of domestic politics remains untouched, the question should be reformulated: what is the most important change that the German public wants to see? Judging by the current debate, the answer seems to be a less dysfunctional Bundeswehr and an improved capacity to supply military goods at short notice. The fiasco over the supply of equipment to Ukraine may be a watershed moment in the Bundeswehr debate, to the point that abandoning any reform effort could prove explosive for politicians in the future. Successive governments will therefore be under pressure to demonstrate a more functional Bundeswehr in terms of equipment, planning and bureaucracy, which will be a Herculean task.

As a side effect, Germany might change its attitude towards the defence industry and arms exports. Faced with inflation and the rising cost of defence technology, governments may adopt a more permissive attitude towards exports in order to exploit economies of scale—as already indicated by the recent continuation of arms exports to Saudi Arabia (*Deutsche Welle* 2022). This could also enable them to boost relations with France and the UK in times of uncertain transatlantic relations or legitimacy crises in the EU. However, much of this will depend on whether the current government will be able to deliver on its promise to solve these long-standing transparency issues. In the coalition agreement of December 2021, the parties committed to making arms exports more transparent through a new national export law and to work towards a binding EU arms-export regulation. Arguably this is virtually impossible without a genuine national debate on Germany’s role in European security affairs. Moreover, the idea of a truly binding export regulation on the EU level seems unrealistic, as the current EU Common Position on

Arms Exports is more often ignored than not, reflecting the widely divergent export practices in Europe (Cops and Duquet 2019, 16).

The most logical result of the lack of political capital to act abroad and the increased availability of defence equipment would then be to engage more in what Merkel called 'enable & enhance initiatives' (Puglierin 2016). This refers to capacity building in partner countries around the world through the provision of military hardware and training. Since March 2021, this approach has also been reflected on the EU level by the so-called European Peace Facility. In the case of Ukraine, the EU has already supplied equipment worth €2.5bn, which would have been unheard of only a few years ago. Given the heightened risk of proxy wars with Russia and China, enabling other actors through the EU could be an effective way for Germany to reconcile international and national expectations.

Finally, party politics will continue to play an important role. As such, it is hard to imagine how a coalition led by the Greens (Die Grünen) and the Social Democrats (Sozialdemokratische Partei Deutschlands) could sustain a military *Zeitenwende* once the Ukraine war slips into the background of the public agenda. The voter bases of both parties expect, first and foremost, fundamental changes in energy and redistributive policies, which will make any investments in defence hard to justify over time.

Conclusion

If one thinks of the German *Zeitenwende* as a long-term strategy that is trying to connect ends and means in meaningful ways to reach a distant strategic goal, one is misguided. In Germany and at the EU level, defence policy is not strategically motivated, but is the result of sudden outbursts of public malaise and a cautious commitment to international norms and community building. This lack of a clear long-term vision is demonstrated by the fact that 25 years after the launch of the Common Security and Defence Policy, Europeans have had to come together to draw up a Strategic Compass to reflect on both the path that they have taken and their future direction.

For the *Zeitenwende*, a similar process can be expected, as think tanks and state institutions are already trying to fill the many blanks left by the Chancellor. Any clear strategy will, however, be hampered by the fact that the relationship between NATO and the EU, as increasingly overlapping security institutions, remains unresolved. Moreover, for a change in direction, German politicians would have to find the courage to confront old demons and start a genuine debate on the values and interests that underwrite Germany's defence policy in the twenty-first century. As long as these two skeletons remain in the European closet, a fundamental change in German politics, and also in the Common Security and Defence Policy, will likely be blocked. The drafting of the National Security Strategy has led to a somewhat more constructive public discourse on defence policy but has not ended the old sham debates. With the world changing fast and no concrete outcomes in sight, Europeans are left to hope that by the time the document is unveiled,

voters in Georgia, Arizona and Michigan will have been forgiving and that Putin's Russia has magically undergone a metamorphosis.

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Navigating Europe's southern challenges

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Abstract

The EU's foreign policy is currently focused on supporting Ukraine in resisting Russian aggression and on dealing with the consequences of the war, particularly in terms of energy security. But Europeans also face many challenges in the Middle East and North Africa (MENA), from countering extremism and tackling Iran's expanding nuclear programme to addressing widespread social and economic fragility. The problem is that European foreign policy towards the MENA region has often suffered from disunity among the member states and a lack of assertiveness, particularly in dealing with security issues. Still, Europeans cannot insulate themselves from what happens in the region. They will have to devote more political attention and resources to tackling its economic and security challenges.

Keywords

EU, Foreign policy, MENA, Middle East, North Africa

Introduction

Vladimir Putin's invasion of Ukraine in February 2022 forced EU policymakers to focus on supporting Kyiv and reducing Europe's energy dependence on Russia. But developments to Europe's south continue to affect European security. Europeans cannot insulate themselves from what happens in the region, as the spillover from the disastrous civil war in Syria has shown. The EU's efforts to reduce dependence on Russian hydrocarbons mean that the EU will be comparatively more dependent on energy imports from the Middle East and North Africa (MENA) for the time being, as renewables production is

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unlikely to be enough to fill the gap in the short term. In the third quarter of 2022, Europe imported over a quarter of its oil and around 14% of its gas from the MENA region (Eurostat 2022).

The article takes stock of the key threats and challenges facing the EU in the MENA region. In terms of security, these range from countering extremism to dealing with the growing threat from Iran's nuclear programme and navigating the difficult relationship with an increasingly assertive Turkey. Then there is the longer-term challenge of widespread social and economic fragility, which fuels instability and extremism, and could lead to conflict and large-scale migration to Europe. The economic spillover of the war in Ukraine risks worsening these challenges through higher inflation, energy costs and commodity prices that many countries in the MENA region are ill-prepared to cope with (International Crisis Group 2022).

Europe will have to grapple with these challenges at a time when the perception of US disengagement from the MENA region has increased China's influence and made regional powers more assertive, and these changes risk undermining European unity. If Europeans want to secure their southern flank, they will need to overcome their divisions and passivity, become more assertive and devote more resources to fostering stability, growth and good governance in the MENA region.

Iran and its nuclear programme

Of all the challenges the EU faces to its south, dealing with Iran's foreign policy and its nuclear programme stands out for its urgency and seriousness. To advance its bid for regional hegemony and make up for its weak conventional military, Iran has nurtured proxies in Iraq, Lebanon and Yemen which it uses to increase its influence and keep its adversaries off-balance. Iran has also developed a nuclear enrichment programme, with the aim of having a 'nuclear option' (Jones 2019). Curtailing this programme was the explicit aim of the 2015 nuclear deal, the Joint Comprehensive Plan of Action (JCPOA), which former US President Donald Trump abandoned in mid-2018.

Europeans attempted to keep the nuclear deal alive for several years after Trump withdrew from it, and they encouraged Biden to revive it after he became president. However, EU-facilitated negotiations led nowhere, and the momentum to revive the agreement waned. Tehran's support for Russia's invasion of Ukraine, through the provision of drones, and its brutal repression of the anti-regime protests that erupted in late 2022 have prompted a change in European policy. The EU has imposed new sanctions on Iran and the mood towards Tehran has soured. In theory, the EU continues to seek a revival of the nuclear deal. But Iran and the US appear uninterested, while Europeans are no longer in the mood to make any concessions to Iran. The fact that some of the JCPOA's limits on Iran's nuclear programme would begin to expire in 2025 is yet another reason why reviving the deal has lost much of its appeal.

However, that does not mean that the problem of Iran's nuclear programme will disappear. On the contrary, its threat is growing: in January the head of the International Atomic Energy Agency, Rafael Grossi, stated that Iran now has enough fissile material to build a nuclear device (Alkhaldi 2023). Tehran is also limiting its cooperation with the Agency, which makes it harder to monitor Iran's activities (Hafezi and Murphy 2022). This does not mean that Iran has made the decision to build a nuclear weapon, and even if it had, placing a warhead on a missile would be difficult. Still, Iran is clearly closer than ever to having a usable nuclear weapon.

As Iran moves towards nuclear capability, the risk of a regional war increases. The US has imposed new sanctions on Tehran to push it to curtail its programme. But there is no guarantee that this approach will work. Iran is likely to respond to economic pressure asymmetrically, by using its proxies to attack US forces and their allies, or by targeting shipping and oil facilities around the Persian Gulf, as it did when Trump was president. Such attacks may set off a spiral of escalation that could be difficult to contain. A conflict could draw in Iran's allies in Iraq, Yemen and Lebanon, and could result in large-scale disruption to energy supplies to Europe, worsening the current energy crisis and complicating the green transition. At the same time, the more Iran's nuclear programme advances, the more likely it is that Israel and the US will decide that they have no choice but to strike Iran's nuclear facilities. However, an attack may not eradicate the nuclear programme, and Iran would retaliate, probably sparking a regional conflict.

Europeans have little choice but to use a mix of diplomatic and economic pressure to steer Iran towards accepting limits on its nuclear programme. While reviving the JCPOA is likely to be impossible, it may be possible to reach a more limited agreement, with Iran rolling back recent advances. Europeans will have to leverage the threat of a US and Israeli military strike to persuade Iran that a deal is in its interests. A limited agreement would be unsatisfactory to many, but it would still be better than an Iranian nuclear programme with no limits at all. At the same time, Europeans will have to continue to deal with Iran's disruptive foreign policy. They should continue to sanction Iranian entities that are involved in supporting Russia's war on Ukraine, and contribute to regional de-escalation by persevering with their efforts to encourage a détente between Iran and its Gulf rivals. The EU has more limited options to support Iran's protesters. In reality, the most Europeans can do is hold human rights abusers to account, as the alternative of imposing sweeping economic sanctions on Iran would only hurt the Iranian people.

Turkey and the eastern Mediterranean

Navigating relations with Turkey stands out as another major challenge for the EU. While Turkey is still an accession candidate, negotiations have been frozen for years due to both the deterioration of democratic freedoms in Turkey and Ankara's foreign policy. Turkey has questioned Greece's sovereignty over some Aegean islets, carried out hydrocarbon explorations near Greek islands and off the coast of Cyprus, and used threatening language towards Athens. At the same time, Turkey's ongoing veto of Finnish and Swedish accession to NATO, and its military interventions in Libya and Syria have also soured relations with many member states (Scazzieri 2022).

The period prior to the Turkish parliamentary and presidential elections, scheduled to be held in May this year, is likely to see renewed tensions between Turkey and the EU. To win the election President Recep Tayyip Erdoğan will try to rally his base using a range of methods. He is likely to resort to nationalist rhetoric and may send ships and planes close to Greek islands to assert Turkey's maritime claims. While a military incident is possible, the risk of a full-blown conflict is low, not least as that would prompt Washington to become involved.

Dealing with Turkey after the election is likely to be an even bigger challenge. If Erdoğan remains in power, the EU should prepare for relations with Ankara to sour further. The risk is that freedoms in Turkey would continue to deteriorate, moving the country further away from democracy. At the same time, Ankara would probably continue to pursue a militarised foreign policy in its neighbourhood. As a result, many in Europe would increasingly question Turkey's status as an EU candidate country. Turkey would, however, remain linked to the European economy, and Ankara's geopolitical importance means that the EU would still need to work with it on many issues, ranging from countering terrorism to managing migration and supporting Ukraine in resisting Russian aggression. But it would be difficult to cooperate on anything other than a highly transactional basis, and there would be little hope of improving relations.

However, based on current polling, Erdoğan's victory is not a certainty, and the opposition stands a decent chance of winning the parliamentary elections, if not the presidential one. A victory for the opposition would be an opportunity to relaunch the EU–Turkey relationship. An opposition government would be likely to pursue a less militarised foreign policy, seek closer relations with the EU and the US, and revive democratic freedoms in Turkey, including by returning to a parliamentary system of governance (Coşkun and Ülgen 2022). These steps would pave the way for a rapprochement with the EU and a more cooperative atmosphere.

An opposition victory may expose divisions between member states over how to deal with a 'new Turkey'. But it would be in the EU's interest to seize the opportunity to relaunch the relationship. A good first step would be to revive the idea of upgrading the EU–Turkey customs union to cover areas such as services and public procurement. The entry into force of an agreement could be made conditional on Turkey applying the customs union to Cyprus, which may serve to give new impetus to resolving the Cyprus dispute. Even under an opposition government, Turkey is unlikely to sign up to as tough a policy towards Russia or China as the EU (or the US) would like. But there would be greater potential for cooperation with Europe on issues relating to Middle Eastern security, such as stabilising Libya.

