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INFORME GOVERNANCE OF THE EUROPEAN UNION

SPANISH PRESIDENCY 2023

CONCLUSIONS
AND PROPOSALS



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Consejo Económico y Social
Huertas, 73
28014 Madrid, Spain
T 91 429 00 18
publicaciones@ces.es
www.ces.es

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INTRODUCTION

Once a relatively peaceful coexistence with COVID-19 and its variants had been achieved, 2022 should have been the year of consolidation of the EU's economic recovery, the year of the *return to normality*. However, Russia's invasion of Ukraine on 24 February 2022, a war on European soil, hit the EU economies again, and did so from a new angle, that of geopolitics, entirely changing the economic scenario and forcing uncertainty to be incorporated into any forecasting of the future.

As with the pandemic, the war initially had an asymmetric impact on European partners, with a greater impact on those with the strongest trade links or dependence on the Russian economy. But the prolongation of the conflict, together with the persistence of problems in some global value chains, accelerated and aggravated inflationary tensions (which emerged, in an incipient phase, at the end of the financial year 2021) and extended the crisis to all Member States.

The EU's dependence on Russian gas, the escalation of its price and its impact on electricity prices (as a result of the current configuration of the EU electricity market) soon made it clear that this war was also being waged in the energy markets. Moreover, the markets for other raw materials (such as some industrial metals or chemicals) or foodstuffs (such as wheat, maize or some oils) also strained multiple global value chains, contributing to the inflationary process.

Although different in magnitude, inflationary pressures were widespread in each and every one of the Member States, reaching double-digit levels for the euro area as a whole, which led to an accelerated increase in interest rates by the European Central Bank. The higher cost of living and the rise in interest rates have directly hit the budgets of European families, increasing the financial vulnerability of the most indebted households (ECB) and hindering the recovery process of productive activity.

All this opens up a difficult geopolitical, economic and social scenario for the European Union. It is in this context that the *Spanish Economic and Social Council* (CES) presents its report on the governance of the European Union¹, in which it also analyses

NOTES

- 1 The CES has previously expressed its views on economic governance in: Report 3/2012, *New economic governance in the European Union and growth*; Report 1/2014, *Developments in the economic governance of the European Union: update of CES Report 3/2012*; Report 1/2016, *Analysis of the economic governance*

how the armed conflict may have affected the challenges faced by the Union in the medium and long term.

To this end, following this introduction the report devotes its first chapter to describing the EU's response to Russia's invasion of Ukraine: a united, forceful and coordinated response, which has enjoyed the support of EU citizens and has revolved around the establishment of sanctions against the Russian economy and support for Ukraine in multiple areas (humanitarian, financial and material, among others).

In a second chapter, the report then turns to the impact of the war on the European economy. It describes how the initial crisis in prices and energy linked to the conflict developed into a crisis of generalised inflation as the year progressed, with consequences for activity costs and household incomes. It also describes the measures implemented at the EU level to try to cushion this impact, highlighting the approval of *REPowerEU*, a bulwark of the EU's anti-crisis energy policy, and the measures of the European Central Bank, which were not free of negative collateral effects. In contrast to this multilateral response, the economic and social protection measures in the face of the price crisis had a markedly national character which, while allowing a more surgical approach to the problem, conditioned each Member State's capacity to respond to the fiscal margin available.

The third chapter presents the Council's reflection on the consequences of this new crisis on the economic governance of the European Union, at a time when aspects such as budgetary integration or the framework of fiscal rules were under review following the pandemic crisis. Balances within the single market have been re-stressed and interest in integrating the Social Pillar into economic governance has increased, given that the disparate impact that the current crisis is having on the social fabric could generate a new divergence in this area.

Indeed, the changed scenario affects many of the Community initiatives already underway, meaning that the assumptions on which they were built, the roadmaps and the declared objective face new constraints that will have to be addressed in the short and medium term.

But it also affects the challenges for the future in the construction of the European Union, pointed out by this CES in previous reports, and to which other challenges have been added or are gaining momentum. The fourth chapter is devoted to breaking them down, starting from a common denominator: the need to strengthen the Union's strategic autonomy and to meet the commitment to achieve climate neutrality by 2050, as expressed in the European Green Deal. The improvement of European industrial strategic autonomy and digital sovereignty, the need for progress in the green transition and social cohesion, and the effects that the geopolitical environment will have on the European

of the European Union; Report 2/2017, Annual report on the economic governance of the European Union; Report 2/2018, Annual report on the economic governance of the European Union; Report 3/2019, Annual report on the economic governance of the European Union; Report 3/2021, The economic governance of the European Union. The impact of the pandemic.

Union's security and defence strategies and its migration policy, are some of the reflections included in this chapter, which ends by echoing the debates on the future of Europe and the progress made in political integration.

In short, the time is right for this Council to take stock of the progress made in the governance of the European Union and the challenges it faces in the medium and long term, especially against the backdrop of the Spanish Presidency of the Council of the European Union in the second half of 2023. Once again, the role of the Union as a supranational international organisation and the very future of the European project, based on the fundamental principles of solidarity and cooperation, are under examination.