New crises?

Dealing with the threat from Iran and managing the difficult relationship with Turkey are tricky but predictable challenges for European policymakers. To these, one must add the risk of potential new flashpoints emerging. Three stand out: an intensification of the

Israel–Palestine conflict, the further destabilisation of Lebanon or Iraq, and renewed fighting in Libya.

In January Israeli Prime Minister Benjamin Netanyahu took the helm of a coalition government that includes parties on the far right (one minister, Itamar Ben Gvir has criminal convictions for racism and supporting far-right terrorism). The new government wants to expand settlements in the West Bank, which will further decrease the prospect of a two-state solution, to which the EU remains committed (Kurtzer-Ellenbogen 2023). At the same time, Israeli security forces are being more heavy-handed in dealing with security in East Jerusalem and the West Bank, which is inflaming tensions with Palestinian militant groups. The risk is that clashes could spiral into a full-blown regional conflict, particularly if they draw in Hezbollah in Lebanon. Continued Israeli settlement expansion, or a change of the status quo at holy sites, should force the EU to reassess its policy towards the conflict and act more assertively to persuade Israel that settlement expansion is not in its interest, whereas improving living conditions in the occupied territories is.

A regional conflagration linked to the Israel–Palestine conflict could set the stage for Lebanon or Iraq to become even more unstable. Lebanon is in the throes of a profound economic and political crisis. A return to large-scale violence between Hezbollah and its opponents is not inconceivable, and could prompt a fresh exodus of refugees into neighbouring countries and Europe. Meanwhile, Iraq continues to be in a long-running political crisis punctuated by unrest. If it became further destabilised this could strengthen extremists and turn the country into an arena in which its neighbours jostle for influence.

In North Africa the main risk is that of renewed instability in Libya. After the repeated failure of UN-led attempts to broker a unity government, the country is yet again divided between a government in Tripoli and one in the east, and elections have been delayed time and time again. In August last year there was a flare-up of violence when forces aligned with the eastern government unsuccessfully tried to enter Tripoli. Renewed fighting would further undermine the prospect of creating a political process to piece the country back together. To avoid this, Europeans need to throw their weight behind a new effort to hold elections that can provide Libya with new legitimate institutions.

Towards a new EU policy for the southern neighbourhood?

The EU's efforts to deal with the MENA region's challenges are being complicated by the perception of US disengagement from the region. This started under Obama and has continued under Trump and Biden. The US insists that it remains committed to the region, but these assurances are not persuasive to its partners. Washington has withdrawn substantial numbers of troops from the region. Perhaps more importantly, US partners such as Saudi Arabia and the UAE think that Washington does not do enough to defend them against Iran (Panikoff 2022). The perception of US disengagement, real or not, has led regional powers to become more assertive and to seek new partnerships, boosting economic ties with China (Feltman et al. 2019). China's political influence in the MENA is also growing, as shown by the Iranian-Saudi rapprochement that Beijing brokered in early March.

Europeans will have to learn how to deal with a more complex regional environment, using their resources more effectively. Europe is still very influential in the MENA region. It is the biggest trading partner for most countries there, and the EU can be influential in diplomatic and security terms when the member states agree, as exemplified by their efforts to strike and then try to uphold the Iran deal after Trump's withdrawal. But Europeans have often suffered from a lack of unity and a lack of assertiveness, particularly when dealing with issues of hard security, such as the regional conflicts in Syria and especially in Libya, where Italy and France pursued uncoordinated and competing policies.

Meanwhile, the EU's economic influence is stunted by the fact that the Union offers its neighbours a partnership that they see as unequal, with relatively few economic benefits. The Union's existing trade agreements are limited and essentially only provide for tariff-free trade in industrial goods. The Union's offer of deeper trade agreements with many countries in the region has been stymied by the fact that this would require the partners to adopt much of the EU's *acquis*, which is politically difficult. EU financial support is also limited: in 2021 the EU launched a 'Renewed partnership with the southern neighbourhood', worth a paltry €7 billion of funding over seven years.

It would be in the EU's interest to invest more financial resources and effort into stabilising the countries to its south. The EU could develop a new partnership model for its southern neighbours based on four pillars: (i) extensive political coordination and consultation; (ii) better access to the single market; (iii) greater funding, geared towards supporting partners to produce clean energy and decarbonise their economies; and (iv) greater people-to-people contacts (Scazzieri 2020). The neighbours would become more prosperous and stable. The EU would become more influential and able to advance its own interests and promote its values in the region. Developing such a partnership model could be made easier by the fact that the EU is shifting towards a more gradual 'phased' form of accession, which should lead the Union to develop new ways to integrate and cooperate with non-members.

Conclusions

The continuation of Putin's war of aggression against Ukraine means that the attention of European policymakers has been focused on helping Ukraine and dealing with the economic consequences of the conflict. However, Europe will not be able to insulate itself from the challenges to its south. To effectively address these challenges, Europeans will have to overcome their differences, take more responsibility for security, and invest more attention and resources in the MENA region.

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The Ukraine war and the future of the Eastern Partnership

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Abstract

Russia's unprovoked war against Ukraine calls into question the future of the EU's Eastern Partnership (EaP) initiative on two levels. First, the war challenges the very geopolitical premise that underpins the Partnership. Second, the EU's granting of candidate status for Ukraine and Moldova in June 2022, while postponing its decision on Georgia's membership application, undermines the main rationale of the EaP: to keep the door to EU membership closed. This article argues that while the war in Ukraine may lead to a reshaping of the EaP, its fundamental features will remain for some time.

Keywords

Eastern Partnership, EU enlargement, Geopolitics, NATO, Russia, Security

Introduction

With the outbreak of Russia's unprovoked war against Ukraine in February 2022, some observers and analysts were quick to write the Eastern Partnership's (EaP) obituary and call for it to be totally revamped, justifying this as necessary due to the new geopolitical context that had been created by the return of war to Europe (Meister 2022; Michel 2022; Mosches 2022). This context was marked by two main changes. First, the outbreak of war confirmed that hard power and geopolitics mattered once again. Second, the EU proved unable to resist the persistence of some of the EaP countries in applying for actual EU membership.

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These two aspects have undermined the fundamental principles on which the EaP was built. The first principle resided in the EU's willingness to project itself as a new kind of power, that is, a normative power in international relations vis-à-vis its Eastern neighbours and Russia. The second principle concerned the question of EU enlargement for at least three of the six Eastern partners: Moldova, Georgia and, of course, Ukraine. For while the EaP appeared to take an ambiguous stance on the question of EU membership for these countries, in reality it was there to support a closed-door policy.

This article revisits the EaP in the light of these two changes and will attempt to assess its future. It is divided into three parts. The first part will discuss the EaP in the light of the return of geopolitics to Europe. The second will address the question of EU enlargement and the EaP. The third part will assess the impact of the two changes on the partnership.

As its main argument, this article asserts that while the changes brought about by the war in Ukraine may lead to some modifications to the EaP, they do not threaten the partnership or its fundamental features. In particular, the author believes that the EaP will likely move towards greater differentiation, while its multilateral dimensions may increasingly lose their pertinence.

The EaP and the return of geopolitics to Europe

When launching the EaP in 2009, the EU did not view its relations with its six Eastern partners¹ through a geopolitical lens but rather as a vehicle to expand its governance dynamics eastward (Youngs 2017, 50). Indeed, the main rationale was to deal with the consequences of the EU enlargements of 2004 and 2007, which extended the EU's borders to Eastern Europe, by developing a new relationship that would go beyond the one that existed under the European Neighbourhood Policy (ENP). More concretely, it offered the Eastern partners the possibility of concluding Deep and Comprehensive Free Trade Agreements. The EaP also opened cooperation in new fields such as good governance and democracy, economic convergence with EU legislation, energy security and, to a lesser extent, foreign policy and defence (European Commission 2008).

As such the EaP reflected the transformative ambitions of the EU vis-à-vis the Eastern partners. These ambitions were geared towards promoting reforms to align them with EU values and norms such as commitment to the rule of law, good governance and the approximation of their domestic legislation with the single market acquis. In other words, the EU was trying to replicate its enlargement policy among the Eastern partners without providing the same level of financial support or a clear pathway to EU membership (Crombois 2019, 91–2).

These transformative ambitions were premised on a normative narrative that rejected the geopolitical dimensions of relations between the EU and its Eastern partners and, to some extent, Russia. The situation changed, however, with the forced annexation of Ukraine's Crimea region by Russia and the outbreak of hostilities in Eastern Ukraine in March 2014. For some observers, the main reason for the falling out between the EU and

Russia was the lack of a clear geopolitical approach by the EU to its relations with the Eastern partners (Byrnes 2014; Klusman 2014).

It is unsurprising then that debates over the geopolitical dimensions of the EaP resurfaced in the aftermath of the crisis between Ukraine and Russia in 2013. Whether inspired by classical or neo-classical geopolitics,² these discussions emphasised the geopolitical nature of the EaP. The EU's Eastern neighbourhood was now seen as a locus of competition between Russia and the EU. Indeed, the Kremlin viewed the EaP as an attempt by the EU to control Russia's immediate vicinity, both politically and economically, hence its growing opposition to it (Haukkala 2015, 7–9).

Until 2014, however, the EU member states were still divided on the need to approach the EaP as a geopolitical project. Poland and the Baltic states saw the Eastern partners as part of a buffer zone between the EU and Russia. Other member states, including France and Germany, preferred to view them as a possible bridge to Russia; in other words, the EaP was approached as a way to maintain friendly relations with Russia and to secure energy supplies (Depo 2014, 13).

These geopolitical dimensions were all too visible in the strong Russian reaction to the EU's Eastern partners when they showed a willingness to strengthen their relations with the EU through the new Association Agreements. In the end, only Georgia, Moldova and Ukraine succeeded in concluding these agreements with the EU (Youngs 2021). Two other countries, Armenia and Belarus—the latter by choice and the former as a result of pressure from Putin—opted instead to join the Russian-led Eurasian Economic Union, designed as an alternative to the EU's proposed model of cooperation (Wolczuk et al. 2022). The last Eastern partner, Azerbaijan, preferred to develop its own bilateral relations with Russia and to a lesser extent with the EU, and these are mostly restricted to cooperation on energy (Shiriyev 2019, 29–30).³

The changes that occurred in March 2014 led the EU to review the ENP, of which the EaP is part. In 2017 this review led to the adoption by the EU and its Eastern partners of 20 deliverables to be completed by 2020. These revolved around three main priorities: economic development, good governance and connectivity. They also included three more general cross-cutting deliverables: gender equality, non-discrimination, and strategic communication and independence of the media. By February 2020, despite some real progress in the economic and connectivity fields and some successes in the fight against corruption, especially in Ukraine, the Eastern partners had fallen short of completing any of the set objectives (EU Neighbours East 2020).

The ENP Review also included new terminology that emphasised stability and differentiation in the relations between the EU and its Eastern partners. This shift is important as it implied moving away from the enlargement rhetoric and a limitation of the transformative ambitions of the EU for its Eastern partners. This shift was confirmed in the new EU Global Strategy approved by the member states in 2016 (Cianciara 2017, 9–10). This strategy embraced the changes produced by the crisis in Ukraine and

highlighted a new priority of strengthening the resilience of its partners, while outlining new ambitions for EU defence. These priorities were further confirmed in the EU Strategic Compass document that outlines new objectives for the Union in security and defence (Blockmans et al. 2022).

The implications of these changes for the Eastern partners are still unclear. It is worth noting that the Strategic Compass barely touches upon the EaP, but does mention the EU's new commitment to boost its cooperation with the Eastern partners in the areas of defence and security (Council of the European Union 2022a, 42). These objectives have been pursued through the provision of military assistance to Moldova and Georgia via the new European Peace Stability Instrument, and the launching, in October 2022, of the EU Military Assistance Mission to Ukraine, alongside the allocation of €16 million to support capacity building for the Ukrainian armed forces (Council of the European Union 2022b).

Despite this, the EU is not likely to be able to provide the kind of hard security that the Eastern partners may need in the face of a continuing Russian threat. As a key analyst pointed out, if the war in Ukraine has taught us anything, it is that 'there is no security in Europe outside NATO' (Meister 2022, 2).