CONCLUSIONS AND PROPOSALS

The war in Ukraine, a conflict on European soil, once again hit the EU economies and, as during the pandemic, had an asymmetric impact on European partners (with a higher incidence on those with stronger trade links or dependencies with the Russian economy) and it did so from a new angle, that of geopolitics.

From the outset of the crisis, the European Union has shown unity of action and has offered a coordinated and forceful response, which has had the support of EU citizens and which has revolved around the establishment of sanctions against the Russian economy and support for Ukraine in multiple areas—humanitarian, financial and material.

The EU's dependence on Russian gas, the escalation of its price and its impact on electricity prices as a result of the current configuration of the EU electricity market, soon made it clear that this war was also being waged in the energy markets. In addition, the markets for other raw materials (such as some industrial metals or chemicals) or foodstuffs (such as wheat, maize or some oils) also strained multiple global value chains, contributing to the inflationary process. Although different in magnitude, inflationary pressures were widespread in each and every Member State, reaching double-digit levels for the euro area as a whole.

During the year, there was a shift from an energy price and supply crisis linked to conflict and tensions in commodity markets, to one of persistent and widespread inflation across the entire consumption basket, reflected in the sharp rise also seen in core inflation, with serious consequences for business costs and households' real disposable income. This led to a change in the monetary policy of the European Central Bank, which accelerated the rise in interest rates.

Higher energy prices, a higher cost of living and rising interest rates have directly hit household budgets and increased the financial vulnerability of the most indebted households, hindering the recovery process of productive activity.

All this generated a difficult geopolitical, economic and social scenario in 2022, a year that should have represented a boost for the European Union's priorities in green transition and digital transformation thanks to the Recovery and Resilience Mechanism, but which, on the contrary, has resulted in the need to incorporate uncertainty as a variable in any forecasting of the future.

Not surprisingly, the European Union's economic policy in 2022 focused on articulating measures aimed at cushioning the impact of the war and alleviating its consequences

for families and businesses. The EU's response in this regard has centred on the approval of *RePowerEU*, as a fundamental anti-crisis mechanism, or on the measures adopted by the European Central Bank to tackle the upturn in inflation, which are not free from negative collateral effects. Faced with these measures at the multilateral level, the different Member States arranged instruments to alleviate the economic and social consequences of the crisis and to compensate the most vulnerable for the inflationary upturn; a response that was in all cases conditional on the available fiscal margin of each Member State.

This report offers the Council's reflections on the consequences of this new crisis on the economic governance of the European Union, at a time when aspects such as budgetary integration or the framework of fiscal rules are still under review following the pandemic crisis. Balances within the single market have again been strained, and interest has increased in integrating the Social Pillar into economic governance, given that the disparate impact that the current crisis is having on the social fabric could generate a new divergence in this area.

But the fact that the armed conflict is dragging on over time has made it necessary for the European Union to address without delay the challenges already present in the process of Community construction, some of which have already been pointed out by the CES in previous reports. These include the effects of the conflict on the definition of the European Union's role as a geopolitical actor, reflection on migration and asylum policy, the impact of the war on security and defence strategy, and the need to strengthen the Union's strategic autonomy (especially in the areas of security and defence, energy, industry and digital technologies) and to meet the commitment to achieve climate neutrality by 2050, as expressed in the European Green Deal.

In short, the time is right for this Council to take stock of the progress made in the governance of the European Union and the challenges it faces in the medium and long term, especially against the backdrop of the Spanish Presidency of the Council of the European Union in the second half of 2023.

THE ECONOMIC GOVERNANCE OF THE EUROPEAN UNION UNDER A NEW SCENARIO

The Commission's proposal, which focuses on the design, implementation and ongoing assessment of national medium-term fiscal and structural plans, represents an advance on the current framework because it addresses many of its shortcomings: it substantially reduces its complexity, focuses on the medium term, increases the involvement of States, and makes it possible to better reconcile sustainability and growth by giving more fiscal space to the most indebted countries to carry out investments and reforms.

Reform of the economic and fiscal governance framework

The Commission also proposes a revision of the Macroeconomic Imbalance Procedure, the governance of which will be based on an enhanced dialogue between the Commission and the Member States.

The CES considers that all imbalances (fiscal, trade, etc.) included in the Macroeconomic Imbalance Procedure, whether positive or negative, should be treated in an equivalent manner.

With regard to the fiscal framework, the Commission proposed net primary expenditure as the single control variable, which simplifies the monitoring framework considerably and allows for stabilising action on unemployment expenditure, while relegating the revenue side of the budget to a secondary role.

However, the CES considers that just as a structural expenditure ceiling is set, so should a structural revenue floor be established.

The new system does not prevent methodological discrepancies from arising as regards the estimation of variables that are still not directly observable, such as cyclical expenditure on unemployment or the structural impact of tax measures, but also, and notably, as regards the very projections of the sustainability of each State's debt to which the whole system is anchored and which should integrate the estimate of the budgetary effects and the effects on growth of the reforms and investments to which they are committing.

For this reason, and in order for the implementation of the new fiscal surveillance framework to be truly effective and to eliminate the risk of the European authorities treating Member States differently, it is crucial that both adopt previously agreed common and transparent methodologies.

In the framework of this enhanced bilateral dialogue, the Community proposal envisaged an increased involvement of national independent fiscal authorities, but the Council has reduced their role by excluding them from the design phase of the plans.

Although the extent of the involvement of the Independent Fiscal Institutions in the budgetary cycle has yet to be defined, in the CES's view it should be made clear that their functions are essentially advisory, and that they have no formal capacity to participate in economic policy decision-making.

To enhance consensus and co-responsibility in economic policy, a more active role for social partners in the monitoring of national fiscal and structural plans should also be envisaged.

In any case, debt sustainability in many countries, especially the most indebted ones, depends on improving the efficiency and effectiveness of their public spending and revenue policies.

In particular, in the field of taxation, the recent adoption of Directive (EU) 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups and large-

scale domestic groups in the Union is an important step forward in the fight against aggressive tax planning in the internal market, all the more so as it had to be adopted unanimously.

But, if all these reforms are not accompanied by the creation of strong and permanent supranational budgetary institutions, based on a reinforced system of own resources and the issuance of joint public debt, they are clearly insufficient to face the enormous external and internal challenges that the European Union must face as a political union, and to which the States cannot respond with their own fiscal capacities, no matter how much they coordinate their economic policies and strengthen their tax systems. Such is the case of the provision of European public goods in the areas of energy, defence, supplies and strategic raw materials, digital technology or the fight against climate change, but also of the effective articulation of policies that guarantee the macroeconomic and financial stability of the euro area, that advance the construction of the single market (including the capital market) and that promote economic convergence and social and territorial cohesion within the European Union.

In this sense, the success of recent experiences of risk mutualisation, whether aimed at stabilising the economy, such as SURE, REACT-EU or those adopted to transform the production model, such as NGEU or the Just Transition Fund, unthinkable before the pandemic, should serve as an incentive to undertake far-reaching reforms of the Treaties that increase the European Union's budgetary capacity, so that it can promote and develop policies in those areas that require joint action.

In any case, taking steps towards greater budgetary integration implies cessions of sovereignty from States, which raises the need to substantially strengthen the democratic foundations of the European Union and the legitimacy of its institutions.

Financial integration

Since the financial crisis, the degree of financial integration in the euro area has been strengthened by the Banking Union project launched in 2012. However, despite the rapid progress achieved in the initial years, it is still an incomplete process. The main obstacle, in fact, is the impossibility of reaching an agreement on the European Deposit Insurance Scheme (EDGS).

The crises following the pandemic or, more recently, the war in Ukraine, have highlighted the importance of completing the Banking Union to avoid financial instability and at the same time contribute to the economic resilience and sustainability of the Union.

Moreover, in the current context of moderate growth, high inflation, rising interest rates and tightening financial conditions, there is a risk of increased banking and financial instability. The tensions in international financial markets and systems in March 2023 are a case in point.

In fact, there is even talk of achieving a “reinforced Banking Union”, which would foster confidence and strengthen financial stability, conditions necessary to support growth and reforms in the medium term, and this is all the more important in the context of the investments envisaged in *Next Generation EU*.

For all these reasons, progress is needed in achieving the Banking Union. This requires a greater effort to reach a determined political commitment that would also strengthen the European project itself. This commitment should be geared towards improving the functioning of existing supervisory and resolution mechanisms and reaching a political agreement without delay on the creation of a European Deposit Guarantee Scheme.

Furthermore, given the vulnerability of the non-bank financial sector for the entire financial sector, especially in the current context of monetary tightening, it would be necessary to reach a global agreement to strengthen supervision of these institutions and to implement a macro-prudential regulatory policy in order to minimise the risks to financial stability posed by their activity.

Meanwhile, the Capital Markets Union is a key element to provide financial resources on a broader and more diversified basis to businesses, consumers and investors through access to sound, efficient and reliable sources of finance, regardless of their location, but also to support investments in the framework of *Next Generation EU* and, above all, to address the green and digital transitions. All of this will, in turn, help to boost the international role of the euro and strengthen the resilience of the European Union.

Progress is therefore also needed on the Capital Markets Union, which will enable the European economy to benefit from broad and deep financial markets and to mobilise private capital by moving towards a more dynamic and globally competitive capital market in the short and medium term. All of this will, in turn, mobilise the investment needed to address the ongoing green and digital transition.

As with the COVID-19 pandemic, the European Union faced a shock with an asymmetric impact among its partners which has, on this occasion, affected the Central European countries more, given their greater energy dependence on Russia. A Temporary Crisis Framework was adopted, extended until the end of 2023, to allow Member States to support the productive fabric most affected by the increase in the cost of energy. But aid volumes have been more generous in those countries with more comfortable budgetary positions, and these differences in aid intensity affect the competitive environment in which business activity takes place, distort the functioning of the internal market, and may deepen economic divergence between EU Member States.