The EaP and the issue of EU enlargement

At the outset there was a clear path dependency between the EU policies on enlargement and the EaP. Over time, however, the two policies have tended to drift away from one another. Some EU member states, such as France, have been reluctant since the EaP's inception to accede to demands by Ukraine, Moldova and Georgia for EU membership. The main reasons for this refusal lie in the need to preserve the integration process and not antagonise Russia. As a result, the EU has adopted the rhetoric of 'European aspirations' instead of EU membership for these countries (Emmot 2021).

However, the situation changed completely with the outbreak of the war in Ukraine. In March 2022 the three most advanced Eastern partners, Moldova, Ukraine and Georgia, crossed the Rubicon and applied for EU membership. Soon after, in June, the EU's leaders, following the European Commission's record-speed production of an opinion, agreed to grant candidate status to Moldova and Ukraine while postponing their decision regarding Georgia, subject to the implementation of further political reforms (European Council 2022).

While the EU member states unanimously agreed to grant candidate status to Moldova and Ukraine, this consensus did not come easily. In February 2022 the leaders of the Baltic states, Poland, and four Central and Eastern European member states⁴ issued a joint statement calling for an 'immediate EU accession perspective for Ukraine' (Reuters 2022). Other member states, such as France, the Netherlands, Denmark and Spain, were more reserved, damping down any ideas of a fast-track process (Zaborowski 2022).

In reality, the granting of EU candidate status to Ukraine and Moldova was mainly due to the need to show solidarity with these two countries which face the most immediate threat from Moscow (Brzozowski 2022).

Ironically, the granting of EU candidate status to the two Eastern partners further reconciled the EaP with EU enlargement policy. Indeed, the two policies were broadly similar in their conception, using the same principles of benchmarking and conditionalities. The main difference lies in the huge divergence in financial commitments from the EU, with enlargement policy receiving the lion's share (Crombois 2019, 92).

Impact on the EaP

It is not easy to assess how the future of the EaP will be impacted by the war in Ukraine and the granting of EU candidate status to two of the Union's Eastern partners. All the same, some preliminary observations can be made.

On the geopolitical front, the future shape of the EaP will most certainly depend on the outcome of the war between Ukraine and Russia. Unless Russia suffers a crushing defeat followed by possible internal collapse, it is likely to remain a threat to the EU's Eastern partners.

To address the geopolitical changes in Europe, French President Emmanuel Macron launched, in May 2022, an initiative called the European Political Community (EPC). It aims to gather all the democratic European nations in a 'new space for political cooperation, security, cooperation in energy, transport, investment, infrastructure, and the movement of people' (Herszenhorn et al. 2022). For the French president, such a project allows him to deal with two problems at once. The first is to strengthen links between the EU and all its partners: the Eastern partners, the EU candidate countries and third countries, such as Britain. The second is to safeguard the European integration process. By severing ties with Russia, the EPC is viewed favourably by the EU's Eastern partners, even though they remain fearful of finding themselves in yet another antechamber of EU membership alongside the other EU candidate countries (Moyer 2022).

That said, the initiative is set to restrict itself to being a forum for discussion rather than a strong policy and security provider (Bechev 2022). This means that its impact on the EaP may be limited and it is therefore unlikely to replace it either in scope or in ambition.

The issue of granting EU membership candidacy to two or three Eastern partners is likely to have a limited impact on the EaP. The June 2022 decision of the European Council was more symbolic than anything else. Nothing seems to suggest that EU membership for these countries will happen anytime soon (Lippert 2019). Compared to the Western Balkan candidate countries, the three Eastern partners, despite performing better in terms of economic policy, lag slightly behind in terms of political and legal reforms (Emerson et al. 2021, 11–13).

Conclusion

In uncertain times, predictions about the future are risky and this includes predictions about the future of the EaP. Whether renamed or reshaped, the fundamentals of the EaP are likely to remain the same for some time. The changes that may occur include greater differentiation between the Eastern partners, that is, between the new EU candidate countries and the other countries. In this way, the changes brought about by the war in Ukraine may simply speed up a process that has been underway since 2014. In doing so, the multilateral features of EU–EaP relations may well be further undermined and lose their pertinence for both sides. The challenge that the EaP is facing will remain: that is, ensuring successful transformations in the Eastern partners, which are all plagued by secessionist situations and conflicts.

Notes

1. The EU's six Eastern partners are Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.
2. Neo-classical geopolitics was developed in the post–Cold War period with the aim of breaking away from classical geopolitics and its environmental determinism and racism, while emphasising the role of geography in global conflicts and economic development.
3. In July 2022, the EU and Azerbaijan signed a memorandum agreement to double Azerbaijani gas exports to the EU.
4. Bulgaria, Czechia, Slovakia and Slovenia.

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The importance of regional EU member states in the Berlin Process: The guided integration of the Western Balkans

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Abstract

The Berlin Process offers the most significant and institutionalised roadmap for the integration of the Western Balkans into the EU. The direct involvement of EU institutions and member states, especially Germany and France, in the Process has transformed it into a trustworthy path to integration. The countries of the Western Balkans are still facing many difficulties and need to undertake serious reforms, especially in the fields of the fight against corruption and enforcing the rule of law. In this regard, the involvement of Croatia, Slovenia, Czechia, Poland and Austria in the Process should act as a catalyst for reform. The aforementioned states will become an important obstacle to increased Russian interference in the region as they have a clear mandate from the main driving forces of the EU, namely Germany, France and the Brussels-based EU institutions.

Keywords

Western Balkans, EU integration, Regional cooperation, Berlin Process

Introduction

The Berlin Process is a form of regional high-level cooperation among the Western Balkans on their path towards EU integration. It is an intergovernmental platform which was established in 2014 between the Western Balkan Six and their peers in the Berlin Process host countries. The Process also involves the EU institutions, international financial institutions, and the region's civil society, youth and businesses.

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The Process guarantees the full participation of each of the states in the region, with equal representation and rights on the path to accession negotiations. It also guarantees that contributions are based on merit, wherein the projects that benefit are a result of the effectiveness and the vision of each governing actor.

The Berlin Process is a political project, albeit one founded on economic cooperation. It is of concern to other actors (i.e. Russia and China), which seek to delay the integration of the region or to deepen disputes to the point that no comprehensive solution can be found. Russia is the political actor most fully invested in the failure of the Berlin Process, and it has called for coordinated counteraction of the Western alliance.

This article takes into account the importance of integration, which needs to remain at the core of any healthy regional cooperation. The recommitment to the Berlin Process marks a new milestone that encourages enthusiasm about the path to European integration for the Western Balkan region, and clearly and unequivocally confirms that the region is unchanged in desiring this future. The article analyses the impact on the Process of the neighbouring EU member states of Czechia, Slovenia, Croatia, Poland and Austria. Each has its own significance and position with regard to the assistance it can give to the Western Balkan countries on their road to integration.

New geopolitical developments, such as the war in Ukraine, the economic crisis and the stagnation of the integration process, mean that a renewed political commitment is required from all the states of the Western Balkan region. This political commitment is needed to fulfil the European integration agenda that has always been the focus of attention of Germany, France and the EU institutions, which also work in synchronicity with external elements such as the US and the UK.

The Brdo–Brijuni Process

The annual summit that takes place as part of the Brdo–Brijuni Process enables a yearly meeting of the heads of state and government of the states of the Balkan region at which each is equally represented. The summit was created as a joint Ljubljana–Zagreb initiative to encourage dialogue, mutual trust and regional cooperation between the countries of the Western Balkans and to encourage fulfilment of the steps of the European integration process (European Council 2021). The summit of 2021 was held at a time when European enthusiasm for enlargement was lacking and scepticism was filling the spaces of thought and action in the political establishment of Brussels, too. Despite this, the initiative has remained stable over time, has been fully accepted politically by each country and continues to be inclusive in nature, despite the changing political reality (European Council 2021).

The six-point platform is an important call to the Union from two members of the European political family, namely Slovenia and Croatia, which positively reflects on the commitments expressed, the initiatives undertaken, and the will continuously affirmed

by the EU. Such political will is important, but it remains only partially fulfilled in the absence of actions that can and should exceed it.

The new geopolitical developments stemming from the conflict in Ukraine require the use of a loud political voice and action that goes beyond expressing that political will by repeating the same positions in ever-changing contexts. The current context requires more than the holding of the usual political events in the region and needs the intensive involvement of Ljubljana and Zagreb, as the political voices of the Union (Craner 2022).

In 2022 Slovenian President Borut Pahor declared that initiatives such as the Berlin Process find their purpose in the positive experience of the Brdo–Brijuni Process summit, where unconditional dialogue and inclusiveness remain the fundamental values that guarantee the sustainability of the process itself. The current positive dynamics due to the renewal of the European commitment to the Berlin Process invite us to think about how regional initiatives could be re-dimensioned to encourage the achievement of tangible results in the European integration process. A re-dimensioning of the Brdo–Brijuni Process summit remains a necessity due to the increased involvement of Ljubljana in the Berlin Process, which remains of special strategic importance.

The Berlin Process is not only the beginning but also the future of the European integration path for the region. The realisation of its strategic goals can be achieved through the involvement of actors such as Ljubljana, as well as traditional Western political actors with ties to the Balkan region, such as Vienna.

The three agreements signed in Berlin within the framework of the Berlin Process, together with the ongoing objectives that the Western Balkan states are already working towards, require implementation by and approval from each state, and this will mean the overcoming of stalemates stemming from historical disputes. The achievement of the goals of the Berlin Process requires not only the involvement of all the Western Balkan states but also a proactive, integration-focused dialogue that has as its final goal the positive result of integration, that is, a dialogue that requires each country to bring tangible results to the table (Juzová 2019).

The roles of neighbouring EU countries

Croatia

The EU–Western Balkans summit held in Tirana on 6 December 2022 is not only proof of the EU's renewed attention to the countries of the region, but also gave the Western Balkan countries the opportunity to propose agreements in fields usually reserved for the EU member states, such as the 'Roaming Agreement' (Delegation of the European Union to Albania 2022). Actioning these proposals would increase cooperation with the countries of the Western Balkans and show political willingness on the part of the EU.

According to Elbasani (2013),

Croatia remains a successful guiding model for the countries of the Western Balkans that are still on the path to EU membership. Croatia's introduction of the euro and fulfilment of the criteria for membership of the Schengen area have turned the country into 'a first-rate political actor' in the European arena. This advancement of Croatia within the EU has transformed the country into a point of reference for the countries of the Balkans with regard to Euro-Atlantic integration.

The three agreements signed at the summit held in Berlin—which provide for free movement with identity cards, recognition of university degrees and recognition of qualifications for three professions: doctors, dentists and architects—still require approval by the national parliaments of each state (Regional Cooperation Council 2022). The process has been delayed because of the various unstable political situations in the Western Balkan countries: for example, in North Macedonia, the parliamentary crisis caused by the boycott of the right-wing opposition; and in Bosnia–Herzegovina, the situations linked to the visa regime with Kosovo and to the rhetoric of Republika Srpska in relation to the integrity of the country.¹

The Berlin–Brussels–Paris axis would find in Croatia an actor able to overcome further delays and to lead the region towards European integration. However, Croatia needs a clear mandate from this political axis, for example, through its designation as a political emissary.

In terms of the role of the European Parliament and the leading parties, it should be noted that the European People's Party has a limited presence in the region, having not assigned its own rapporteurs to the Western Balkan countries. The Party should therefore encourage the appointment of Croatian rapporteurs in all the countries of the Western Balkans where this political group has the right to determine the rapporteur (Marini 2011).

Czechia

The enlargement of the EU in 2004 remains the single most important political moment in Europe since the end of the Cold War and the fall of the Berlin Wall. Czechia is an important political actor with a geopolitical weight that comes from its political stability, geographical position and desire for EU enlargement.

The holding of the first meeting of the European Political Community, an initiative of French President Emmanuel Macron, in Prague in October 2022 is clear evidence of the political importance of the country since Russia's invasion of Ukraine (Grant 2022). The second half of 2022 also saw Czechia hold the Presidency of the Council of the EU, which coincided with continued Russian aggression. It was an effective Presidency with clear priorities in line with global developments and a strong desire to encourage the expansion of the Union through the integration of the Western Balkans. Consequently, Czechia stood clearly in favour of visa liberalisation for the citizens of Kosovo and the approval of candidate status for Bosnia and Herzegovina.

Czechia is an important actor that can convey its expertise, encouraging and strengthening civil society and law-enforcement links with candidate and potential candidate countries, namely the countries of the Western Balkans. Its support for the process is due to its proximity to most of these countries, and their common history and political past (Grant 2022).

Czechia, together with Slovenia and Croatia, could act as a Western pole, not only in the role of political observer but also as a deterrent to Russian influence. This could be manifested in various ways: in political forums, as part of a tripartite mediation team in cases of political disputes and in the joint monitoring of parliamentary groups in the European Parliament (Cermak 2022).

Ensuring the requirements for integration are met is the best way to prevent the expansion of Russian influence, not only in terms of direct pressure from Moscow but also in terms of the spread of the Russian model of governance (i.e. a non-functioning democracy; a captured state, with bad governance, truncated freedom and authoritarianism) (Newlin and Lohsen 2022).

Poland

The Polish presidency of the Berlin Process (in 2019) played an essential role in kick-starting the implementation of actions through the organisation of a variety of activities, such as civil society forums, youth events and the cities project (Borowska 2021). Its dynamism encouraged progress at a time when scepticism had increased, especially from the French side, due to the poor performance of the governments of certain countries. Scepticism had also gained momentum due to the high number of asylum seekers from the various countries of the region (Walsh 2019).

Poland can bring the positive experiences of the Visegrád Group to strengthening relations between countries and overcoming differences, not least as it is the only political power among the Visegrád countries not to have unresolved issues with any of the countries in the region. It has signed separate agreements with Albania, Montenegro and Serbia to assist in the process of integration and has defined a clear integration agenda. The country plays a leading role in the Three Seas Initiative, which includes the countries of the Baltic, Black and Adriatic Seas. The Initiative also has the ability to allocate investment funding (Walsh 2019).

Despite current geopolitical developments supporting a growing role for and the engagement of Poland, this will not be possible if its conflict with the EU regarding the government's approach to the reform of the Polish judiciary is not resolved (Koutsokosta and Liboreiro 2022). However, Poland's involvement could enable a deeper rapprochement that exceeds the political borders of the region. The connections with the Polish market in the field of tourism or in the facilitation of the movement of certain professionals could positively influence and strengthen the country's role.

Austria

Austria has always been an important political actor in the Balkans. Its influence in the Balkan region remains essential for encouraging integration even when the commitment from either the Western Balkan countries themselves or the EU is lacking.

The visit of Austrian Foreign Minister Alexander Schallenberg to the Balkan region (in October 2022) and the publication of a conceptual ‘non-paper’ on the Austrian vision for the integration of the Balkan region offers hope for the gradual improvement of Belgrade–Pristina relations and progress with regard to the integration of the region as well. On the issue between Kosovo and Serbia, Schallenberg declared (Austria, Federal Ministry for European and International Affairs 2022):

The process of normalization must continue, through dialogue between Belgrade and Pristina. Walking step by step towards normalization, because it is in the interest of stability in the region. If we talk about regional stability, the gradual normalization of relations between Belgrade and Pristina is very important. The dialogue is a needle’s eye through which the region is observed and that is why it is important.

On the concept of gradualism, he underlined that ‘our proposal is to treat the countries of the region step by step from one area to another, be it energy, trade or something else, as full members. The European perspective is not a one-way road. We are facing a radical shake-up of our security system in Europe. No one can hope to be a mere bystander’ (Nikolaus 2022).

Tomorrow’s Europe cannot be politically complete if the progress towards integration does not continue in the Balkans. Regional political actors can encourage this process through an effective, proactive gradualism that is in alignment with Western values. This includes insisting on the following of standards by the national governments in both domestic governance and their external relations. In particular, Austria plays a key role through its continued political presence in the region.

Conclusions

The Berlin Process remains one of the most important paths towards the European integration of the Western Balkans. This process has two main components:

1. the overall guidance, control and assistance of the EU, in particular the European Commission; and
2. the contribution of individual EU member states, which have a direct interest due to their vicinity and shared regional challenges.

This article has analysed the impact and underlying interests, policies and decision-making of these regional powers. These states can work as a proxy for the EU as a whole,

taking advantage of their in-depth knowledge and close historical relations with the region. Yet, the main driving force behind the process has to remain the desire and commitment of the Western Balkans to undertake domestic reforms, battle authoritarian temptations, and strengthen the rule of law and the free market economy.

The Berlin Process provides a framework that enjoys broad national and political support in each of the participating states. The Open Balkans Initiative failed, however, as important actors in the region did not share the same ideas, and this jeopardised the whole process.

Note

1. This designation is without prejudice to position on status, and is in line with UN Security Council Resolution 1244/99 and the International Court of Justice Opinion on the Kosovo declaration of independence.

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Towards a model that measures the impact of disinformation on elections

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Abstract

Disinformation represents a danger to the integrity and legitimacy of the electoral process. From our research based on the 2021 Czech parliamentary elections, we introduce a model for measuring the resilience of citizens to disinformation. This model is then used to draw conclusions about the impact of disinformation on their voting behaviour. We argue that it is important to understand this impact in the context of pre-existing beliefs and opinions, and therefore in terms of disinformation reinforcing rather than changing existing views. In particular, we demonstrate how feeling disappointed with one political party can make people more inclined to endorse disinformation that targets it.

Keywords

Disinformation, Elections, Voting behaviour, Czech parliamentary elections 2021, Democracy

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Introduction

Disinformation remains a resonant topic of public debate, not only in the EU but also globally. Many discussions have focused on the role of disinformation in elections and its impact on voting behaviour (Schünemann 2022). Since free and fair elections represent the very fundament of the democratic political system, it is no wonder that so many people are concerned that the intentional spread of falsehoods might discredit them. Furthermore, the thought that the beliefs and political choices of fellow citizens are not genuine but motivated by misguided false stories is harmful to social cohesion and can undermine open deliberation about political matters. Therefore, the impact of disinformation on elections has to be a matter of rigorous research interest since a proper understanding of this phenomenon will enable us to better understand how the political process functions in the twenty-first century. Equally, looking at disinformation within the context of elections is beneficial since such a specific focus allows us to gain better insights into the role of this phenomenon in contemporary societies.

With these thoughts in mind, the authors decided to join forces to investigate the role of disinformation in the Czech parliamentary elections in 2021 and its interaction with voting behaviour. The research team comprised two entities: the think tank the Prague Security Studies Institute, with its notable expertise in the analysis of disinformation in the online information space, with a special emphasis on elections; and the STEM Institute for Empirical Research, which has been analysing the opinions of Czech citizens since 1992. The multidisciplinary setting of the project, combining skills in media monitoring and interpretation of public opinion, and including insights from political science, sociology and psychology, has allowed us to uncover the role of falsehoods during the elections and gain new knowledge about how people interact with them. With our research we did not aim to address only the context of Czechia in autumn 2021 but to suggest a general model which other researchers in different settings—such as the 2024 European elections—could utilise.

The main purpose of our model was to measure not solely exposure to or belief in disinformation but the resilience of respondents to falsehoods. In our understanding, the key indicator of resilience is the ability to orient oneself in the public debate—not only to recognise false statements but also to identify the factually correct criticisms of running parties. To make this measurement even more precise, we also included fabricated placebo statements about Czech political parties. These statements followed a similar logic to the misinformation that we noticed in the information space in the run-up to the elections. The reason for using placebo statements was to measure the ability of respondents to distinguish between a political bias (e.g. belief in any statement made against a party they dislike or disbelief of all news in general) and the influence of disinformation campaigns. While the combination of factually correct statements, misinformation and placebo headlines had already been used in research (see Allcott and Gentzkow 2017), our model, emphasising the ability to distinguish between them is, to our knowledge, a methodological innovation. We aimed to use this model not only to evaluate the impact of falsehoods prior to the 2021 elections, but also to better understand the audiences that

are receptive to disinformation. For this reason we reimagined the position of disinformation in causal relations and did not consider belief in falsehoods to be the single cause of a change in electoral behaviour but perceived it as part of a self-confirming cycle, in which it reinforces pre-existing stereotypes, opinions and emotions. In particular, our aim was to understand these interactions in the context of the broader socio-economic dynamics that are currently shaping the opinions and behaviour of Czech society.

Before elaborating further on our argumentation, a terminological remark is in order. Since we were not closely investigating the intent of the spreaders of the falsehoods appearing in the course of the election campaign period, we do not use the term *disinformation*, which would imply malicious intent. Rather we will use *misinformation*, referring to a false statement that is spread without malicious intent (for a complex summary of the terminological debate, see Kapantai et al. 2020). In the context of our research, each misinformation test statement consisted of a criticism of the political parties in the running, all of which were possible to verify and refute.

The article is structured as follows. First, we explain our methodology and demonstrate how our model is able to measure resilience to misinformation while overcoming bias related to the selection of the test statements. Second, we show that resilience to misinformation has important sociological underpinnings, which allows us to make an argument for the need for a holistic approach to tackling this threat. Finally, we return to the topic of voting behaviour and demonstrate that—in the right circumstances—everyone can be prone to believe in misinformation. Based on this knowledge, we formulate some general policy-oriented recommendations, which are presented in the final section of the article.

How to design a useful model?

The obvious research question about misinformation in the context of elections concerns its impact on the final results. While this might be the logical question, it is highly difficult to answer, since the academic community even disagrees about the impact of electoral campaigns on election results. Some scholars have observed that political preference tends to be stable over time and highlight the importance of socio-economic factors in electoral decision-making. Even those who are more inclined to believe that political campaigns play a role in influencing voters' behaviour argue that they face significant constraints since they not only have to reach out to voters but also change their existing opinions (Fisher 2018). The same consideration can be applied to the impact of misinformation on voting behaviour. Therefore, the research questions should be reframed thus: in which circumstances might misinformation impact voters and which voters are likely to be impacted?

The question of exposure to misinformation is also not as banal as it seems. Sociological research shows that people are not good at remembering if they have noticed a specific news item, or if they have, where they noticed it (Cardenal et al. 2022). Exposure also has to be put into the context of the broader dynamics of the information space (see, e.g. Allen

et al. 2020). A good illustration is the case of the so-called Pandora Papers, which we also touched on in our research. Shortly before the 2021 elections, journalists released the results of their investigative work into the offshore companies used by rich individuals to lower their taxes. Former prime minister and leader of majority party Yes (ANO), Andrej Babiš, was allegedly involved in such a scheme (Goodley et al. 2021). Unsurprisingly, this news was circulated widely in the Czech media space and became one of the important topics of political discussion. Yet our polling shows that 31% of our respondents were not aware of this news item. This finding forces us to reconsider the impact of misinformation, since there are groups of people who are able to ignore the news completely, including any circulating misinformation. As shown in the chart below, misinformation related to the elections only resonated with a small proportion of the population—only 14% of respondents believed two of the test statements, while just 11% believed three or four of them. This shows that the Czech public is, in general, less prone to believe misinformation related to elections than it is to believe in general conspiracy theories, which can affect the beliefs of about 40% of the population. Another notable finding is the existence of a sizeable group—28% of respondents—that did not believe any of the factually correct test statements. Our approach was based on the assumption that it is not sufficient to draw conclusions from the total number of people believing tested misinformation since there are significant groups of the population which believe either nothing or everything (meaning misinformation as well as factually correct statements).

Therefore, we decided to define resilience to misinformation as the ability to orient oneself in the public debate, which we measured by the ability to distinguish between the factually correct and factually incorrect statements related to the running parties. Being able to make such distinctions not only allows one to identify misinformation but may also help to control personal bias, since it demonstrates the ability to recognise the difference between the true and false criticisms of individual candidates.

When compiling the list of test statements, we utilised real-time media monitoring conducted by the Prague Security Studies Institute within the framework of the project ‘Czech Elections in the Era of Disinformation’ (Syrovátka and Šefčíková 2021). In total we tested 12 statements of 3 different kinds (real news, misinformation and placebo) for each of the 4 main political parties or coalitions running in the 2021 elections. The sociological polling was conducted in two waves—at the beginning of September and in the week after the elections (middle of October)—on a representative sample of the population. Based on their differing abilities to distinguish the reliability of the test statements, the respondents were divided into four clusters whose differing opinions and values were analysed. The most relevant cluster for this text, comprising the most vulnerable part of the population, is represented by the number 1 (= lowest ability to distinguish between different test statements) in the subsequent figures.