State aid and the internal market

The CES agrees with the Commission that it is essential to find common, shared solutions at the EU level, avoiding fragmented national responses that depend on Member States' differing budgetary room for manoeuvre. The integrity of the internal market must be preserved, as it is one of the European Union's greatest achievements, offering European citizens a wider range of services and products and greater employment opportunities, and

giving businesses access to a wider market than their own Member States, stimulating trade, competition and efficiency, which are essential for boosting productivity.

It should be recalled that the transitions in which the European economy is currently engaged require not only a well-functioning single market, but also strong public and private investment and a level playing field between European operators and vis-à-vis global operators.

It is therefore necessary to adapt and mobilise all competition policy instruments to support the green and digital transitions and to provide the necessary tools to deal with foreign competition in this context, while avoiding protectionist positions, which could negatively affect consumers as well as innovation processes. The challenge is to achieve a balanced promotion of European competition, sustainability and resilience, a challenge that necessarily requires a revision of the rules more in line with the changing nature of global competition. In this sense, progress must be made on a model of State aid that allows for competition with other blocs at the international level, has an impact on improving territorial cohesion, and links economic activity to the territory of the European Union.

Progress to strengthen the social pillar in economic governance

In the barely five years since the European Pillar of Social Rights was approved at the Gothenburg Summit, two of the most significant global crises in recent history have occurred. This has been a real stress test for what has been the most important EU initiative in recent decades aimed at improving economic and social integration.

Although the Social Pillar has brought about a remarkable change in European policies, and despite having shown its potential to succeed in curbing the impact of the pandemic on labour markets, questions remain about its capacity and effectiveness in the medium term to achieve its objectives by 2030, not only because of existing economic uncertainties, but also because of the role of the Social Pillar in the economic governance of the European Union.

In this respect, and as already pointed out in previous editions of this report, the efforts that the European Commission has been making in recent years to strengthen the European social dimension, given the principle of subsidiarity, will continue to be subject to the willingness of the Member States to undertake policies in these areas. This is a relevant aspect if one also takes into account that the measures adopted to deal with the crisis generated during the pandemic are of a temporary nature.

It would therefore be of interesting to make further progress towards the consolidation of stable automatic stabilisation mechanisms. The SURE was an emergency measure that proved effective in combating the social impact of the pandemic on household

incomes and could serve as a basis for consolidating stable supranational stabilisation mechanisms, such as mutualised unemployment protection which, subject to compliance with certain requirements or conditionality in the labour market, would make it possible to face future crises without having to go through the uncertainty of political agreements.

The new economic governance scheme gives greater temporary flexibility to moderately or severely indebted states, as long as they make commitments to reforms and investments that include among their priorities those set out in the Social Pillar. Although this is a positive development in terms of encouraging the social dimension of Member States, the reference to the Pillar is ambiguous and lacks concrete objectives.

Such ambiguity is even more pronounced if one takes into account that the targets set by the 2030 Action Plan are limited to indicating the minimum increase that should be registered in the region as a whole, with no national guidelines or further specifications, thus being subject to the commitments made by the countries.

For all these reasons, it would be of interest to give greater weight to the European Pillar in the European Semester by establishing more specific and ambitious objectives which would, under the principle of subsidiarity, make it possible to guarantee minimum levels of well-being at the European level. In this regard, it would be desirable to establish a selection of objectives and indicators for the Pillar's Social Scoreboard, incorporating a cross-cutting social perspective (e.g. employment levels and quality of employment, inequality, poverty, especially child poverty), as well as the environmental and digital perspective, with the aim of moving towards fair transitions that leave no one behind.

In parallel, and in the pursuit of social convergence, mechanisms could be established to monitor these social targets and indicators (along the lines of such existing instruments as the Macroeconomic Imbalance Procedure), given their influence on public finances and thus on the macroeconomic stability of Member States.

Similarly, monitoring mechanisms could encourage the incorporation of redistributive impact assessments of some policies, thereby encouraging the voluntary implementation of such assessments.

Moreover, while the involvement of the social partners in the governance process has progressively increased in the framework of the European Semester, progress is still needed to achieve full participation, at both EU and national level. Social dialogue with the most representative social partners at EU and national level is a key element in this process of enhancing the social dimension in economic governance, with a view to achieving upward social convergence and moving the European Union towards inclusive and socially integrated economies.

Promotion and protection of the rule of law in the EU

The Commission has taken significant steps in recent years to strengthen the European Union's capacity to promote and protect the rule of law. In 2020 it thus set up a comprehensive and preventive Rule of Law Mechanism, in the context of which it publishes annual reports on the rule of law in the European Union. Moreover, since 2021, the EU budget has an additional level of protection for cases involving violations of rule of law principles, known as the “general conditionality regime for the protection of the EU budget”.