Societal factors as the key indicator of vulnerability

The definition of the vulnerable group of respondents allowed us to reach a deeper understanding of its characteristics. Perhaps surprisingly, the economic situation, level of

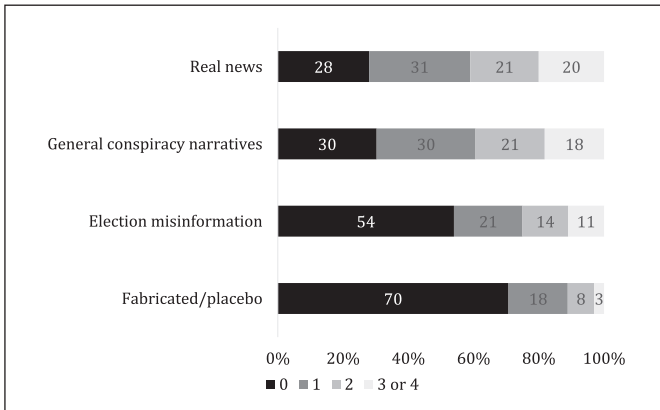


Figure 1. Number of headlines people believed.

Source: STEM research data 2021.

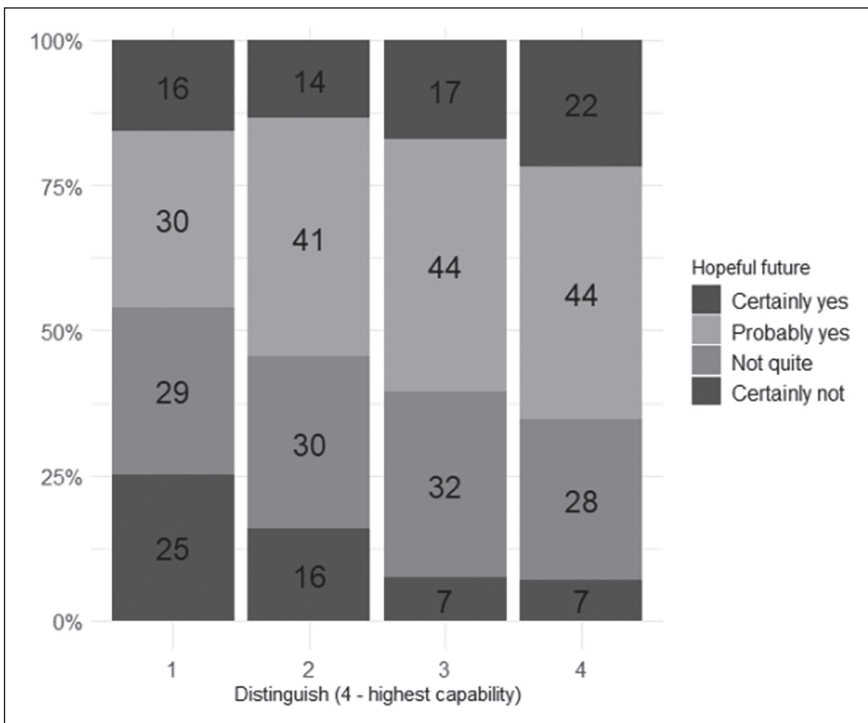


Figure 2. Perception of the future.

Source: STEM research data 2021.

Note: Survey question was, 'Do you look to the future with hope?' The respondents were sorted into four groups based on their ability to distinguish between different types of presented statements (real news, misinformation, placebo statements). The figure shows the results for the given groups (1 = lowest ability to distinguish/highest vulnerability to misinformation; 4 = highest ability to distinguish/lowest vulnerability to misinformation).

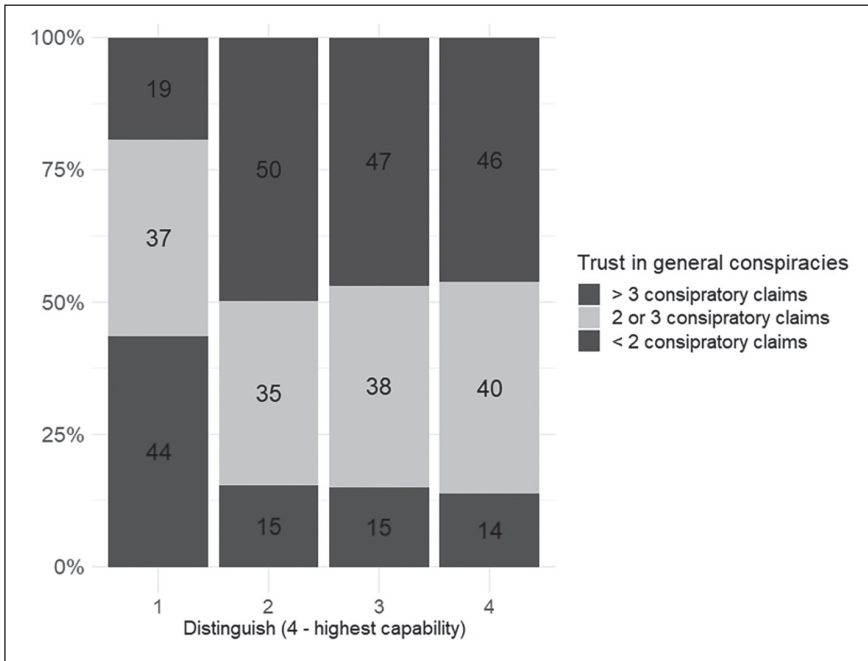


Figure 3. Trust in general conspiracy theories.

Source: STEM research data 2021.

Notes: The trust in general conspiracy theories was evaluated based on the number of trusted (answered ‘certainly true’ and ‘probably true’) conspiratorial statements (out of seven claims). The respondents were sorted into four groups based on their ability to distinguish between different types of presented statements (real news, misinformation, placebo). The figure shows the results for the given groups (1 = lowest ability to distinguish/highest vulnerability to misinformation; 4 = highest ability to distinguish/lowest vulnerability to misinformation).

education, age and gender of these respondents did not seem to play a significant role in their ability to distinguish between factually correct and false statements. The more relevant indicator was the perception of the respondents with regard to their personal situation and their general assessment of Czech society, which differed from other clusters. People vulnerable to misinformation felt personally unappreciated in their communities, and they were very sceptical in their evaluation of the future—54% of these respondents looked to the future with no or only very little hope. This negative perception of the situation was not limited only to the personal level but was also manifested in their assessment of the overall situation in Czechia. For instance, the quality of democracy was rated negatively by 44% of the respondents from the vulnerable group—they gave it just two marks out of five.

Generally, the vulnerable respondents felt unhappy and frustrated, which made them receptive to narratives hostile to the existing political system. These people were significantly more likely to believe in general conspiracy theories that had been circulating in

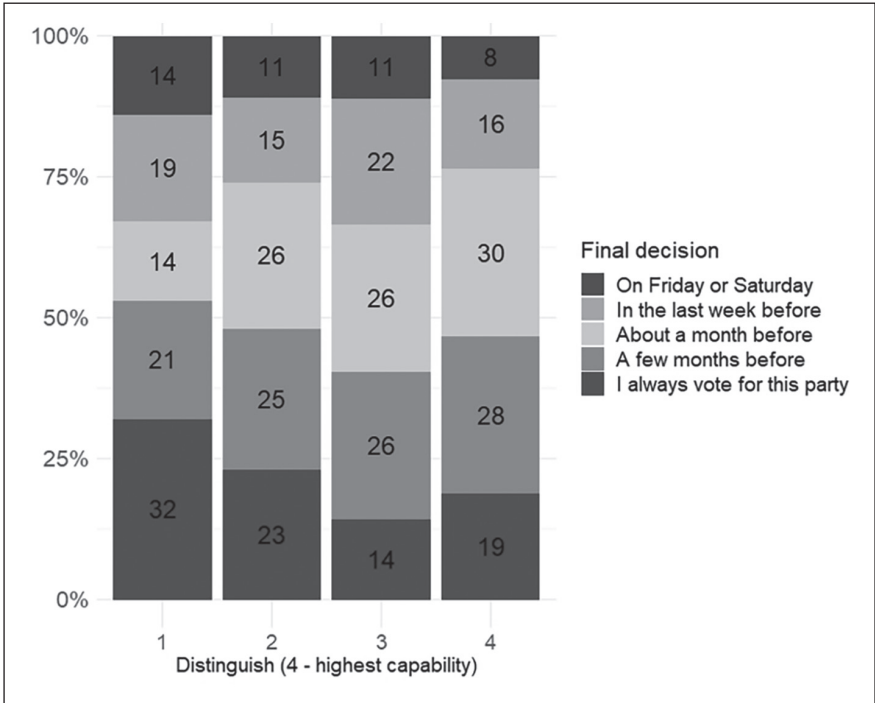


Figure 4. Intent to vote.

Source: STEM research data 2021.

Note: survey question posted was, “When did you finally decide to vote for a particular party, movement, or coalition in the October elections to the Chamber of Deputies?” The respondents were sorted into four groups based on their ability to distinguish between different types of presented statements (real news, misinformation, placebo). The figure shows the results for the given groups (1 = lowest ability to distinguish/highest vulnerability to misinformation; 4 = highest ability to distinguish/lowest vulnerability to misinformation).

the information space for a long time—81% were also prone to endorse them. This percentage is significantly higher than in the other clusters of respondents. This finding is consistent with the monological belief system thesis, which suggests that people who start to believe in one conspiracy theory are significantly more likely to endorse more of them over time (Goertzel 1994).

It is important to point out that people vulnerable to misinformation, despite their negative perception of the system in which they live, were not completely disengaged from its processes. The percentage of respondents in the vulnerable group who voted in the 2021 elections did not differ significantly from the percentages in the other clusters. The difference was that they were more likely to vote for far-right or populist parties that promised to revise the current political system (similar to the effect demonstrated by Cantarella et al. 2023). This group seems to be formed of staunch supporters of these parties since 53% of respondents knew how they would vote several months before the

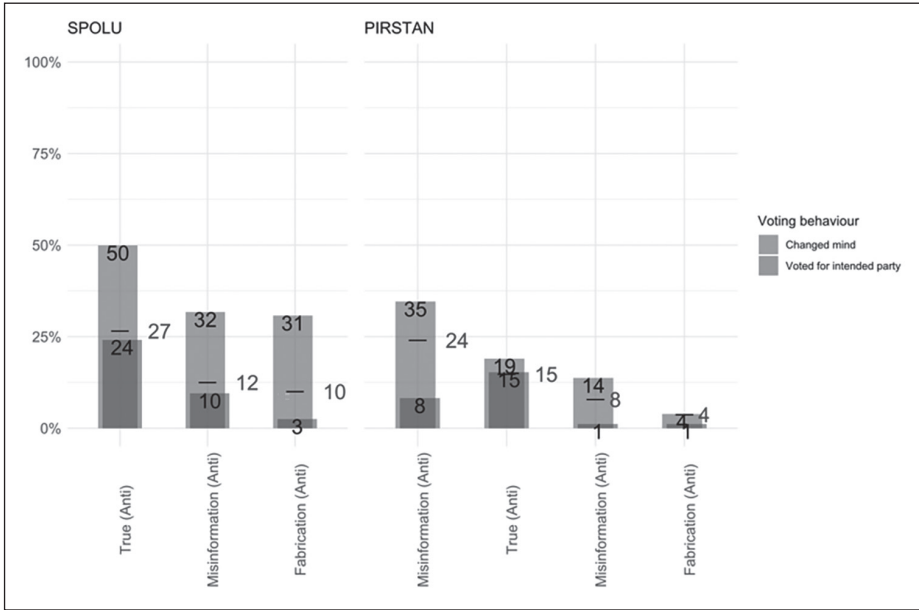


Figure 5. Trust in headlines related to individual parties: the difference between loyal and disappointed voters.

Source: STEM research data 2021.

Note: The figure shows the differing levels of belief in the test statements (real news, misinformation, placebo) that were critical of each coalition among different kinds of voters (disappointed voters = ‘changed mind’; loyal voters = ‘voted for intended party’). The line indicates the average level of trust in the sample of voters.

elections. Here we found an interesting paradox—a notable proportion of the respondents vulnerable to misinformation were actually fairly immune to falsehoods appearing in the run-up to the elections since they were not likely to be swayed in their voting behaviours. For this group, the more important factor is long-term interaction with general conspiracy theories that reinforce their negative perception of the situation in society—which, to remind readers, might be understandable due to the living conditions of the given individual—and makes them open to the rhetoric of anti-system parties. The exact interaction of variables in this vicious circle should be of further interest to researchers. A single survey such as ours is not able to determine causality and therefore it would be warranted to use different methods, such as a natural experiment or a longitudinal study (see Eady et al. 2023), to establish this.