The firm defence of the rule of law must continue to be at the heart of the European Union's action, especially in a context of growing political fragmentation and an authoritarian and critical discourse against the process of European integration and the values of the Union on the part of some Member States.

The rise of extremism, electoral interference, the dissemination of manipulative information and threats against journalists and activists are the main challenges to democracy in the European Union. In this context, the Commission has recently launched important measures to strengthen democracy in Europe.

The Commission thus launched the European Democracy Action Plan in 2020. In addition, the ‘Conference on the Future of Europe’ (CFE) took place between 2021 and 2022, as a unique exercise in participatory democracy of unprecedented scale and scope for the involvement of European citizens in EU decision-making.

European democracy can never be taken for granted, which is why it must always be cultivated and protected, especially when there have been setbacks in terms of equality, with particular negative repercussions for women and the LGTBI community, and all the more so in the current context of war in Ukraine. Transparency and accountability to the public are vital for citizens to continue to increase their trust in the European Union and its response to the war in Ukraine.

MEDIUM- AND LONG-TERM CHALLENGES FOR THE EUROPEAN UNION

The first challenge for the European Union is to ensure that the war in Ukraine does not become entrenched, given that it entails the loss of human lives, the diversion of resources to the war effort and a source of political and economic instability. *It would therefore be desirable to reach a peace agreement as soon as possible to restore coexistence in Europe.*

The conflict and its protracted nature have intensified discussions on the medium- and long-term challenges facing the EU in a turbulent and uncertain global environment, and in a context where the EU has failed to clearly define its role as a geopolitical power. Moreover, global challenges and imbalances are interlinked, i.e. they have a strong influ-

ence on each other and are intertwined with sustainable development objectives, which means that addressing them requires a holistic and cross-sectoral approach using cooperative and mutually supportive solutions.

The unity in the EU's response to Russia's aggression against Ukraine is a 180-degree turn in the EU's characterisation of its political role as an international actor. Russia's aggression against Ukraine has been seen as a decisive moment for the awakening of a "geopolitical Union", about which there are, however, many unknowns. On the one hand, the disparity of intra-community positions on the conflict and the alliances it has rekindled, and on the other, the lack of follow-up to the sanctions against Russia by the rest of the world, especially the Global South. All of this, combined with the need for the European Union to find its place in the current process of reglobalisation while ensuring a greater degree of strategic autonomy.

*Political challenges
of conflict extension*

To achieve this, this Council believes that Member States need to share the same vision of the strategic risks and challenges they face. Divergence in positions and views among Member States must be prevented from opening new gaps within the European Union, which would make geostrategic decision-making even more difficult, especially in view of the increasingly intergovernmental nature of these decisions. Progress in political union is thus the key to averting these risks and moving towards a Union with more geopolitical dimensions.

The conflict has also reignited the EU enlargement process with formal applications from Ukraine, but also Georgia and Moldova, bringing the debate over the EU's absorption capacity to the fore once again. Moreover, this eventual enlargement could accelerate the enlargement process in the Western Balkans and even reactivate the enlargement process with Turkey.

In the CES's view, the accession of new Member States will require a thorough prior reform of the EU institutions, of their architecture, to ensure that the decision-making process is not weighed down to the point of rendering it inoperative.

The Russian invasion of Ukraine has led to an unprecedented displacement of refugees. This has served to implement some elements of the Pact on Migration and Asylum that were already in place. The short-term response has been very positive, reflecting European solidarity and unity. However, this response is not without medium- and long-term challenges, both in terms of logistics and coordination, as well as economic challenges. It is also a challenge for social integration itself, which will

*The consequences
of the war in
Ukraine on European
migration policy*

occur unevenly, as not all Member States are taking on the same pressure in terms of numbers of refugees.

Meanwhile, implementation of the Pact on Migration and Asylum has been very limited and most of the Pact's proposals are still pending adoption. However, the launch of the new Asylum Agency, the presentation of the Migration Preparedness and Crisis Blueprint and the adoption of the EU Blue Card Directive are noteworthy. *Even so, a greater effort should be made to make progress, without delay, on all the measures included in the roadmap of the Pact on Migration and Asylum.*

One additional issue is the possible instrumentalisation of migration policy by third countries. Indeed, this issue has been placed on the European agenda. NATO's Strategic Compass and new Strategic Concept recognise the instrumentalisation of migration as a hybrid threat. This has generated a number of initiatives that are currently in the legislative pipeline. *In any case, it will be necessary to see how their adoption and implementation evolve, especially in terms of potential risks, and to ensure that the definition of the instrumentalisation of migration is sufficiently limited so that there is no abuse of these instruments by Member States, and that the proposals can be generalised to other cases.*

In any case, the challenges faced by the European Union in recent years should not slow down the migration and asylum dossier, when everything points to an increase in climate migration in the medium term. The lack of significant progress lies in the absence of sufficient agreement and political will, a situation that dates back to the refugee crisis of 2015.

The solidarity shown towards refugees arriving from Ukraine does not seem, in this sense, to be a structural change. In fact, the response to the war is seen as rather exceptional and the EU reacts differently to the arrival of refugees depending on their place of origin.