Opinion first, misinformation second

At the beginning of the article, we reframed the main question regarding the impact of disinformation on elections and tried to define the circumstances in which voters’ decisions could be influenced by misinformation. As we demonstrated in the previous

section, in the case of people unable to distinguish between factually correct and false statements, this question requires taking a long-term view and disentangling the interactions between unsatisfying personal situations, dissatisfaction with the political system and the influence of conspiracy theories. However, it was not only respondents from the vulnerable group who were prone to believe falsehoods that appeared in the run-up to the elections. In fact, a significantly higher number of respondents—including those who did not endorse general conspiracy theories—were open to believing misinformation in specific circumstances. To better understand their reasoning, we find it useful to perceive the belief in misinformation as a consequence of pre-existing positions.

Regardless of political preference, people who felt disappointed by a specific party were more likely to believe misinformation about this party. This did not make them change their vote—since they would not have supported this party anyway—but it did reinforce their already formulated position. In explaining this tendency, we refer to the concept of motivated reasoning, which suggests that individuals select the information they believe pragmatically, considering its relevance for achieving the desired goal regardless of its factual correctness (Bolsen et al. 2014). And since, in the case of the 2021 elections, the main goal for disappointed voters was to reinforce or maybe rationalise their negative position towards a specific party, they were keen to believe any negative statement about it—even if it was misinformation or a placebo statement.

A case in point is that belief in both the misinformation and the placebo headlines about the SPOLU coalition¹ did not differ significantly among disappointed voters. The effect of voter disappointment on belief in misinformation is also visible in relation to the PirSTAN coalition²—35% of people who decided not to vote for the coalition also believed the false test statement, a significantly higher proportion than believed it among loyal voters. We are convinced that while misinformation can play a role in creating bias against a particular party, it is only one of the relevant factors in the long-term process. Therefore, we hypothesise that the misinformation that appeared directly before the elections did not play a significant role in affecting voting behaviours since it was very likely to resonate most among those who would not have voted for the targeted party anyway. Again, the long-term interaction between party preferences, feelings of disappointment and belief in misinformation should be the topic of further, more precise academic scrutiny.

Conclusions

Our research describing the impact of misinformation on the electoral behaviour of Czech voters in the context of the 2021 parliamentary elections could also be useful in other contexts. We believe that our model, based on the ability to distinguish between factually correct, false and placebo statements, should inspire other research since it overcomes several limitations related to survey methods and the self-reporting of beliefs and behaviours. It might also have more practical uses since it suggests an easy way to operationalise the concept of resilience to misinformation (for various approaches to this topic, see Hassain 2022). Therefore, our model could serve as a tool to assess the impact of projects aiming to increase resilience, such as media-literacy workshops or online

educational games. While the main limitation remains the selection of appropriate statements for testing, we believe that this limitation could be overcome by interdisciplinary cooperation.

Using the case study of the 2021 elections, we also aimed to contribute to the burgeoning debate about determinants of belief in misinformation. Our approach suggests that the endorsement of falsehoods should be treated as a consequence of pre-existing positions and perceives this decision to believe them as part of the process of reinforcing already-made decisions—for instance in voting behaviour.

It is important to distinguish between two different groups affected by misinformation. First, there are those who are generally distrustful of the political system, who are stressed and frustrated, and who are open to conspiracy theories and the anti-systemic voices of far-right and populist parties. To increase the resilience of this group to misinformation, a holistic approach is needed that addresses the societal conditions which have alienated these people from the democratic system. Second, on a more general level, everyone can become vulnerable to misinformation if it fits with his or her biases—for instance by fuelling resentment against a particular political party. Since recognising and filtering one's personal biases represents a significant challenge, this ability should be addressed and developed alongside existing educational activities that aim to tackle misinformation. Perfecting such a skill could be helpful in decreasing the polarisation of European societies and cultivating public discussion, which is always one of the most important tools in the fight against the spread of manipulative falsehoods.

Disclaimer

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Notes

1. Coalition formed of the Civic Democratic Party (Občanská demokratická strana), Christian and Democratic Union – Czechoslovak People's Party (KDU-ČSL) and TOP 09.
2. Coalition formed of the Czech Pirate Party (Česká pirátská strana) and Mayors and Independents (Starostové a nezávislí).

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The path forward for Europe's green transition

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Abstract

The EU's green transition started with the establishment of long-term goals but now requires short-term actions. It is a constant balancing act to achieve these goals while also responding to new problems and challenges. The time frame for reaching the ambitious climate target is short in terms of undertaking a deep transformation but long enough to expect unforeseen events. Europe's green transformation must include intermediate steps, with the most important short-term deadline being 2030, when CO₂ emissions are expected to have been reduced by 55%. This goal cannot be achieved without a thorough industrial and economic transformation. However, the funds available for the transformation are limited and diluted by more pressing immediate needs: Russia's war against Ukraine has increased global economic uncertainty, value chains have been distorted and EU–US policy divergences are increasing. In other words, Europe needs to reduce its emissions at a time of economic uncertainty, geopolitical tensions and increasing energy pressures.

Keywords

EU, Sustainability, Green Deal, Emissions, Economy, Transformation

Introduction

Europe's green transition is a long-term project. It is guided by the political resolution to make Europe's economy climate neutral by 2050. This is an extremely ambitious, yet realistic goal. It is politically desirable, yet economically and technically highly challenging. It requires a comprehensive approach, consistent policies and consequential

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actions. The green transformation involves immeasurable investment in new climate-friendly production methods, new ways of managing businesses and the development of new climate-friendly products. The lifespan of the existing productive capacity of many companies with a large impact on the climate is generally longer than the time available. They must change faster, leaving behind unused potential that otherwise could serve them for many years. Incremental improvements in efficiency cannot deliver the radical transformation required by climate change (Klunker 2018). The green transition cannot be based on the natural cycle of equipment replacement, because CO₂ emissions reductions must occur quickly.

The economic transitions are not happening in a linear way. Let us look back over the last three years. During this period the world has faced two major events which had not been factored in when the long-term climate goals were agreed upon: the Covid-19 pandemic and Russia's war against Ukraine. But the implications of these events are much wider, including the current energy crisis; sudden changes to supply lines and energy mixes; rising energy costs; broken supply chains; an increasing awareness of our excessive reliance on supplies from unreliable sources; rivalry for rare earth elements and other resources, exacerbated by efforts to quickly depart from fossil fuels; and issues with access to food supplies and security. In such circumstances managing the economic transformation and making political choices becomes more complicated.

New developments can overshadow current efforts, causing new problems to be perceived as more urgent and important to deal with (Analysis and Research Team 2023). In previous decades it was easier to mobilise public opinion in favour of climate action in periods of prosperity, while public support was much weaker in times of economic trouble (Burns and Tobin 2016). It was also quite evident that the crises themselves contributed to lowering CO₂ emissions because of the slowdown in economic activity (Skovgaard 2014). After the economic slowdown, however, there was a rebound effect of increased growth and increased emissions (Peters et al. 2012). Climate policy reactions after an economic slowdown had to be delayed and only regained momentum after some time had elapsed. Inadvertently, within the current debates, climate and energy are not considered to be entirely opposing policies or to be competing for resources under conflicting objectives.

Profound economic changes of this type bring to mind the Schumpeterian cycle of constructive destruction followed by a new phase of investment. The pandemic affected certain industries in a serious and mostly negative way, but its effects were not directly linked to the production capacity of the most CO₂-emitting and climate-damaging branches of the economy. Some industries gained in importance under these new conditions, such as the pharmaceutical industry, e-commerce and online communication. The CO₂-emitting sectors faced a slowdown, but not a reduction in capacity. In reaction to the pandemic's disastrous economic impact, many measures were taken by the EU, national governments and central banks to ensure recovery. In reality, the productive capacity of Europe's industry did not experience the Schumpeterian destruction phase as public

efforts focused on preventing the decline of GDP and employment, and the survival of companies that would otherwise have been bankrupted.

The green component of Europe's economic resilience

In reaction to the pandemic, the EU has opted to provide an unconventional source of finance in the form of the Resilience and Recovery Facility (RRF). The funds provided by the RRF should partially be used to ensure twin transitions to a more digital and greener Europe (Darvas et al. 2021). The Facility offers EU countries the financing necessary to introduce reforms for both the recovery and the subsequent transition. The funds, totalling €750bn, present a large additional source of finance for those economies severely affected by the pandemic restrictions. These funds alone are not sufficient, but could help to reorient other public financial resources as well as private investment. However, there is a tension between the desire to finance short-term recovery focused on supporting industries and the long-term transition that requires new investment.

The assertion of the green transition is omnipresent in the RRF (Pisani-Ferry 2020). Likewise, the legislative framework and all related European initiatives aim to ensure this transition. Unfortunately, this priority is not fully confirmed by the reality of the national recovery plans. The structure of the RRF, which is based on national allocations and national plans, creates a particular difficulty for coherent governance of its implementation. The European Commission assesses the national plans presented by the EU governments and can significantly influence the composition of the measures intended for implementation. All the general criteria must be respected, in particular the obligation to allocate at least 37% of funding to the green transition. This threshold is reached, or easily surpassed, by all the national plans accepted by the Commission. However, most of the EU countries that rely most heavily on carbon-emitting energy sectors have planned to spend less on the green transition than could be expected in their situation. Furthermore, a closer look at the content of these plans suggests that the majority of the expenditure allocated to address the green transition is to be spent on projects varying widely in size, significance and thematic focus (Corti et al. 2021). Further examination also reveals significant weaknesses in some of these plans, which do not differ much from the national energy plans prepared some time ago and presented to the Commission before the pandemic and the Ukraine War. Even if the continuation of the actions can be seen as positive, no careful consideration has taken place in the context of the much more ambitious requirements of the 'Fit for 55' package.

In times of crisis, when companies are under pressure, there is an increased expectation of government intervention and assistance to withstand difficult times. The reaction to the banking crisis of 2008 involved the engagement of public funds on a magnitude far greater than has ever been devoted to the green transition. Protecting businesses and supporting the income of consumers during the Covid-19 pandemic again involved the unprecedented use of public funds to support the status quo rather than to change it. Since September 2021 European governments acting individually have earmarked and allocated over €700bn in energy subsidies (Goldthau and Tagliapietra 2022). This is

comparable to the total amount of the RRF and also represents nearly double the figure (\$743bn) of the subsidies provided by the US Inflation Reduction Act, provoking worries in Europe that such allocations could undermine European climate efforts.

The impact of the war on the green transition

The energy crisis which followed Russia's aggression against Ukraine has seriously affected the progress of the green transition. The war has exposed a weakness in terms of European energy security, in particular its dependence on Russia. The weaponisation of energy supplies by Russia, resulting in high prices for imported fossil fuel energy, has highlighted the vulnerability of an energy supply coming from just one source, and is the main reason for increased energy costs, not climate actions. However, because of the high cost of energy, which has affected millions of European consumers, governments have been prompted to undertake measures to reduce the impact on consumption, even if this limits the changes to patterns of energy consumption. The amplified energy prices have helped Europeans to see the value of having their own sources of energy, which are scant in most EU countries with the exception of renewable energy production. In this sense the energy crisis, linked to the security of supply of fossil fuels from actual or potentially hostile energy suppliers, has become a real game-changer for the green transition.

At the time of writing, energy prices on the global markets are stabilising and normalising, but European prices are taking longer to do so. And in all probability they will stay higher in the EU than on the world market for some time. This sudden jump in energy costs has triggered companies and consumers alike to undertake immediate energy-efficiency measures. After years of hesitation and the gradual increasing of energy-efficiency targets, real changes have surpassed earlier expectations concerning energy-saving measures.

During the year preceding the Russian attack on Ukraine, when energy prices had already started to increase, though not to the extent that they rose in summer 2022, there were many demands to freeze, or to limit, the cost of CO₂ allowances within the Emissions Trading System (ETS). It was argued in some member states that the ETS was the major reason for the increasing cost of energy. There was quite regular political willingness to offer immediate relief from this, even at the expense of long-term policies. It is notable that since Russia attacked Ukraine, which has created unprecedented turmoil in the energy supply and economic activity, the issue of reducing costs in the ETS has not been a manifest part of the European response. Moreover, willingness to agree on further steps in the green transition has continued and the opposition to ambitious targets has become much weaker. Prior to Russia's attack on Ukraine, the 2030 ambition to reduce emissions to 55% and the associated legislative package 'Fit for 55' were considered likely to have a rocky ride in legislative negotiations. However, since the outbreak of war the mood has changed radically. By the end of 2022 the Czech EU Council Presidency had been able to get approval of all the climate sections of the Fit for 55 Package. These include the tightening of the market for emissions allowances, the creation of a new social climate

fund, new rules for aviation emissions, the reduction of CO₂ emissions from cars and vans, the planting of forests to absorb CO₂ emissions, and stricter limits on CO₂ emissions from transport, buildings, waste and agriculture outside of allowances.