The EU should move towards a new migration diplomacy that addresses the weaknesses of the current approach to migration policy. This would involve overcoming the externalisation of border control that weakens the EU vis-à-vis third parties, avoiding the politicisation of migration that calls into question the EU itself by treating asylum seekers and refugees unequally, and limiting the mechanisms of negative conditionality in relations with third countries.

Moreover, in the current context of growing geopolitical competition, the EU should strengthen its alliances with the so-called Global South. It would also be appropriate to re-think the external dimension of migration policy and to do so from a perspective of positive conditionality, which would help the EU to strengthen its ties with other countries.

A pro-migration foreign policy would serve the EU's geopolitical goals, reduce the vulnerabilities outlined above, and also address problems recognised in the Migration and Asylum Pact itself, such as the EU's labour shortage in a context of demographic ageing.

The Russian invasion of Ukraine has affected the EU's priorities, highlighting the importance of security and defence issues, and thus of the common security and defence policy. The impact of the war is reflected, above all, in the change of orientation of some Member States with regard to security

*Security and defence.
Shifts in focus and
priorities*

and defence issues. Indeed, after the start of the invasion, several Member States decided to increase their military spending and others redefined their position by joining the European Union's defence policy or applying for accession to the Atlantic Alliance.

The war in Ukraine has affected the direction of the EU's Strategic Compass—a roadmap for the development of security and defence policy until 2030. Its adoption, scheduled for March 2022, was directly hit by Russia's invasion of Ukraine and involved recognition of the war in Ukraine as the continent's biggest security crisis in decades. At the Versailles summit, EU heads of state and government agreed to strengthen Europe's defence capabilities, and since then a number of initiatives have been taken to do so.

However, the development of security and defence capabilities is not a new issue in the European debate, as the objectives that have been set for decades have not materialised, and there were many weaknesses even before the war in Ukraine, due to fragmentation, duplication and lack of interoperability between systems and capabilities.

In the view of the CES, then, there is a need to reduce duplication and increase the effectiveness of Member States in dealing with joint threats, which must in turn go hand in hand with ensuring interoperability between systems. All this, in addition to further simplification and streamlining of structures and procedures.

We welcome the willingness shown by the EU and Member States to find synergies between different areas and to take a broader approach that understands that security and defence are both more complex, as shown by initiatives on hybrid threats, meaning that a strategic vision is needed.

None of the current security and defence constraints can be resolved without the political will of the Member States. The credibility of European security and defence policy and of the European Union vis-à-vis its international partners depends closely on strengthening defence and deterrence capabilities. Indeed, one of the central elements in the debate surrounding European foreign policy, and thus security and defence policy, is the question of strategic autonomy, i.e. the European Union's ability to act independently and autonomously, one of the most controversial points being the relationship with the Atlantic Alliance.

The EU must find a way to combine greater independence in its relationship with the United States and NATO alongside enhanced cooperation with them. The EU needs to agree

internally on the exact meaning of strategic autonomy in security and defence matters before embarking on a redefinition of its relationship with its Atlantic partner.

Strategic economic dependencies of the EU

The war in Ukraine has caused disruptions in supply chains, first for energy and then for agri-food and agribusiness raw materials, has brought to light the risks and challenges facing European industry in the current context of globalisation, and has reignited the debate as to the need to reduce the EU's strategic vulnerabilities. *Strategically addressing these dependencies is essential in order to achieve the goals set out in the digital and environmental “double transition” on which the EU has embarked.*

The EU must enhance the stability and promote the diversification and resilience of the global value chains in which it is embedded, but without jeopardising the efficiency gains that come from specialisation and the exploitation of comparative advantages in international trade. Knowledge and ownership of global value chains as a whole is the key to improving the resilience of economies to unforeseen adverse shocks.

This reorientation of trade policy must rely on a certain unity of action by the Member States, which is no trivial matter, since they must jointly agree on the degree of dependence to be maintained with third countries, especially China, or what position the European Union should take with respect to the decoupling of the US and Chinese economies. The EU also faces the challenge of trying to align the EU's interest in reducing strategic dependencies with the interests of private companies.

To tackle strategic dependencies, the CES proposes a productive readjustment that involves industrial policy in a permanent and coordinated manner. More decisive action is needed in favour of a common production policy that will make it possible to catch up with other large blocs or economies where this is being openly promoted.

In this sense, the Recovery and Resilience Mechanism is a good starting point and its consolidation could lay the foundations for a common industrial policy adapted to the global challenges facing Europe, mainly the dual digital and energy transition. Progress should be made towards creating a regulatory environment conducive to the promotion of the 14 strategic ecosystems identified by the Commission itself: aerospace and defence, agri-food, construction, cultural and creative industries, digital industry, electronics, energy-intensive industries, “energy and renewables”, health, “mobility, transport and automotive”, “proximity, social economy and civil security”, retail, textile industry and tourism.