Current problems and long-term objectives

The political dilemma between taking actions to address immediate economic problems and introducing measures aimed at the implementation of a long-term strategy has been less pronounced in the current energy crisis compared to during the reaction to the Covid-19 pandemic or the earlier financial crisis. Solutions considered to overcome the energy crisis could help to accelerate the green transition. This looks very promising, but there is still a long way to go to remove all the obstacles on the way to climate neutrality. For example, European sovereignty has become an important component of the strategic approach to shaping the EU's policies. It involves not only strengthening Europe's defence capabilities, but also wider actions aimed at augmenting strategic autonomy, reducing energy dependency and developing strategies based on technological innovation. It cannot necessarily be implemented smoothly alongside the green transition.

The current coincidence of Russian aggression against Ukraine with the green transition makes it less clear as to which is responsible for the social consequences of high energy prices. With evident Russian manipulation of energy supplies and prices, the green transition is seen by the wider public as a solution rather than a cause of the problems. This suggests that public opinion may be more inclined to absorb the impact of climate measures and their consequences. The current economic turbulence, inflation and unemployment can be explained by a variety of factors including the war waged by Russia, the energy crisis, supply-chain turbulence, the fragmentation of globalisation, and the insufficient self-sufficiency of critical supplies, including food and medicines, rather than by the green transition. However, these harsh economic conditions might make it difficult to place additional stress on an already strained economy (Heussaff et al. 2022).

In February 2023 the Commission proposed an Industrial Plan for the Net-Zero Age as a direct response to the American Inflation Reduction Act, which provides, among other measures, a \$369 billion subsidy package for the green transformation of the US economy. This American instrument is widening the difference between the EU and the US in the approach to the green transition (Wong and Tucker 2023). While Europe is asking companies to pay for allowances to emit CO₂, increasing the cost of European production, the US has embarked on subsidising the transformation, allowing companies to reduce their harmful emissions without actually paying for the change. EU industries feel disadvantaged by this, even if some imports to the EU might be shielded by the Carbon Border Adjustment Mechanism. The proposed Net-Zero Industry Act might not include new money, and in this way would hope to avoid a subsidy race between the EU as a whole and the US. However, the relaxation of public aid rules concerning green investments might contribute to an internal EU race to support member states' green industries, enabling more resourceful countries to win such a contest. The Net-Zero Industry Plan is intended

to focus on investments within strategic projects along the entire supply chain. The Battery Alliance, based on collaboration between the European Commission, national governments and the private sector, serves as an example. It could offer a promising public–private partnership tool to progress the green transition (Hermine 2023). Additionally, the expected removal or limiting of administrative obstacles to investment included in the Plan is desirable, but could have been initiated much earlier.

It should be noted that the Industrial Plan for the Net-Zero Age was not included in the original European Green Deal. It has come later as a response to the American legislation. This confirms that new events put enormous pressure on governments to quickly provide remedies to unforeseen difficulties. For many years EU policymakers have tried to maintain the principle of technology neutrality. Even in the case of nuclear energy, the EU would not take sides between those countries which rely on this source of energy and those which have decided not to use it. In times of crisis, especially an acute one, there are expectations that the government and the EU will do ‘whatever it takes’. This leads to the use of disposable public instruments, such as policies, recommendations, subsidies and partnerships, to develop solutions on the basis of current understanding and knowledge of existing technologies (Transport and Environment 2023). Even the most promising avenues may lead to ‘picking a winner’ and locking both private and public investment into a specific direction. There is always the risk that newer, more efficient technologies might quickly be developed, meaning that the support ends up promoting inferior results in the long run. This could be a real danger when public financial support is extended not only to initial investment, but to the implementation of the entire supply chain and the lifetime of a product and its production, meaning that the commitment to support is extended for many years, if not decades.

Risks ahead

The coming years may be as equally tumultuous as the last few. For the time being the EU continues to push through with the green transition as planned, and with even greater determination as the new conditions make it more necessary than ever (World Economic Forum 2023). The war in Ukraine may take unforeseen twists that have a bigger impact, requiring the reorientation of political goals. It is now already clear that the member states will have to spend more on their militaries, including installations and equipment, tanks, artillery, ammunition and infrastructure, all of which will require an increased supply of steel and other metals, cement, chemicals and so on. From a security point of view these supplies will need to originate mostly from Europe. This will require the continuation of production by heavily emitting industries for some time to come and, depending on the development of the security and military situations, potentially also in much increased quantities. The insecurity of the energy supply has prompted many governments to postpone reductions in the use of fossil fuels. Moreover, EU member states invested billions of euros in 2022 in new fossil energy production (Tocci 2022), and the created capacity will last for decades. The European steel sector is preparing to produce green steel (Cornot-Gandolphe 2023), but in such circumstances it might also be forced to keep old facilities in use. There is also the risk of a rebound effect on growth and

emissions after the end of Russia's war against Ukraine. It is difficult to forecast, but the post-war reconstruction of the Ukrainian economy, linked to the process of Ukraine's accession to the EU (Savoy and Staguhn 2023), might also have a significant impact on the economic dynamics and scale of emissions.

The transformation of the economy by 2050, with the immediate ambitious steps to be taken by 2030, will have to be profound. Such a transformation will create many new opportunities, but due to its extensivity and rapidity could result in a significant number of losers. Companies keeping assets linked to production involving emissions of greenhouse gases will be under stress and many of their assets might become stranded. Many of those employed within these companies will have to earn new qualifications. It will be a down-to-earth economic process, as part of which companies will need to adjust to market conditions and the new regulatory framework. As regulations concerning CO₂ become tougher, the markets will react accordingly. However, it is politically difficult to propose rules which could negatively affect large groups of society without providing a shield; furthermore, the European Green Deal proposal refers to an equitable and just transition.

The main risks are linked to pushing forward with the green transition without ensuring solid and sustainable social support. The energy crisis and war seem to have strengthened public support for actions aimed at solving the current problems, such as the development of renewable energy sources or energy-efficiency measures, which also contribute to the mitigation of climate change. A word of caution is in order, however, because public opinion being generally supportive of climate action has its own dynamic that is very often affected by the news, and changing the political discourse could affect the perception of urgency.

The green transition requires a long-term consistent approach from the European political class. Even if it was difficult to reach an agreement among all the EU member states regarding the Fit for 55 Package, the clear majority was able to agree on the necessary decisions and legislation. The most difficult issues were decided at the highest level by heads of state and government acting within the European Council. There is a visible diversity of views and opinions, but decisions concerning the climate have been consistently more and more ambitious. Despite all the differences among the mainstream parties present, most of the governments have been supportive of the green transition. The loss of dominance of the traditional, well-established political parties in many of the EU member states has led to the greater presence of coalition governments composed of more diverse groups and sometimes involving more radical and unusual political configurations.

The end point of the journey to a climate-neutral Europe is clear. However, the path forward for the green transition is not straightforward. There may be many turns and unexpected obstacles between now and 2050. The green transition means that Europe must decrease its emissions at a time of continued economic uncertainty, heightened geopolitical tensions and increasing pressure on energy. It is important to keep the ultimate objective in mind, even if the present situation affects the pathway. In a different context,

US President Dwight Eisenhower made famous a phrase (overheard from a soldier in wartime) which could be relevant here. When describing preparations for military action, Eisenhower noted that, ‘Plans are worthless, but planning is everything’ (Blair 1957). The same could be said about designing a path to reach climate neutrality. It is necessary to continue planning, even if unpredictable events might require that adaptations are made to the most crucial mechanisms that will power the green transition forward.

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That's no moon . . . it's a balloon!

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In early February 2023, a white moon-shaped object was spotted floating around in American airspace. The US government quickly determined that the strange object was in fact a high-altitude surveillance balloon from China (US Department of Defense 2023). The spy balloon drew so much attention that Americans, including politicians and the media, became infuriated over the matter, which inspired anger, even fear, but also humour. The event produced a lot of jokes in the media, especially in the region where the balloon was spotted. The occasion also inspired a *Saturday Night Live* parody (Sevastopulo and Leahy 2023). Although the Pentagon stated that the balloon floating around did not pose any threat to US national security, the White House still decided to shoot it down on 4 February (Kiracofe 2023).

As the diplomatic challenges between the US and China continue, both parties maintain a strong stance with regard to the situation. While US intelligence services tracked the balloon and witnessed it being shot down, they also noted that it was believed to have kept flying over Hawaii and Guam (Qingqing 2023). In a statement, President Joe Biden first remarked that the use of the spy balloon was unacceptable and a violation of US sovereignty, before later stating that the object may have been a research balloon instead of a spy craft (Baker 2023). The US subsequently decided to try to smooth things over by planning to speak with President Xi Jinping to maintain open lines of communication (Baker 2023). However, China asserted that the balloon was nothing more than a simple civilian airship, a weather balloon in fact, that had entered US airspace accidentally due to bad weather conditions, and that the US was overreacting and being paranoid in shooting it down (Qingqing 2023). In principle, as per international law, an exception can be made for aircraft illegally entering the airspace of another country in cases of *force*

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majeure or emergency. Accordingly, the US condemnation of the presence of the surveillance object in its airspace was firmly rejected by China, with the country expressing its dissatisfaction with this accusation by suggesting that it was an ill-intentioned political manipulation of the facts (Qingqing 2023).

The mystery balloon incident came at a critical moment. Following the November 2022 agreement between the two leaders to further deepen bilateral relations, a visit to Beijing by US Secretary of State Antony Blinken was planned—this would have been the first trip to China by a US Secretary of State for many years. However, due to the incident, the meeting was cancelled (Rutwich 2023). In late February, Blinken met with the Chinese Director of the Office of the Central Foreign Affairs Commission, Wang Yi, at the annual Munich Security Conference. Relations between the two countries are currently at their lowest point for many years, and the meeting in Munich did not seem to improve the situation. Although the main focus of the Munich Conference was Russia's aggression towards Ukraine, Blinken and Wang's focus was rather more on the recent tensions created by the spy balloon. This is indicative of exactly how unstable relations between the US and China currently are (Ioanes 2023). This peak in tensions is not due to the surveillance device alone, but the situation is emblematic of the rising hostilities between the US and China over time. It follows, first, from the US's strong presence in the Pacific, which threatens China's power over the disputed areas of the Senkaku Islands and Taiwan, and second, from China's 'good' relationship with Russia. Naturally, the ongoing war in Ukraine further complicates the diplomatic relationship between the two countries (Ioanes 2023).

This balloon incident highlights China's desire to collect information on its main geopolitical rival amid the frayed diplomatic relations. Over the past 15 years the Chinese Intelligence Agency has become active abroad and the People's Liberation Army has expanded its surveillance capabilities. As the US has stepped up its counter-intelligence operations, China has adapted its espionage methods, and the balloon could simply be a manifestation of such efforts (Sevastopulo and Leahy 2023). However, as China sent objects flying over US airspace, the US military got a real-life chance to play Bloons TD—a computer defence game in which the player has to stop waves of balloons. Simply put, the US shooting down the balloon could indicate that they have managed to 'level up' and are ready to face the next Chinese 'Bloons' (Hussey 2023).

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Relations Between the EU and Switzerland: Too Much to Lose, Too Little to Negotiate?

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Anastas Purnev

As the saying goes, for all the time of its peaceful existence, Switzerland has only produced the cuckoo clock. This is not correct, of course, both because the cuckoo clock was invented in Bavaria, and, more importantly, because Switzerland has contributed significantly to Europe's political development. The country is not only the earliest and brightest example of republican and federal governance, but its legal and political ties with the EU have also created the entangled concept of bilateralism. This dynamic relationship has worked well for many years, so it may come as a surprise to discover how fragile it is, especially at a time when every deal must be sealed not only between reasonable counterparts but also with the approval of the respective electorates. This paper examines how diplomatic dialogue between the EU and Switzerland has evolved since the beginning of the 1990s. Even though traditionally predictable and moderate, both partners have recently encountered difficulties in achieving a comprehensive trade and legal relationship. This would not have been an issue if the existing framework was still reliable, which is currently not the case. Over the past year and a half there has been increasing confusion as to why the EU and Switzerland cannot find agreement, as well as a demonstration of the adverse consequences of damaged trust. By explaining the context and the possible causes of the political stalemate, several takeaways are suggested as ways to resolve it successfully.