It should be remembered, however, that the success of any industrial strategy depends on the degree of commitment and cooperation between the European Union itself, the various Member States, the social partners, industrial sectors and other parties involved in industrial ecosystems. *In particular, the role of the social partners is crucial for the im-*

plementation of tools such as those envisaged by the future Net-Zero Industry Act, and their involvement must be ensured.

Specifically, in terms of energy dependence, more than half of the EU's energy needs have been covered by net imports, albeit with considerable differences between Member States and, in general, little diversification in terms of the origin of their energy supplies, leading to greater exposure to geopolitical risks.

Energy dependence

This Council therefore considers that progress in the development of renewable energies and in the energy transition is a way not only to combat climate change, but also to achieve a greater degree of strategic autonomy. Furthermore, in order to prevent the transition to clean energies from generating new technological dependencies on certain markets, efforts should be concentrated on diversifying supply, recycling products and boosting internal capacities, specifically in the fields of renewable energies, energy storage and renewable hydrogen.

We must furthermore emphasise the need to ensure energy interconnections, as they increase the flexibility of the system and contribute to security of supply, especially as progress in this area so far remains slow and limited.

It should be remembered, however, that the decarbonisation of economies will reduce dependence on fossil fuels, but will increase global demand for other raw materials, many of which are scarce and difficult to replace, with production concentrated in a small group of countries, some of which are politically and socially unstable, which could generate new geostrategic risks that threaten energy security.

Most of the trade in the products identified as strategic supplies is denominated in other currencies, mainly in US dollars. Recently, exchange rate risks have been amplifying the impact of the European Union's strategic dependencies, given the context of the appreciation of the US currency, high volatility in the prices of raw materials or electronic components and, in general, global economic uncertainty.

Currency risks amplify the impact of strategic dependencies

It is therefore advisable to promote the international role of the euro, starting with the completion of the Banking Union and the Capital Markets Union. In any case, the best way for the euro to gain international weight is to gain geopolitical weight and for the euro area economy to grow, strengthen itself and commit as a bloc to the development of international trade.

As part of the strategic autonomy which has been initiated, what is known as digital sovereignty takes on particular relevance—an area marked by the struggle between the

Digital sovereignty, a geostrategic goal

United States and China for hegemony in this field—and in which the European Union seeks to define its own rules, make autonomous technological decisions and develop and deploy strategic digital capabilities and infrastructures. All on the basis of European values, fundamental rights, security and the guarantee of the European economic and social model. The Resilience and Recovery Mechanism offers an opportunity to accelerate the digital transformation of the European Union and its Member States and to do so by promoting such sovereignty.

Internally, the state of digitalisation in the European Union is still uneven, although there is a trend towards convergence. Hence, in the CES's opinion, the required emphasis on the need to improve the level of basic digital skills, digital competences—especially among women—, the digitalisation of SMEs and the deployment of networks and the quality of coverage in some areas, in order to avoid situations of digital exclusion, and thus be able to extract the maximum economic and social benefit from this increased digitalisation.

Furthermore, progress in many of the critical areas of the digital transformation requires the development of a digital industry of its own with the pooling of EU, national and private resources. In order to define and develop multi-country projects, the European Union must ensure broad participation by Member States and, as far as possible, by economic and social actors. In any case, multi-country projects should be defined in the spirit of cooperation between Community partners so that they contribute to the strengthening of the digital single market and, ultimately, of the European Union itself.

In fact, the EU's lagging position in digital technologies and software only highlights the fact that although these areas attract a significant share of R&D investment, it is clearly insufficient. And that although the EU hosts world-leading research institutions, the results of European R&D activities are industrially developed outside the EU.

The European Union also needs to improve its level of cybersecurity and the capacity to respond to incidents in both public services and the private sector, while eliminating differences in cybersecurity requirements and implementation between European partners. The cyber threats facing the European Union have multiplied and disinformation has become a strategy in politics and even warfare; efforts to strengthen the EU's cyber resilience must be redoubled.

*Green transition:
food security
and protection of
biodiversity*

The energy transition is marked by the evolution towards more environmentally, economically and socially sustainable food systems, preserving food security in times of crisis, as well as by the necessary protection of biodiversity as a guarantor of the quality of life of citizens, economic growth and environmental sustainability.

In Europe, import dependence on energy, fertilisers and animal feed contributes to higher costs for producers and affects food prices, impacting on climate change through the carbon embodied in imports.

And although European citizens are not at risk of food shortages, affordability, especially for the most vulnerable sectors, is today one of the main concerns of the European Union, which will have to be resolved without undermining the necessary balance in terms of a fair price for the producer side.

The CES considers it necessary to strengthen the European Union's productive potential, while at the same time moving towards a more sustainable agricultural production model capable of making rational use of all natural resources. To this end, flexibility in adapting the measures set out in the CAP 2023-2027 to local conditions in the Member States must be translated into the establishment of strategies tailored to this local reality. Furthermore, the Council calls for the swift implementation of the recent EU Regulation 2022/2472 defining the allocation of aid in the agricultural and forestry sectors and rural areas, including those aimed at compensating for handicaps related to Natura 2000 areas.

Climate change is one of the direct drivers of the deterioration of nature, which will lead to 35% of Europe's land area being subject to high water stress by 2070, resulting in a decline in the quantity and quality of drinking water and in hygiene conditions.

In the CES's view, concrete measures are needed to promote climate-neutral policies and to recognise the role of the agricultural sector as part of the solution to climate change, given the carbon sink effect of agricultural soils, managed under certain agronomic practices.

The CES also stresses the need to ensure that environmental policies are consistent with other policies, and that they are fully implemented, so that Europe can make progress towards achieving the 2030 environmental objectives and fulfilling the 2030 Agenda.

Despite the adoption of measures such as the designation of the Natura 2000 network, biodiversity conservation status and trends have not improved over the reference period, at times showing further deterioration.

In this respect, the CES would like to ascertain the influence of climate change and the associated variations in weather patterns on the evolution of biodiversity indicators. Furthermore, in view of the measures to improve biodiversity in agricultural areas included in the CAP Strategic Plan, it considers it necessary to evaluate the results in the coming years.

The promotion of gender equality is conducive to effective climate action, as women are more vulnerable to the impacts of climate change and the deterioration of the natural environment, as well as playing a key role in the transition to climate neutrality. *Thus, in the*

CES's view, gender mainstreaming in the development, design, implementation, monitoring and evaluation of climate change policies, measures and spending programmes is essential.

Transformation in terms of equality

Progress in gender equality in Europe in recent decades is undeniable, albeit slow and insufficient to counteract the existing structural inequalities between men and women, which have moreover been exacerbated during the pandemic as a result of setbacks in some areas, representing a reversal of the trend in what had been a progressively favourable trajectory towards equality.

Indeed, in 2020, for the first time in the last decade, there were setbacks in labour participation, women's knowledge, time spent on care or access and health status, while other areas have shown little or very slight improvement. However, significant differences remain between Member States, in levels of equality, in the pace at which progress is being made over the last decade.

The use of time is one of the most unequal areas in the European Union, revealing the persistence of significant differences between the sexes in the distribution of social and care activities, which were moreover aggravated during the pandemic. The shortcomings of many countries' policies to respond to the needs of reconciling family life and to promote co-responsibility in families have a significant negative impact on many areas of women's lives, such as their occupational and economic situation and their health, ultimately limiting their opportunities for professional and personal development and growth.

The European Union has launched different initiatives within the framework of the implementation and development of the EPSR, such as Directive 2019/1158 on work-life balance, the Gender Equality Strategy 2020-2025 and the European Care Strategy.

Nevertheless, it is still of vital importance for progress in gender equality that steps continue to be taken to promote co-responsible work-life balance, on the one hand, and the development of policies to promote and strengthen citizenship, on the other.

The economic and social prosperity of the European Union depends to a large extent on continued progress on gender equality, given the slow and insufficient progress of the last decade, and the fragility of this progress, as the pandemic has shown.

In addition, progress on gender equality must be mainstreamed across the region, through greater upward convergence between Member States, in order to jointly move towards fairer, more cohesive and egalitarian European societies.

The future of Europe: advancing political Union

All of the medium- and long-term challenges set out above were discussed at the Conference on the Future of Europe. The European Parliament recognised that implementation of many of the CFE's proposals required changes to

the Treaties through a Convention, including the abolition of unanimity in the Council and a move to qualified majority voting. But the Convention has not been launched and several Member States oppose a change to the Treaties. This is not to say that the CFE's proposals are destined for failure, as some measures may succeed, mainly the most and those aimed at addressing the crisis in Ukraine, especially if they do not require changes to the Treaties.

In any case, the European Parliament, the Council and the Commission must effectively monitor the implementation of the CFE's proposals in full transparency, each within their respective spheres of competence and in accordance with the Treaties, so that citizens can effectively shape the future of Europe.

Parallel to EU construction, a European Political Community (EPC) has emerged that transcends the EU and has been perceived as an effort to maintain Europe-wide unity in the face of Russia's revisionist aims and aggressive policies. *Given the purposes of the EPC and its composition, it could also constitute a starting point for the birth of a geopolitical European Union.* However, many questions regarding the ambition and purpose of the EPC and its consideration as the germ of a geopolitical EU remain unanswered. *How the EPC will relate to the EU's enlargement policy and how it will connect with other EU institutions could be clarified.*

In the current context, notably marked by the Russian invasion of Ukraine, further political and institutional building of the European Union would strengthen the European project itself and facilitate decision-making. As this Council has already pointed out in successive editions of this report, it would be necessary to promote a political Union—democratic and at the same time legitimised—that would be more than a Union of numerous rules to supervise the correct functioning of markets, currency or budgets, among other areas. It would therefore be desirable, given the exceptional situation created by the war in Ukraine—and its consequences—to move towards greater integration and a political Union based on strengthening the Union's institutional architecture, improving its democratic basis and its transparency and accountability to citizens.