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Relations Between the EU and Switzerland
Too Much to Lose, Too Little to Negotiate?
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Summary
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As the saying goes, for all the trouble its powerful neighbors, Switzerland has artfully protected the Swiss bank. This is not correct, of course, both because the Swiss bank was founded in France, and, more importantly, because Switzerland has contributed significantly to Europe's political development. The country is not only the richest and in general example of republican and liberal governance, but its legal and political ties with the EU have also created the unexpected concept of bilateralism. This dynamic relationship has worked well for many years, as it may come as a surprise to discover how fragile it is, especially at times when exceptional events could disturb the delicate balance of interests but also with the approval of the respective authorities.

This paper examines how bilateral dialogue between the EU and Switzerland has evolved since the beginning of the 1990s. Even though institutionally predictable and mature, both partners have recently encountered difficulties in achieving a comprehensive trade and legal relationship. This would not have been an issue if the existing framework was still viable, which is currently not the case. Over the past year and a half there has been increasing speculation as to why the EU and Switzerland could not find agreement, as well as a consideration of the adverse consequences of damaged trust. By exploring the context and the possible causes of the political stalemate, several proposals are suggested as steps to resolve it successfully.

Keywords: EU-Swiss relations • bilateralism • single market • Switzerland • Framework Agreement

Dr. Anastas Pnev holds a Ph.D. in law and is a practicing lawyer in the field of civil and commercial law, and an Honorary Assistant Professor at Sofia University's faculty of law. His main interests are in the field of civil procedure, as well as in the new legal challenges posed by technological innovation.



Up, Up and Away? A Price Stability Guide for Policymakers

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Inflation is back with surprising force. Should inflation remain significantly elevated over an extended period, detrimental effects on the EU's economic model, on growth and on social peace can be expected. A coordinated macroeconomic response is required, combining monetary and fiscal policy. The European Central Bank needs to continue to signal its willingness to stick to its price stability mandate to keep inflation expectations under control. It should not succumb to the goal of fiscal dominance by targeting public debt sustainability more than price stability. This would imply giving up its independence. Fiscal policy should facilitate the objective of monetary policy to target inflation while minimising the impact on economic growth. To reduce the danger of a wage–price spiral, fiscal policy should strive to limit the impact of extreme price rises and should be targeted towards those members of society most affected by the higher prices. In contrast, general expenditure increases or tax reductions for an extended period of time carry the danger of overburdening governments. Price interventions should be the very last option, as they decrease the incentive to reduce the demand for higher priced goods and thus do not allow for the signalling power of prices regarding scarcity. Due to high inflation rates and supply-side constraints, it is currently not the right time for a fiscal demand stimulus.

Author biography



Jürgen Matthes heads the Research Unit of International Economics and Economic Outlook at the German Economic Institute (IW), the largest privately financed economic think tank in Germany. *has published on a wide range of topics covering EMU, current account imbalances in the euro area, the competitiveness of nations, the pros and cons of globalization, structural economic change, trade policy, and the global financial crisis.*

Summary

Jürgen Matthes,
Wilfried Schilling,
Horst Gensky,
Aljos Kauer,
Reinhold Rausch,
Dirk Krawinkel and
Thomas Ditz

Inflation is back with surprising force. Should inflation remain significantly elevated over an extended period, detrimental effects on the EU's economic model, on growth and on social peace can be expected. A coordinated macroeconomic response is required, combining monetary and fiscal policy. The European Central Bank needs to continue to signal its willingness to stick to its price stability mandate to keep inflation expectations under control. It should not succumb to the goal of fiscal dominance by targeting public debt sustainability more than price stability. This would imply giving up its independence. Fiscal policy should facilitate the objective of monetary policy to target inflation while minimising the impact on economic growth. To reduce the danger of a wage–price spiral, fiscal policy should strive to limit the impact of extreme price rises and should be targeted towards those members of society most affected by the higher prices. In contrast, general expenditure increases or tax reductions for an extended period of time carry the danger of overburdening governments. Price interventions should be the very last option, as they decrease the incentive to reduce the demand for higher priced goods and thus do not allow for the signalling power of prices regarding scarcity. Due to high inflation rates and supply-side constraints, it is currently not the right time for a fiscal demand stimulus.

Keywords: Price stability – Inflation – Monetary policy – Fiscal policy – ECB (European Central Bank)

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The EU and the Multifaceted Nature of European Identity

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André P. Debattista

This study seeks to contribute to the discussion on the multifaceted nature of European identity and culture and why the EU should engage in, rather than retreat from, having such discussions. It posits that Europe is a place where national identity can be affirmed, rather than rejected, since this in itself does not contradict or diminish the idea of a shared European identity. Rather, a European identity can complement and even strengthen national identity. The complementarity of such identities is due to the uniqueness of the shared European space and of the sui generis nature of the EU itself. The conception of this shared space, however, is dependent on full respect for the principle of subsidiarity. The EU has registered some successes where subsidiarity has been maintained, but has struggled when it has attempted to emulate nation states in their creation of ‘imagined communities’. The more difficult elements—such as some contentious shared history—should be acknowledged rather than ignored, no matter how difficult this may be. Similarly, the Judeo-Christian heritage of Europe can add value to the debate on culture, identity and values. In addition, this study posits that there are other areas where a sense of European identity can grow, for example, through the strengthening of European citizenship and through extending opportunities for transnational contacts.

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‘Our European Way of Life’ as the Guiding Principle: Shifts in the Understanding of Immigrant Integration at the EU Level

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Over the past 17 years, the EU institutions have been issuing non-binding guidance documents on conceptualising immigrant integration. An analysis of the successive iterations of these guidance documents reveals both continuity and change. During this period, the Commission and the Council have attached different meanings to the concept of a two-way process of interaction between the host society and the newcomers. In documents issued in 2004–5, the two-way process contained the requirement for both immigrants and citizens of the receiving country to accommodate each other. Following shifts in public opinion and disquiet about problems with migrant integration in the 2010s, the European Commission adjusted its guidance. In a definition formulated in 2020, ‘mutual accommodation’ gave way to an emphasis on the adaptation of migrants to the receiving society and the obligation of the host country to help migrants integrate into the mainstream culture. In the current parliamentary term (2019–present), the von der Leyen Commission has promoted the overarching concept of ‘Our European Way of Life’ to accompany the new understanding of the two-way process of migrant integration. This concept is anchored in the EU’s secular values of human dignity, freedom, democracy, equality and the rule of law, and bears a strong resemblance to the European *Leitkultur*, or ‘guiding culture’, of respect for the constitution and the values of the Enlightenment, as coined by the author Bassam Tibi in 1998.

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Vít Novotný is an expert for migration, asylum, border control, migrant integration, and religion at the Wilfried Martens Centre for European Studies. His previous activities at the Centre included the creation of centre-right policy narratives through edited volumes, in cooperation with the Centre's member foundations.

October 2016

Summary

18 November

Conceptualising migrant integration has been a challenging task for the EU. Over the past 17 years, the EU institutions have been issuing non-binding guideline documents on the matter. An analysis of the successive iterations of these guideline documents reveals both continuity and change. On the one hand, the European Commission and the Council have consistently specified that migrants remain the basic subject of the European labour and adjust to their new environments. On the other hand, during the same period the Commission and the Council have obtained different insights to the extent of a two-way process of interaction between the host society and the migrants.

In documents issued in 2004–6, the two-way process contained the requirements for both migrants and citizens of the receiving country to accommodate each other. Shared benefits through labour integration, and education and non-graduate and immigrant cultures were part of the role of non-remunerated measures. Following shifts in public opinion, debate about problems with migrant integration and changing political agendas appeared throughout the 2010s, the European Commission adjusted its guidelines. In a declaration formulated in 2015, mutual accommodation gave way to an emphasis on the obligation of migrants to the receiving society and the obligation of the host country to help migrants integrate into the mainstream culture.

In the current parliamentary term (2019 onward), the new Vice-President of the Commission has promoted the overarching concept of Our European Way of Life to accompany the new understanding of the two-way process of migrant integration. This concept is enshrined in the EU's broader values of human dignity, freedom, democracy, equality and the rule of law. The concept bears a strong resemblance to the European *leitkultur* or 'guiding culture' of respect



Beyond the Headlines: The Real Impact of Western Sanctions on Russia

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There has been much ongoing debate about the effects of economic sanctions imposed on Russia since the beginning of Putin’s war against Ukraine. Many commentators argue that sanctions are having only limited effects or no effect at all – firstly, because they haven’t forced Putin to change his policies, and secondly, because the Russian economy has demonstrated significant resilience. This paper argues that both assertions are misleading. The latter argument – about the resilience of the Russian economy – is based on a flawed approach focused on just a handful of macroeconomic indicators, which are insufficient to assess the genuine state of the Russian economy. A consideration of more detailed data is necessary to determine the true effect of sanctions. Once that is done, the former argument also collapses: the reason Putin hasn’t changed his policies yet is because the Russian economy has some significant safety margins (most likely specifically developed to withstand the consequences of an aggression against Ukraine), and it takes time for sanctions to produce visible macroeconomic effects, thereby forcing Putin to change his policies.

This paper provides an in-depth analysis of a wide array of detailed economic data, which suggests that such effects are on the way. A look beyond a limited number of widely discussed macroeconomic parameters proves that the economy is already experiencing a wide range of unprecedented difficulties, which are only being contained by policy tricks and Russia’s remaining financial reserves. It is important to understand this comprehensive picture of the effects of sanctions, in order to make adequate policy judgments as to their efficiency.

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Navigating the Carbon Border Adjustment Mechanism: The Dangers of Non-Compliance and Circumvention

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The EU Carbon Border Adjustment Mechanism (CBAM) has to pass two major tests before it can come into effect. It has to withstand any challenges to its compatibility with the World Trade Organisation rules. It also has to prove that it can effectively address carbon leakage and ensure a level playing field for European companies. It should not be allowed to be circumvented. This depends on the design of the CBAM and on how it is implemented. If the CBAM is structured to be an effective tool to prevent carbon leakage, it will have to cover a wide scope of emissions, which may negatively affect many trading partners.

The endeavour to prevent circumvention may turn the CBAM into an administrative nightmare for companies and for the public institutions involved. Many more trade-offs would have to be taken into account in the design and implementation of the mechanism and these will be discussed in this paper. All of them require thorough consideration and policy choices that have been carefully thought through. The paper includes a number of policy recommendations. The CBAM is unique in the world of trade—if it is to succeed, expectations must be tempered. If the CBAM is indeed able to help to achieve climate objectives, many countries may go on to develop similar instruments of their own. However, the failure of the CBAM could have serious implications for the global trading system and EU climate policy.

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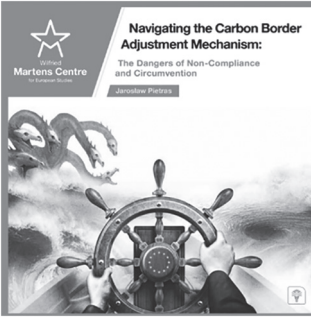
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EU Subsidiarity as an Antidote to Centralisation and Inefficiency

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How to design a federation? The European federation is plagued with crises, and these can be linked to our understanding of the basic principle on which any federation is based: subsidiarity. The Treaties present subsidiarity as a legal separation of tasks between the national and EU levels. This interpretation assumes that removing tasks from member states is possible and desirable. Yet attempts to define a legal Kompetenzkatalog failed. Moreover, EU policies based on centralisation—in economic governance, for example—have also failed, and centralised enforcement has not stabilised the euro. Multilevel governance requires an organisational approach to subsidiarity that starts with the recognition that safeguarding the integrity of the member states is essential. However, the EU lacks an administrative model. Subsidiarity may help to fill this gap by recognising that the EU is not about delegating tasks but about managing interdependence between the member states. The organisational understanding of subsidiarity has important implications for the tasks of the European Commission. Rather than being a hierarchical body that focuses on legislation and supervises member states, the Commission needs to focus on the managing of networks: identifying bottlenecks in EU cooperation, supporting team-based inspections and supervising the quality of multilevel networks.

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